

Hilary Appel and Mitchell A. Orenstein: From Triumph to Crisis: Neoliberal Economic Reform in Postcommunist Countries

Cambridge: Cambridge University Press, 2018, 243 pages, ISBN 978-1-108-43505-5, (IIR library code 62 654).

Author: Da Yeun Lee, London School of Economics and Political Science, UK.

E-mail: d.lee22@lse.ac.uk.

DOI: <https://doi.org/10.32422/mv.1647>.

Under the mechanism of competitive signalling, governments introduced liberal economic reforms not only for any inherent benefits they might offer, or in response to external coercion, but also to signal an attractive business environment to foreign investors.

Appel – Orenstein 2018: 116

After 30 years of democratisation and transition, the current political and economic situation in postcommunist countries in Europe and Eurasia changed its course away from neoliberalism. The countries in the region have recently experienced a surge of economic nationalism and populism. Hungary and Poland, the leading neoliberal reform frontrunners in the region, began to dismantle their neoliberal policies as governments offering an alternative came into power there. *From Triumph to Crisis*, Appel and Orenstein's latest book, argues that the early works of literature on transition did not identify the key mechanisms of transition within the context of globalisation (Appel – Orenstein 2018: 173) and therefore failed to accurately predict the successful implementation of neoliberal policies in this region. The authors try to explain the enduring triumph of neoliberalism in this region from 1989 to 2008 and its decline after the global financial crisis by a mechanism of "competitive signalling" (p. 4).

The authors, Appel and Orenstein, have started their careers writing dissertations on postsocialist transition, particularly looking at privatisation and policy reform in Czechia, Poland, and Russia. Hillary Appel is a Podlich Family Professor of Government and a George R. Robert Fellow at Claremont McKenna College. Her research focusses on tax policy reforms and privatisation. Her 1998 PhD dissertation was on *Mass Privatisation in Post-Communist States: Ideas, Interests, and Economic Regime Change*. Appel has published widely on politics and economic changes in Eastern Europe and Russia; her works on these topics include *Tax Politics in Eastern Europe: Globalisation, Regional Integration and the Democratic Compromise* (2011) and *A New Capitalist Order: Privatisation and Ideology in Russia and Eastern Europe* (2004). Mitchell A. Orenstein is a Professor and Chair of Russian and East European Studies at the University of Pennsylvania. His research focusses on pension reforms, and his PhD dissertation was titled *Out of the Red: Building Capitalism and Democracy in Postcommunist Europe* (1996). Orenstein has published numerous books and articles, including *Privatising Pensions: The Transnational Campaign for Social Security Reform* (2008). What they have in common is their perspective of an ideational approach (ideational approaches tend to claim that ideas matter more than other material factors do) in comparative politics and the political economy of the postcommunist space. They view neoliberalism primarily as a hegemonic ruling idea. Their new book, *From Triumph to Crisis*, reflects their positions and the way of their ideational contribution to the debate.

The authors begin with the questions that inspired the book. According to them, post-communist European and Eurasian countries' (PCEECs) "*embrace of neoliberal policies*

remains the great unexplained mystery of transition" (p. 3). The authors insist that early theories of transition did not identify *"the key mechanisms of transition and therefore failed to predict the triumph of neoliberalism"* (pp. 3–4). The authors agree that the international early works of the literature on the topic are excellent as they provide evidence of the extent of countries' compliance with international norms. However, they cannot explain why many PCEECs went *"far beyond international norms and expectations in the implementation of neoliberal reforms"* (p. 14). Early works of literature on transition did not take into account global factors such as the external and competitive pressure to join the international economy. Therefore, the book aims to offer a focussed analysis of why neoliberal reforms went much further beyond the imperatives of EU integration and the Washington Consensus, why competition was such a powerful force in the PCEECs, and why their neoliberal enthusiasm ended with the global financial crisis in 2008.

The authors, influenced by the constructivist-ideationalist approaches, argue that the unexpected endurance of neoliberal reforms and their belated decline after the financial crisis in 2008 could be explained by a mechanism of "competitive signalling" (p. 4). This mechanism was about sending signals to investors to attract external financial assistance. As the authors write, there was a competition between PCEECs to make their economies more attractive by embracing neoliberal reforms. Unlike other pre-existing theories based on domestic political-economic struggles, Appel and Orenstein claim that PCEECs were engaged in competitive signalling and thus emphasise the importance of international integration, the hegemony of free-market ideology, the competition for capital to compensate for their Communist legacy, and their access to markets (p. 173). The authors claim that neoliberal reforms in this region progressed much further and faster than expected as the PCEECs were desperate for capital and had to compete with one another as well as Asia and Latin America for investment. International Financial Institutions (IFIs) played a crucial role in this by creating indices such as the European Bank for Reconstruction and Development's "Transition Indicators" and the World Bank's "Ease of Doing Business Index." They measured not only the individual countries' progress towards implementing neoliberal policies – which involved rewarding upgrades in various rating systems (p. 18) – but also their business environments and climates for investors. International organisations' evaluations were important for the PCEECs as foreign investors would base their decisions upon them. A "cross-national competition" (p. 50) emerged in the PCEECs. While other mechanisms also existed, as the authors claim, *"competitive signalling turned out to be the crucial mechanism enabling liberal economic reform to endure and intensify in the PCEECs"* (p. 174).

