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Review of *The Awakening of the Soviet Union* by
Geoffrey Hosking

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in recent years, so much so that their combined end-1988 debt total was nearly half of the combined GNP of these nations. Moreover, the interest payments alone faced by these nations were nearly one-fifth of exports. In addition, these nations are characterized by slow economic growth and frequently by inflation as well.

This volume of essays by IMF researchers focuses on the common analytical elements that may be useful in addressing the debt problem. The editors of this volume apparently believe that new initiatives involving debt-service-reduction and debt-reduction techniques are the most promising steps to a lasting solution to the debt problem. The editors make this point while providing an overview (in the opening essay) of the papers included in this volume.

In the first essay as such in this volume, Max Corden and Michael Dooley provide a nontechnical analysis of the basic issues involved in the so-called "debt crisis," including how a nation might grow out of debt, market-based ways of transforming debt such as debt buy-backs and debt-equity swaps, debt relief and the possible establishment of a formal international debt facility.

Joshua Greene focuses upon the growing debt and debt-servicing problems in low income nations, specifically the situation in sub-Saharan Africa. In the next essay, Michael Dooley focuses on the fall in investment observed in many of the heavily indebted middle-income developing nations, arguing that the markets' current valuation of existing debt may well have discouraged new real investment in these same nations. Joshua Aizenman and Eduardo Borensztein follow with two theoretical papers that extend the literature on international lending and country risk.

Next, Michael Dooley provides a framework for the analysis of the market pricing of external debt. This framework is purported to be usable for the evaluation of proposals to execute buy-backs or other debt operations. In the essay that follows, Max Corden directs attention to various proposals to establish an institution that would purchase debt at a discount and write down its contractual value. Corden analyzes how debtor nations, creditor banks, and the owners of the debt institution are affected by the debt transactions that would be undertaken.

Three essays then follow, one by Guillermo Calvo, one by Jeremy Bulow and Kenneth Rogoff, and one by Kenneth Kletzer, that address the nature of debt contracts involving loans to sovereign nations and deal with issues concerning the modification or renegotiation of the terms of the contracts.

The next three papers examine the question of whether debt reduction or other forms of debt relief raise the incentives for a debtor nation to make appropriate adjustments and investments to the benefit of creditors as well as debtors. Corden concludes that under certain conditions it may well be advantageous to creditors to grant debt relief. Paul Krugman develops the idea of a "debt relief Laffer curve", where creditors may sometimes raise expected payments by debtors by forgiving part of the debtor nation's debt. The essay by Elthanan Helpman demonstrates that debt reduction may raise or lower investment, depending upon risk aversion and international capital mobility. The three papers that follow, one by Blackwell and Nocera, one by Rodriguez, and one by David Folkerts-Landau and Rodriguez, focus more narrowly on the various ways to transform debt.

In the next to last essay, David Folkerts-Landau examines the problems for nations with debt-servicing difficulties generated by the increased volatility of international interest rates. In the last essay of the volume, Michael Dooley and Steven Symansky address methodological issues associated with debt reduction.

Overall, the book is well written and communicative. It provides the reader with a good flavor for the depth and diversity of issues associated with the international debt problem.

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The Awakening of the Soviet Union.

By Geoffrey Hosking. Cambridge, Massachusetts: Harvard University Press, 1990. Pp. ix, 182. \$19.95.

What price freedom? As Gorbachev and his government struggle with the complexities of democracy and the harsh realities of the marketplace, an awareness is growing among the Soviet people that the full dues have yet to be paid. Whatever the sacrifices made over the last seven decades of communist rule, those were merely small down payments on freedom. A long-time student of the Soviet Union, Geoffrey Hosking in this book provides a different perspective on the dramatic changes the country is experiencing. His analysis illustrates the social, cultural, and historical developments that have created the need for perestroika and glasnost with its political and economic changes.

Perestroika, which began as a policy of making socialism more efficient and humane, has been transformed into an attempt to turn the Soviet Union into a multi-party democracy and a free-market. However, the country displays a serious tension between progressive, outward-looking urban centers and an inward-looking countryside. Further, the country is disintegrating. This process of disintegration is being driven by two divisive forces—nationalism, and the devolution of authority away from the center to local authorities. National diversity is the most striking feature of the Soviet Union. Such diversity shows deep differences in customs, religions, and standards of living. The problem facing the Soviet administration is that the resurgence of nationalism has reinforced the process of devolution, making the task of recreating a new Soviet Union extremely difficult.

Hosking does a commendable job in raising this dilemma facing the present-day Soviet rulers. The national question could break the Soviet Union. Hosking suggests that the strength of the armed forces and the security police gives the Soviet Union a good chance of withstanding the nationalist tide. However, it can be argued that if the Soviet leaders do not handle national aspirations with exemplary tact, then the only way they will be able to hold the whole explosive mixture together is by combining super-Brezhnevian corruption with army and police coercion on a scale which would distract the Soviet Union from its strategic commitments.

Hosking's analysis of the ethnic issues facing Gorbachev is particularly timely and insightful. He describes, in a powerful manner, the long-simmering historical and cultural conflicts that now represent some of Gorbachev's greatest challenges. In the first few chapters in the book, Hosking argues that civil society is re-emerging in the Soviet Union, in very diverse forms, from under the totalitarian carapace, and is beginning to make itself felt in the political system. He next examines how the political leadership sees the situation and what changes it would like to bring about.

He feels that one economic innovation that is producing results is the cooperative sector—essentially the private sector under another name. However, the problem is that the cooperatives are not yet covered by legally protected institutions of private property or by properly worked out commercial and contract law. Consequently, they charge the high prices necessary to keep an insecure business going. The rising prices in the cooperatives tend to reinforce people's fears of inflation which is bound to take hold once restrictions are removed. This kind of inflation is something the authorities dread. So the Soviet economic reformers are faced with two alternatives. Either the reforms fail, in which case the perestroika as a whole is doomed, and the Soviet Union will probably fall apart and certainly cease to be a world power. Or they will succeed, engendering working class unrest and ethnic tension to a degree which may well strain the resources of the state.

Glasnost applies not only to what happened in the past, but also to many aspects of the present. In recent months, the print media has made comments with much greater frankness on the failings of the system. The shortage in housing, lack of discipline at work place, lamentable medical care and the poor quality of consumer goods are expounded and analyzed in vivid detail. Important political decisions are sometimes critically discussed. Though there are limits, however, the last few years have offered the Soviet public an unprecedented wealth of information and ideas on the state of their country.

Whatever the effervescence of debate in the political arena, it is in the area of economy that the legacy of the past weighs most. Traditional practices have corrupted producers and reduced consumers to a state of resentful but helpless apathy, so that serious change, if any, is bound to be prolonged and difficult. The economic system established by Stalin and his successors provides for most of the population job tenure and a guaranteed minimum sufficiency of material provision in exchange for a low standard of living and absence of control over work place decision-making. This is a bargain which the majority of the Soviet population has tacitly accepted and of which they are apprehensive of seeing violated, for fear of the disruptions that might follow.

Thus, at the end of the book, the reader still wonders if it is possible for those whose only experience in a market economy is within a socialist state to make the transition to a real market with its functioning price system. The reader is reminded of the character in James Clavell's "King Rat" who was remarkable in operating a black market in a POW camp, but was unable to function once freed.

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