Soviet Reform — a New Phase

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It is no secret that in its sixth year under perestroika the Soviet economy is hardly prospering. The appropriate antidote for its ineffectuality, Mikhail Gorbachev has determined, is still more restructuring, and the Supreme Soviet has approved, at his urging, a new program for economic reform that might have seemed unimaginably bold just a few years ago. The difficulties in the way of the economic invigoration that Gorbachev has been seeking, however, are now formidable.

According to the U.S. Central Intelligence Agency's estimates, the Soviet GNP was still growing as of 1989, but the tempo was only 1.4 percent, or less than the average rate of 1.9 percent achieved during 1981-85, a period now referred to in the USSR as one of stagnation (zastoi). A good harvest has been reported for 1990, but industrial output is falling absolutely and perhaps markedly.

Unsatisfactory as this record has been, for the Soviet leadership a related kind of economic deficiency must be even more troubling. Never known to function well, the Soviet consumer goods market has lately ceased functioning almost entirely. Queues and empty shelves are as pervasive as ever, and some particularly scarce products are rationed locally or distributed preferentially to workers by their employers. For other consumers, the ruble is aptly held to be not real money, but a kind of lottery ticket — redeemable for goods only with luck and perseverance.

The breakdown of the Soviet consumer goods market has become a familiar theme in the Western media. However, what is rarely understood is that there has been no sharp fall-off in supplies of consumer goods. Provision of some food stuffs is down, and supplies of other products — cigarettes are the latest example — taper off sporadically. But overall per capita consumption is probably little below pre-Gorbachev levels, if at all.

Inflationary finance

Nevertheless, if supplies are markedly short of demand, it is due chiefly to the government's budget deficit, which is widely reported having mushroomed in 1989 to 92 billion rubles, or...
10 percent of GNP. With the government funding the deficit in large part by inordinate printing of money (currency emissions), the resulting inflation has been compounded by lax credit and wage controls. Since the government has chosen to hold down most consumer goods prices, inflation has been more repressed than overt. The deficit has been funded accordingly by involuntary household accumulation of savings deposits as well as cash.

In concluding a discussion of the new reform program in the Supreme Soviet, Gorbachev avowed (correctly, I think) that "our most serious mistake in the years of perestroika was that we lost control over the financial situation in the country." Correspondingly, "the most important thing is, in a maximum of one to two years, to radically revitalize finances, stabilize the monetary system and strengthen the ruble...."

The high priority accorded those tasks augurs well for the new program generally. But it must be noted that a principal action now being contemplated—sharp reduction of the budget deficit—was already projected for the current year (to 60 billion rubles), by many accounts with little, if any, effect. Also problematic is the contemplated indexing of wages. Should that materialize and should controls over many consumer prices be relaxed, the result could be a wage-price spiral rather than the intended stabilization. Spiraling inflation could serve to dispel the large "overhang" that households have accumulated, although there may be little comfort in that.

Persistent control

A feature of economic reform thus far is the government's substantial control over the supplies of enterprise materials. A hallmark of central planning, such control was supposed to be superseded in good part by wholesale trade under reforms initiated in 1988. The failure of such a shift has rightly been taken as a critical shortcoming in the government's avowed efforts to downgrade bureaucratic processes in favor of those of the market.

The reluctance of the central authorities to shift to a system of wholesale trade, however, must be viewed in terms of the proverbially distorted Soviet ruble prices. In trade, these hardly can be relied on to assure an appropriate allocation of materials. If there is a failure in this area, therefore, it is the omission by the government to reform, if not to free, prices in a timely way.

In the new program, the "transition to a market economy" has been elevated to the status of one of two particular aims, the other being "stabilization." Liberalization of prices, moreover, is now promised on a considerable scale. But retail prices of the "most essential goods" will continue to be fixed by the government, apparently at the current levels. For the time being, wholesale prices for a variety of products will also continue to be controlled, and limits will be set on retained enterprise profits. In the circumstances, the government proposes to continue the extensive control over materials supply, at least through 1991. That is perhaps understandable, but no specific goal has been set for the supersession of such control by trade, while a sizable section of the economy, including various public services, is to continue running indefinitely in a non-market way.

Although planning reform has been the government's principal concern, perestroika has brought about a restructuring of economic institutions more generally. Of particular note has been the progressive liberalization of legal arrangements for types of enterprises previously inadmissible or of doubtful juridical status: individual private enterprises, cooperatives (autonomous, as distinct from the controlled, collective-farm type), and joint stock companies. Still beset by diverse legal and administrative impediments, such enterprises probably account for little more than several percent of GNP, but their emergence on any scale represents a remarkable break with the past.