From Triumph to Crisis is divided into seven chapters and structured in a highly interpretative manner. The authors attempt to periodise the history of neoliberalism from its triumph to its alleged decline. The book begins by introducing the dynamics of liberalisation. Then the second, third, and fourth chapters discuss three phases of neoliberal policy adoption: those of the Washington Consensus, Europeanisation and avant-garde neoliberalism. Chapter 4 especially examines the avant-garde neoliberal reforms such as the flat tax and pension privatisation, which were rejected in Western Europe and North America due to controversies but adopted in the PCEECs in the 1990s and 2000s. The fifth chapter further explores the competitive signalling mechanism and examines the relationship between foreign direct investment and neoliberal policy adoption. The authors carefully analyse FDI inflows to PCEECs as well as explaining how the EBRD and the WB promoted neoliberal policies through the incentive of FDI. The sixth chapter addresses the crisis of neoliberalism after the global financial crisis and the rise of alternative paradigms, namely populism, nationalism, state capitalism, and neo-development statism (p. 161). This chapter is particularly important as here the authors explain why the process of competitive signalling and neoliberal enthusiasm came to an end after 2008. The authors argue that the 2008 global financial crisis was an important incident for neoliberalism in

the historical context as it significantly weakened the path of neoliberal reforms and undermined the ideological hegemony of neoliberal ideas. The investment inflows to the PCEECs that had encouraged and rewarded neoliberal policies suddenly ceased in what economists call a “sudden stop” (p. 142). The chapter further analyses the decline of public confidence and the reversal of avant-garde neoliberalism. The seventh chapter then revises the early literature on transitions and concludes with the authors’ main arguments.

One of the weaknesses of the book is that the authors ignore the fundamental insight that national differences are significant. Their treating the PCEECs as a homogeneous region to prove their thesis about the triumph and terminal crisis of neoliberalism could lead to confusion. Although postcommunist European and Eurasian countries share some similarities and legacies after the collapse of communism, the divergence in the post-communist world is substantial, especially that between Europe and Eurasia. Since the end of the Soviet Union, the countries have undergone a variety of transformation paths. For instance, Europeanisation was one of the motivating factors as the EU accession process required the adoption of many neoliberal reforms and programmes. Central European countries looked for strong integration with the European Union and Europe in general as the region was “culturally western, politically in the east and geographically in the centre” (Kundera 1983: 2). However, as the authors write, some countries such as “Belarus, Russia, and the former Soviet Central Asian states proved less interested in the European project” (Appel – Orenstein 2018: 66). Belarus was one of the countries that most avoided neoliberal reforms and the majority of its economy “remained in the state hands” (p. 139). Turkmenistan and Uzbekistan’s massive natural resources made neoliberal policy reforms less vital there (p. 118). Russia even launched the Eurasian Economic Union, its own version of the European Union, in Central and Northern Asia and Eastern Europe to increase the economic integration with its member states. Even if we only talk about the post-Soviet states, there have been contrary political developments among the former Soviet republics. Countries such as Georgia and Ukraine represented meaningful democratic breakthroughs and changes whereas the remaining majority of post-Soviet republics still have shades of authoritarian regimes. Moreover, there are facts that set Russia apart from other post-Soviet states. After the dissolution of the Soviet Union, the Russian Federation as the former imperial centre had “greater human resources and policy-making experience compared to other countries” (Fritz 2007: 286). Its GDP, land territory, and population were larger than those of all the other republics put together.

Appel and Orenstein specifically address neither the varying levels of neoliberal reforms of the PCEECs nor the different ways that the countries signalled to external actors. The authors write that “the vector of reform was very much the same: neoliberal transformation and international integration” (Appel – Orenstein 2018: 185). However, the idea of inter-temporal periodisation into homogeneous waves made the text unable to grasp the inter-spatial variation in a more nuanced way. What is more, the book is rich in tables and graphs visualising the differences of the PCEECs in terms of price liberalisation ratings and trade liberalisation ratings (p. 43); large-scale privatisation ratings (p. 44); voucher privatisation (p. 51); pension privatisation and flat tax reforms (p. 94). However, the authors mostly interpret the general trends as a whole despite significant differences. The variation should be more carefully studied as the study examines twenty-seven countries over two decades. The groups of countries in the region – namely the Visegrad states; the Baltics; the Balkans; and the European former Soviet Union states, the Central Asian former Soviet states, the Caucasus, and Russia – all have different features.

Nevertheless, *From Triumph to Crisis* is both an interesting and an important work of economic and political science. The book proposes a theory that tries to explain the enduring triumph of neoliberalism between 1989 and 2008 from different perspectives. It analyses the ideational determinants of economic policymaking in postcommunist Europe

and Eurasia by examining the early oversights of transition theory. The three types of sources it utilises – global databases on economic freedom, interviews with experts and international organisations' documents (p. 12) – provide a wide range of information and cases. Scholars and researchers doing work on the course of the postcommunist transition, neoliberal reforms, and international integration would certainly find this book interesting and useful. It would help them to better understand the challenges of the present day, namely the emergence of economic nationalism and populism.

Literature

- Appel, Hilary – Orenstein, Mitchell A. (2018): *From Triumph to Crisis: Economic Reform in Postcommunist Countries*. Cambridge: Cambridge University Press.
- Fritz, Verena (2007): *State-Building: A Comparative Study of Ukraine, Lithuania, Belarus, and Russia*. Budapest: Central European University Press.
- Kundera, Milan (1983): Un occident kidnappé ou la tragédie de l'Europe centrale. *Le Débat*, No. 27, pp. 3–23.

AUTHOR BIOGRAPHY

Da Yeun Lee has completed her internship as a research assistant at the Institute of International Relations Prague. She holds an MA in East European Studies from the Free University of Berlin and a BA in Politics and East European Studies from University College London. Her research focusses on democratisation and political and economic transition in former communist states.