Becker, Joachim; Weissenbacher, Rudy (eds.): Dollarization, Euroization and Financial Instability. Central and Eastern European Countries between Stagnation and Financial Crisis?

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direct investment in Eastern Europe in the time of transition. It is only a pity that the concern with developing the discipline appeared to prevent a sustained focus on the politics and political economy aspects of FDI. That would have made the answers to the questions asked here even better.

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Joachim Becker – Rudy Weissenbacher (eds.): *Dollarization, Euroization and Financial Instability. Central and Eastern European Countries between Stagnation and Financial Crisis?*
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Almost two decades have passed since the fall of communism in Central and Eastern Europe (CEE). This part of the world enjoyed political sovereignty and independence in economic decision making in the interwar period for the same amount of time. But today CEE is in a completely different situation: 1938 was marked by the Munich Agreement and it was only a year before the start of total destruction, while today stability has been achieved through a difficult transformation, which for most countries was then crowned by accession to the European Union. The symbolic start of new era came when Slovenia adopted the Euro, and now Slovakia, too, has just replaced the Slovak Koruna with the Euro. It seems that the time has come to summarise this period and try to look into the future.

One such attempt is the book *Dollarization, Euroization and Financial Instability. Central and Eastern European Countries between Stagnation and Financial Crisis?* edited by Joachim Becker and Rudy Weissenbacher. The title suggests less than what the book actually contains: alongside financial issues, it looks at Euroisation, financial crises, and there are passages on development, transformation and the implications of Foreign Direct Investments in the region.

The first section consists of two articles, which can be viewed as the background to the whole book. In the first article, 'From Socialism to EU Membership', Jože Mencinger attempts to draw some similarities in the process of transformation and its results in CEE. However, the analysis concentrates mainly on the darker sides of the transformation, mentioning the positive aspects only when they are obvious, and usually without a deeper analysis. This trend is best seen in the section *Outcome of Transition*, which focuses mainly on the costs: in the analysis of GDP growth after 1993 the period of two years 2001–2002, when growth slowed to 2.4% annually, seems to be more important, than almost one-third GDP increase in the whole 15 year time. The conclusion seems gloomy: by joining the EU, CEE countries lost their economic independence and became just another region within an enormous bureaucratic moloch that is unable to solve its own problems. The second article, 'Historical Considerations of Uneven Development in East Central Europe', is by Rudy Weissenbacher and refers to a much longer period. Following Anderson [1978] it argues that the reasons for the economic split between Central-Eastern and Western Europe are much older in origin and can be traced back well beyond socialism to the 12th century. The analysis takes us up through the ages until the end of state socialism. The scope of this article logically places it as the very first and it should open the book.

By title the second section is devoted to Foreign Direct Investment, but here again we find more. The first article, by Jan Drahokoupil, 'From National Capitalisms to Foreign-Led Growth: The Moment of Convergence in Central and Eastern Europe', shows us a much broader perspective. FDI here is only a part of the picture, which in fact portrays the wider context of a state approach to firms and their restructuring. The next article, by Jože Mencinger, 'Addiction to FDI and current Account Balance', is a short study of the effects of FDI on the economies of CEE countries. The author points out that FDI is no 'manna from heaven', and the benefits cited by the OECD need not necessarily appear. However, even the OECD stresses that 'These benefits do not occur automatically: Policies matter' [Christiansen and Oman 2003]. Being very critical, Mencinger does not mention the reasons for having undertaken such FDI strategies that ignore the limitations faced by the countries. He offers the valuable conclusion that the important issue of current account deficits, the result of former FDI, could lead to financial crises similar in mechanism and consequences to the 1998 South-East Asian financial crash. But one question remains: whether the countries had any choice and whether the consequences of other options would have been even more severe. The current account balance trend that these countries have to face now poses a threat, but limiting FDI is not an option.