It is also a break by no means accepted everywhere. Gorbachev's program for enterprise liberalization is, perhaps predictably, somewhat ambiguous. The shift to a market system, it is held, is consistent with "the socialist choice of our people," but the principle is enunciated that there is to be "equality of all types of ownership." Denationalization is envisaged on some scale, at least for enterprises administered by republics and local governments. Diverse kinds of state property—shops, restaurants, con-
struction materials factories, etc. — are to be auctioned off to the people.

Gorbachev's new program has been criticized as being vague. In response, he has affirmed that his concern was only to provide the as yet legitimated transfer of power that is occurring from the central government to the republics. With one republic after another asserting sovereignty, the very existence of the USSR as a viable political entity can no longer be taken for granted.

Survival strategy?

It surely was audacious then for Gorbachev to frame any reform program at all, never mind a detailed blueprint. In formulating guidelines, Gorbachev no doubt has wisely delegated considerable authority to the republics and local governments (for example, with respect to prices and denationalization). A new inter-republican economic committee is to participate in execution of the reform program at the highest level. The program itself, while taking account of recommendations from Gorbachev's own prime minister, Nikolai Ryzhkov, makes substantial concessions to an alternative program vigorously advocated by Gorbachev's chief political rival, the president of the Russian Republic, Boris Yeltsin.

Whether Gorbachev will be able to enlist the cooperation of the republics will soon become apparent. The Russian Republic in particular has yet to retract its commitment to initiate its own reform program. Gorbachev's program is sometimes consistent with that but not always.

In principle, conflicts that emerge could be resolved by Gorbachev's use of his newly-enlarged presidential powers, but his presidential decrees have not always been effectual. Gorbachev's reform program could easily become a test of whether the central government, he in particular, are able any longer to shape Soviet economic policy in any decisive way.

Marx to Market
Interviews with Eastern European Finance Ministers

The 1990 Annual Meeting of the IMF and the World Bank was unique in one way: the first time the Bretton Woods institutions hosted all the countries of the Eastern European region (except Albania.)

TRANSITION seized the opportunity and asked the various finance ministers, as well as the Deputy Chairman of the Soviet Foreign Economic Bank, what their respective country's roadmaps are for traveling through the historically unknown territory "from Marx to market'? Also, what kind of help do they expect from the multilateral financial institutions?

Bulgaria: Belcho Belchev

"The country has to undertake immediate steps to contain the effects of the crisis and start the transition process: budget expenditures will be trimmed by 20 percent, by canceling planned investments and slashing outlays for the state apparatus. Prices will be liberalized by the end of the year, with the exception of basic goods and services. Under the forthcoming 'little privatization' scheme, small- and medium-size businesses, restaurants, hotels will be sold to cooperatives, or to domestic or foreign individuals. Phased-in privatization of major state companies will start in early 1991.

"A new foreign investment code will permit unlimited foreign share holding. The commodity exchange should be operable by the end of the year, the Sofia Stock Exchange by mid-1991. In January a single market rate for the leva will replace the three currently used. A new property law will facilitate privatization, the banking law will create a two-tier banking system, and tax reform will guarantee equal treatment for every form of ownership. Along with free wage bargaining, social benefits should help the most disadvantaged citizens adjust to the market economy.

"We expect standby credit from the IMF, structural adjustment loans from the World Bank, and technical assistance from both. To reschedule debt, Bulgaria needs further loans from Western commercial banks."

Czechoslovakia: Vaclav Klaus

"On the macroeconomic level we must control inflation, maintaining a delicate balance between the requirements of stabilization and economic growth, without falling into the trap of overreaction — we do not need a shock treatment, a Polish-style "big bang." There is no need to set up any specific time schedule for this stabilization policy [but] on the other hand, radical changes are necessary on the microeconomic level, namely large-scale, rapid transformation of property rights. Laws to enable state companies to become joint stock companies should be completed before Christmas.

"After more than 40 years of absence we have returned to the Bretton Woods Institutions. We are negotiating with the IMF on an extended standby facility and with the World Bank on structural adjustment loans."
Hungary: Ferenc Rabar

"Currently, 78 percent of imports are liberalized and 80 percent of prices are determined by market forces. To further reduce the role of the state as final redistributor, subsidies built into the prices of consumer goods, rents and other social services will be eliminated. In parallel, wages have to be increased to compensate for those subsidies. We are drafting a broad wage reform program and will support new entrepreneurs and set up funds to assist small- and medium-size ventures.

