Priests of Prosperity. How Central Bankers Transformed the Post Communist World. By Juliet Johnson. Ithaca: Cornell University Press, 2016. 312 p. $35.00.

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Central banks have been key actors in the transition of post-communist states to market economies. As one looks back at the structural transformation of the politics and economics of the region, there are important questions to be answered: Why did post-communist states import the central banking model of Western nations that emphasized independence from political actors and a focused on the stability of prices? How did this model fare when confronted with the realities of economic transition, lack of deep support for the central banks' mission, scape-goating and a resurgent push-back from a political class that did not appreciate de facto constraints on their behavior.

Juliet Johnson's book develops a broad theory about the role of transnational influences on domestic institutional reforms and consolidation and the theory is made plausible by extensive quantitative and qualitative evidence. This makes "Priests of Prosperity" a substantively significant and exciting contribution to the field of comparative political economy and the understanding of post-communist societies' transformation. Johnson's work explains thoroughly the change in the practice of central banking in the post-communist world, from legal central bank reforms, to the transformation of central bank staffers into proper professionals according to global norms and understandings of monetary policy, and the actual, de facto, implementation of the central bank law. The evidence in Johnson's book comes from extensive interviews with central bankers, technical assistance providers, policy makers and commercial bankers, and in depth exploration of five countries that exemplify the range of cases across the post-communist world: Hungary, the Czech Republic, Slovakia, Russia and Kyrgyzstan.

In writing her book, Johnson reviews the extant explanations for why politicians adopted the Western models for central banking, based on the mechanisms of learning, competition, coercion and socialization. However, she suggests that this past literature is flawed both because of an almost exclusive focus on the initial adoption, but also because it mostly settles for a passive diffusion model. Thus, Johnson argues that socialization and coercion are important at all stages of transplantation (initial choice of central bank law, transformation of national central banks and law implementation). Also, she makes the case for an active transmission of practices, knowledge and legitimacy from key international actors (major central banks, the IMF, the EU), rather than passive diffusion. That is, in post-communist countries these international actors did not wait for the Western central banking model to endogenously take root, but rather actively contributed to its adoption through training and socialization of the staff and by taking the side of emergent central bankers in open disputes with the politicians.

When discussing the choice of central bank law, there is a careful distinction between the decision to conform to the Western model and the degree of conformity. Authoritarian regimes (Azerbaijan, Turkmenistan, Tajikistan, Uzbekistan, Belarus and Serbia) saw a more limited transformation of their central banks, although even in these countries there was some variation. In more democratic states, on the other hand (Hungary, the Czech Republic, Russia and Kyrgyzstan in the early 1990s) reform of the central bank was generally close to the Western model, although, again the degree of conformity varied from negotiation among political parties and experts / consultants (Hungary) to blind replication (Kyrgyzstan). In the active transformation phase, international actors gave significant assistance to the newly independent post-communist central banks in countries that allowed them access. The topics of assistance varied from monetary operations and research to payment systems and public debt management. The international actors involved also varied from the IMF, the Joint Vienna Institute to the Bank of England and the Bundesbank. The degree of transformation of some of the central bankers surveyed for Johnson's book (in Hungary, Czech Republic, Kyrgyzstan) is significant: The median respondents in these countries "strongly agree" with the mantra of the Western model that central banks should be independent from the executive; "agree" even with the less well documented statement that these independent central banks contribute to economic growth; and "disagree" that central banks should be allowed to give loans to the government.

The implementation of central bank legislation and de facto conformity to the Western model varies most dramatically. This is the reason why Johnson treats it separately in two chapters, for countries that had the incentive to join the EU and countries that remained solidly in the Russian sphere of influence. Thus in Hungary, the Czech republic and Slovakia, while politicians did have important attempts to outright change the law of the central bank, they were unsuccessful both due to the lure of EU membership and direct IMF intervention. In these countries, the central banks also maintained high interest rate policies in the face of outright demands by politicians for a more relaxed monetary policy. In Russia, on the other hand, Vladimir Putin was successful in curbing the independence of the Bank of Russia. Also, under the president Kurmanbek Bakiyev the Kyrgyzstani central bank de facto lost its independence and its governor was fired and arrested.

All in all, Johnson is skeptical that the impressive central bank legal reforms that made many post-communist central banks more independent than the celebrated German Bundesbank, had a real shot to work well on average. This is because, the internalization of the Western model of central banking faced formidable challenges of incomplete and uneven political democratization, shallow support from politicians and the public and, finally, the difficulty of economic liberalization and the accompanying crises that undermined the legitimacy of the model.

Johnson's book is clear and persuasive because of a combination of carefully developed theory, a deep understanding of post-communist countries and a combination of qualitative and quantitative evidence. Still, some statements and conclusions appear too broad. For example, I find some strong language on central bank law adoption (p. 40): "Making the initial choice to create independent central banks required little effort. Only the heads of state and legislatures needed to be convinced to pass the requisite laws. " This stands in contrast to the fact that Johnson goes on to discuss the choice of law adoption both in terms of a dichotomous decision, but also with regards to higher or lower levels of legislated central bank. There also are some general statements on why implementation of central bank law may have failed (p. x): "zealous central bankers at times refuse to cooperate with their governments and finance ministries to such an extent that monetary and fiscal policies pulled strongly in the opposite directions, often to the detriment of economic stability and, ultimately, central bank independence, itself”. Some examples of this behavior may be Hungary in the early 1990s or Slovakia in 1997. However, it is unclear what kind of cooperation does Johnson envision would have worked? In the case of Slovakia, it appears that “uncooperative behavior” was the tightening of monetary policy in response to the fiscal deficit. The book, however, does not convey in detail whether the behavior of the central banks was the root problem of instability or instability was driven by fiscal deficits, whether deficits were pro-cyclical, and how a low interest rate policy or more lending to the government would have helped.

To sum up, Johnson’s book is a well written and innovative inquiry into institutional reform in post-communist countries and how these institutions – the central banks - turn out to work in practice. While there is significant research on central bank reforms and their consequences for rich democracies, much less is known about the role and effectiveness of these institutions in new democracies and autocratic countries. To some degree, the state of the art answer is that central banks do not work in non-democracies. In the past decade much progress has been made in understanding the constraining role of institutions in authoritarian countries and new democracies. In these countries, central bank laws have been reformed to international best standards. Johnson’s book lays a good foundation for future work aiming to understand to what degree these legal reforms in authoritarian countries and new democracies can hope to lead to de facto powerful, autonomous central bankers truly in charge of domestic monetary policy.