The next section is a logical continuation of the Mencinger's paper. It contains two articles: one by Özlem Onaran, 'International Financial Markets and Fragility in Eastern Europe: "Can it happen" here?', and the other by Carolina Villalba und Paola Visca, 'Foreign Debt on the Threshold of the 21st Century: Argentina, Brazil and Uruguay'. In the first article the author argues that owing to the fragility of their financial systems CEE countries are faced with the risk of financial instability. Furthermore, markets are not able to prevent this from happening, and what is worse, by delaying it they make it more severe. This market failure should be addressed in sound public policy, but authorities instead tend to adopt a 'wait and see' policy – like waiting for the gas blow upon discovering a leak.

In the next article Villalba and Visca present some Latin American cases of financial crises induced by polices of pegging domestic currencies to the dollar. This text is very valuable for understanding the mechanisms that lead to financial crisis and the role of dollar pegging in this. Argentina, Brazil and Uruguay are back on the growth path now, but the burden of the crises can still be felt there. The mechanism of financial crisis fuelled by pegging is important for economic policy-making in CEE countries, but the lack of any references to their situation or to the Euro is a drawback to the text.

The final part introduces readers to the zone of the Euro. First, in 'Potential Impacts of the Adoption of the Euro for the CEE New Member States', Béla Galgóczi analyses the situation of the four Visegrád countries: the Czech Republic, Hungary, Poland, and Slovakia in the eve of adopting the Euro. He points out that the Maastricht criteria are not suited to the economies of CEE countries; for example, the Balassa-Samuelson effect implies an inflation rate higher by 1–3 percentage points in CEE countries. The article also discusses the EU's refusal to give Lithuania the 'go ahead' to join the Euro zone in 2006. At the time of publication, with an inflation rate of 2.66% in 2005, this seemed a tough political decision, but today, when the IMF forecast for inflation in 2008 is 8.27%, the conclusions are totally different [IMF 2008].

The next two articles are devoted to case studies of the Czech Republic and Hungary. In the first, 'Debate on the Eurozone Accession in the Czech Republic', Petr Gocev presents arguments for and against adopting the Euro. However, more interesting here is the identification of vested interest groups, and the conclusion that 2012 is unlikely to be the year that the Czech Republic adopts the Euro. In the other article, 'Three Jumps to Cross the River: An Inquiry into the Hungarian Eurozone Accession Failure', László Andor informs readers about the history of the transformation in Hungary and its failed attempt to comply with the Maastricht criteria. Again, like in Béla Galgóczi's contribution, one of the conclusions is that the criteria are not suited to CEE economies. The author also poses the question of whether there is a need to find an alternative to Euro monetary arrangements for CEE. This would open up a new but in fact unnecessary area of research.

The final article, 'Dollarisation in Latin America and Euroisation in Eastern Europe: Parallels and Differences', by Joachim Becker, has much more in common with the Villalba and Visca text. A comprehensive analysis of the role of the dollar in Latin America and the Euro in CEE ought to have been grouped together in one section.

Although heterogeneous this volume is a very valuable contribution to the discussion about the past and future of Central and Eastern European countries, especially the former members of the Visegrád group. It should certainly be recommended to academics and policy-makers, especially those who are enthusiastic about adopting the Euro. By pointing out some possible adverse effects of Euroisation, the book fills a gap in the literature and could serve as a useful tool for shaping a successful policy for the full introduction of the Euro into CEE countries. On the other hand, there seems to be too much pessimism and ambivalence in the book, and the authors appear unable to decide whether the transformation results and future prospects are positive or not.

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Katrina Z. S. Schwartz: *Nature and National Identity after Communism: Globalizing the Ethnoscape*
Pittsburgh, PA, 2006: University of Pittsburgh Press, 312 pp.

Katrina Z. S. Schwartz's *Nature and National Identity after Communism* is concerned with the hopes for (and threats to) the Latvian landscape brought about by the independence of Latvia from the former USSR and its accession to the EU in 2004. Environmentalists in the old EU member states were excited by the natural assets that the new countries were bringing to the EU, assets that old Europe had destroyed by production pressures and demanding lifestyles. Decades of an inefficient economy and the military occupation of large areas had had a catastrophic impact on nature, but also had some positive outcomes. But it also became clear that natural assets in Central and Eastern Europe were at risk from fast, unregulated economic growth. Katrina Schwartz thus poses, albeit indirectly, a well-known question about the en-