"A stringent anti-inflation program with monetary and fiscal restrictions will be pursued unabated. The partial convertibility of the forint will be introduced: Hungarian enterprises will be free to buy foreign currency with forints. We have put convertibility in the forefront for several reasons. Hungary has an open economy, so it is of utmost importance to boost foreign trade. Besides, currency convertibility would attract more foreign investment as entrepreneurs appreciate it more than tax privileges.

"Hungary has approached the IMF for a three-year standby, and also for a loan from the special compensation and contingency fund to offset losses from the oil price explosion, a severe drought, and the elimination of CMEA trade."

Poland: Leszek Balcercowicz

"Two programs are running side by side. The stabilization program succeeded in cutting the inflation rate, stabilizing the zloty, balancing the budget, boosting exports, and substantially improving our balance of payments. However, recent external blows, the Gulf crisis, the collapse of CMEA trade, and trade loss due to German reunification endanger the results achieved so far.

"The program of systemic changes is also surging ahead. Next year, from 100 to 200 large-scale, and about 350 medium- and small-scale enterprises, will be privatized. The remaining state enterprises will be transformed into joint stock companies and will be privatized in later years. A new, more liberal foreign investment law provides full transfer of profits, accelerated depreciation, and loss carry-forward measures to more than compensate for phasing out the present three-year tax holiday. In mid-1991 a value-added tax will replace the present turnover tax. In early 1992 a standard personal income tax will be introduced. Local governments will be able to levy property and other taxes to exercise genuine authority.

"Further assistance from the IMF and the World Bank is essential, to reduce ... our inherited $40 billion of external debt."

Romania: Theodor Stolojan

"Initially we had planned to implement a market system over two years. Recently we realized that the transition has to be accelerated: the old system of central planning has been destroyed and the new structures are still missing. First we will transform state enterprises into joint stock companies, while still keeping them under state control. In the second stage, starting in March 1991, stock companies will be privatized, with 30 percent of the shares going to the general public and the rest being sold to Romanian and foreign investors. Inauguration of the Romanian Stock Exchange in late 1991, with the help of the IFC, will bring share trading into full swing.

"Price and wage liberalization is also on the agenda. We are phasing out price control of goods and services in sectors where at least three competitors are present and getting rid of most subsidies. Convertibility of the lei will depend on international support, at a level equal to the $1 billion stabilization fund granted to Poland.

"We need technical assistance from the IMF and the World Bank. Considering the multiple effect of the Iraq crisis, the restructured CMEA relationship, and the pains of the transition process, we expect a serious deterioration of our balance of payments. We need $300-500 million standby from the IMF, compensatory finance for partial reimbursement of the higher oil costs, and project financing from the World Bank and the IFC."

Soviet Union: Thomas Alibegov

"The problem is pace and sequencing. Churchill once said: 'you cannot leap over a precipice in two steps.' But after 70 years of totalitarian rule and central planning we cannot reach our goal of a market economy in one step. What we can do is build a solid bridge and walk over it.

"First we have to create full-fledged money. Enterprises should produce goods for sale instead of to meet statistical demands. The huge monetary overhang has to be eliminated. Freely-set prices and internal convertibility of the ruble are essential. Macroeconomic principles must take their proper place and subsidies must be eliminated. Wages should be increased to the real value of labor; prices can then indicate real market values. Unavoidable sacrifices by society have to be regarded as an investment for the future. I disagree with any limitation of production due to changes in property ownership. Therefore, I am against freehold or lease-hold arrangements, which remove factors of production from the
normal cycle. Land-lease in agriculture is advisable as long as utilization of the land is guaranteed.

"We need to privatize small-scale industries without delay, but for the time being the Soviet Union lacks the appropriate means or experience to privatize large organizations. I would prefer to see the state as majority share owner of sovereign business organizations, operating under the same principles as do such French public sector companies as Renault or Société Générale. For the optimum allocation of resources, capital- and foreign exchange markets should be set up. The Soviet Union should become a common market of sovereign republics. Seventy years of economic cooperation has developed, although in a distorted way, strong cohesion among the regions of the Union. A drastic change of economic and trade relations would disrupt the member republics' economies. Changes must be carried out, but the merits of this integration should be preserved.

