

Assessing the Value of Law in Transition Economies. Edited by Peter Murrell. Ann Arbor: University of Michigan Press, 2001. Pp. xvi, 388. \$70.00, cloth; \$32.50, paper. ISBN 0-472-09763-6, cloth; 0-472-06763-X, pbk.

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The relationship between legal institutions and economic development has been the subject of discussion and debate since the time of Max Weber. More recently, attention has been focused on the particular problem of constructing appropriate legal institutions for countries emerging from decades of state socialism (designated, perhaps overconfidently, as "transition economies"). The questions raised are tremendously important and of more than merely theoretical interest. International organizations concerned with economic development in transition economies condition funding on the basis of theories, whether explicit or unstated and perhaps not even consciously considered, of the proper role for legal institutions.

This fine collection of essays explicitly places itself in a second stage of thinking about these issues. The first stage, according to the introduction,

placed too much emphasis on the need for immediate implementation of macroeconomic stabilization, liberalization, and privatization, while relegating to a distant second place consideration of legal and other institutional reforms. The disappointing performance of the post-socialist transition economies has, however, made economists and other scholars as well as policymakers more aware of the critical importance of market-supporting institutions.

The growing awareness that institutions are important has not yet, however, been fully translated into an understanding of just *how* they are important, and it is here that this volume makes its contribution, focusing on the interaction of particular actors—shopkeepers, lawyers, legislators, and others—with the legal institutions of their society.

A particularly important finding in many of the essays is that law and legal institutions matter more than the conventional wisdom, based on anecdotal evidence, would have it. This is so even in places like Russia and China, where crime and corruption often seem to be rampant. The virtue of the essays here, and their advance over previous studies that have attempted to correlate broad measures of the quality of a country's legal system with various economic indicators, is that they try to tell us precisely which institutions are effective in what circumstances and why. This is far more helpful for practical policy-making, as well as for the development of new and fruitful hypotheses, than analyses of macroeconomic data. The fieldwork-based essays collect interesting and useful micro-level data, discuss methodological problems with sophistication, and in general—one can always quibble here and there—are cautious about drawing sweeping generalizations from their results.

Essays by Kathryn Hendley; by Kathryn Hendley, Peter Murrell, and Randi Ryterman; and by Glenn Hendrix all show that businesses, domestic and foreign, find Russian commercial (*arbitrazh*) courts to be of real significance, and that their incompetence and corruption has been greatly overstated. Hendley, Murrell, and Ryterman find that "the institutional environment rewards enterprises that pay attention to the legal side of their operations." Particularly interesting is the finding of the Russian studies as well as those of China (Minxin Pei) and the Kyrgyz Republic (Young Lee and Patrick Meagher) that socialist-era courts can, under certain conditions,

adapt to new conditions and function reasonably effectively without a major overhaul. In the case of Soviet-era *arbitrazh* courts, those conditions include a tradition of apolitical, technical decision-making. Given that Chinese courts utterly lack this tradition, I am more skeptical than Pei as to how well they have adapted.

The essay by Timothy Frye sheds particularly interesting light on the issue of what kind of legal institutions encourage investment. Douglass North and his followers have stressed the security of property and contract rights, without really distinguishing the two. But while many ways can be found—albeit at a cost—to overcome insecurity of contract rights, such as relying on reputation or repeated dealings, insecurity of property rights—the likelihood of random exactions and expropriations by the state or by others permitted, willingly or not (such as criminals), by the state—is a major obstacle. Ingeniously positing major renovations to small shops as an index of shopkeepers' confidence in the security of their investment, Frye finds such renovations to be closely tied to the quality of the police force, and not significantly related to confidence in courts and other institutions of contract enforcement.

The book also contains a few more theoretically-oriented essays. Raja Kali argues that while the informal networks that arise as a result of inadequate legal institutions may be beneficial for their members, they may actually reduce overall economic efficiency through their negative external effects on non-members. Michael Heller suggests that rights to corporate property in Russia suffer from "the tragedy of the anticommons": too *many* people holding rights to exclude, with transaction costs preventing all rights from being bought up by a single agent. And Leonid Polishchuk argues that because investment disincentives at the national level dwarf any incentives local governments might offer (such as good legal rules), it makes more sense for those local governments to compete through the traditional ways of state interference and protectionism; indeed, when there is little expectation of investment, it may be rational for local governments to act predatorily, since they cannot scare off investment that was never coming in the first place.

One does not come away from the essays with the feeling that the puzzle of the role of law and legal institutions in economic development has finally been solved. The essays present less a solu-

tion than a convincing demonstration that law matters often enough that it should not be overlooked, that broad generalizations, whether verbal or statistical, are usually unhelpful, and that a detailed knowledge of a particular society's legal system is critical. It is through the accumulation of studies such as these, still thin on the ground, that the bigger picture will eventually become clearer.

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