"We expect technical assistance from the IMF and World Bank. We have to decide together with the specialists of the two institutions what should be preserved in our special environment, what new structures should be created in the areas of banking, auditing, fiscal and monetary policy, foreign exchange, and foreign trade. But membership is two-sided. I do not think it will be difficult [to be accepted] after working out a broad economic reform program, opening up our economy, creating internationally acceptable statistical services, and abiding in other respects by the rules of the Bretton Woods organizations."

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Policy, Efforts, Dollars

Remarks of Mr. Eugenio Lari, a director of the World Bank's European Department, delivered at a recent conference in Washington on the Eastern European financial scene, organized by Price Waterhouse.

"The World Bank has developed a strategy of assistance (toward Central and Eastern Europe) with the basic goal of providing strong support to the ongoing reforms. While differentiating by country, the World Bank's strategy is to address simultaneously a core of interrelated issues, giving special emphasis to stabilizing each economy and restoring the basic internal and external equilibria. In this stabilization phase the IMF focuses the lead, and the World Bank supports the Fund's data gathering, analyzes, policy dialogue and recommendations, often participating in Fund missions. But analysis and experience show that, in parallel, it is necessary to . . . initiate structural changes and systemic transformation, and moderate the social costs of stabilization, less an excessive fall in output, employment, and standards of living sets in, causing social and political upheavals and ultimately undermining the reform itself. . . ."

"Lending activities of the World Bank in Central and Eastern Europe (CEE) have increased dramatically in both quantitative and qualitative terms. Against five operations for $543 million (or 3 percent of total World Bank lending) in FY89, total World Bank commitments in FY90 were $1,039 million (or 12 percent of total World Bank lending) in ten operations. With the expected return to active status of Romania and the new members (Bulgaria and Czechoslovakia), commitments in FY91 are projected at 15 loans for about $2.5 billion.

"There is also a substantial expansion in economic and sector analysis, with a number of studies focusing on overall economic management, trade liberalization and promotion, enterprise and banking reform, energy and transport, human resources, environment . . . The World Bank is also deeply involved in the formulation of legislation and regulations affecting the financial sector and has undertaken studies to determine the impact on CEE of the changes in the CMEA and to suggest ways to mitigate their initial negative effects.

"This economic and sector analysis is complemented by a special program for Central and Eastern Europe which was started last year and is intended to stimulate analytical work on socialist economies in transition and coordinate (Bank) research in this field. A Socialist Economies Reform Unit has been established to focus on operationally-oriented analytical tasks in priority areas.

"Looking at individual countries, in brief, the picture is as follows:

Yugoslavia: . . . through policy dialogue and lending operations, the Bank supports the introduction of a new framework of incentives, the restructuring of enterprises and banking systems, promotion of small and medium enterprises, rehabilitation, modernization, and expansion of basic infrastructure (energy, transport, water supply), and remedial action and improvement in the environment. Lending in FY90 amounted to $932 million under a structural adjustment loan and a transport sector loan. We expect to continue lending to Yugoslavia at the rate of $600-700 million annually.

Hungary: . . . we are making use of relatively new instruments, i.e., "hybrid loans," which combine quick-disbursing funds to support institutional and policy reforms, and investment funds to support restructuring at the enterprise and subsector level. FY90 lending reached $366 million, under a structural adjustment loan and two loans for the modernization of the financial sector and integrated agricultural export promotion. In July, the World Bank approved the first Eurodollar transaction under its Expanded Co-financing Operations (ECO) program — a partially guaranteed $200 million fixed-rate Eurobond issue for Hungary's State Development Institute.

Poland: . . . In FY90 Poland received five World Bank loans for $781 million, supporting programs for industrial export development, agro-industries, environmental management, railways and energy resources. A $300 million structural adjustment loan was approved at the end of July . . . A field office has opened in Warsaw. We expect to continue lending to Poland at a rate of about $800-1000 million annually.

"As far as Romania, Czechoslovakia, and Bulgaria are concerned . . . we expect that substantial programs of technical and financial assistance will be in place shortly . . ."
Nicaragua: Challenges of the New Strategy

On January 25, 1990 a fourteen-party coalition led by Violetta Chamorro recorded a stunning electoral triumph in Nicaragua, capturing 55 percent of the popular vote. Mrs. Chamorro's victory laid the groundwork for fundamental transformation of the Nicaraguan economy, away from the statist approach of her Sandinista predecessors and the oligopoly of the earlier Somoza regime, toward a market economy driven mainly by exports of agricultural products such as cotton and coffee.

For this transformation to happen, the formidable legacy of the previous government must be overcome, stripping away structural rigidities introduced over the past ten years and recreating competition as the basis for supply of goods and services.

Sandinista heritage

The Sandinistas came to power in 1979 with an agenda for the complete political and economic transformation of Nicaragua. This was achieved in their eleven years of power. The state's role in production, finance, and commerce expanded dramatically. The Sandinista Front (Frente Sandinista de Liberación Nacional) became an important social agent. However, as a result of various internal and external factors, such as the continuing civil strife with the Contras, the U.S.-imposed economic sanctions, the sheer mismanagement of the economy, and a miscalculation of public sentiment, the Sandinistas were forced to give up power after being defeated in free elections. They left behind an economy in total disarray and a country deeply divided along ideological lines.

Total output has fallen each year since 1984, and by the end of 1989 was 10 percent lower than at the beginning of the decade. Inflation in mid-June 1990 stood at 880 percent on an annual basis, after having reached 1,690 percent in 1989, and over 33,000 percent in 1988. Additionally, the volume of exports has been falling since 1983 and now is about half the level of 1980. By mid-1990 the country's total external debt had reached $10 billion, almost nine times as much as the present GDP; of this amount $3.5 billion was in arrears, 44 percent of it unpaid interest. By mid-1990, the per capita burden of the arrears alone was almost four times larger than GDP per capita.

At the sectoral level the picture is equally bleak. In agriculture, for example, the area planted to cotton in 1989 was about half what it had been at the start of the decade. The number of cattle in the country was estimated to have fallen from 3 million head to 1 million during the same period. Concerning education, whereas significant gains in enrollment were recorded in the first part of the decade, these flattened out in recent years. Both pre-school and primary school attendance was low, and the illiteracy rate was on the rise by the end of the decade.

How the economy came to deteriorate so completely and rapidly is a complex issue. Certainly, the Sandinistas inherited a strife-torn economy and a highly skewed distribution of resources. Over time, the continuing civil strife required significant military expenditures, and the U.S. economic sanctions led the government to rely on a highly inefficient system of bilateral economic assistance. But these factors — not denying their importance — were an overlay to the centrally managed economy, established by the Sandinistas, where it was difficult to enforce fiscal or monetary discipline, provide incentives, or set relative prices. The result was macroeconomic disequilibria: highly negative real interest rates, hyper-inflation, price distortions, multiple exchange rates, and a thriving black market.

The critical element in this development proved to be the state's role in the economy as envisioned by the Sandinistas. The Constitution of 1987 reserves to the state both domestic and foreign trade activity. As a result, the state became the primary commercial agent, the sole marketer of agricultural export crops, the importer and distributor of agricultural inputs, and the owner of major retail outlets. It also fixed domestic prices, including wages, as well as the exchange rate, where it instituted a system of multiple exchange rates that penalized exporters.

The state also owned a large share of the country's capital stock, acquiring it by the expropriation of the properties owned by General Somoza (his agricultural holdings left the Sandinistas with over half the country's cultivated area) and his cronies, and later — through decree — the property of other private owners as well. By the end of 1989 the market share of about 300 state-owned enterprises and Frente-associated cooperatives had increased to about 40 percent in the manufacturing sector and above 50 percent in agriculture. The combination of wage and price (including exchange rates) fixing and lack of control over fiscal accounts eroded production incentives. This led to the downward spiral of output, decline of capital investments, and deteriorating financial conditions for individual firms.

The financial sector was also reserved to the state by provisions in the Constitution. Inevitably, standard credit norms were disregarded and loan losses mounted. Negative real interest rates encouraged producers to act as financial intermediaries. As a consequence, the sum total of domestic credits increased and the quality of the loan portfolio deteriorated. By 1990 all four commercial banks in the country were insolvent, and the Central Bank, being responsible for back-stopping the banks, recorded large losses as a result.
When the Chamorro government took office in April, 1990, it faced a grossly overvalued exchange rate, depleted international reserves, a large swell in domestic credit, and a swollen fiscal account that was largely absorbed by public sector wages. Its first 150 days were further marked by confrontations with the opposition, which drew on its network of labor unions and public sector employees to dispute and disrupt the government's economic plans. In the period between the election and Chamorro's assumption of power, the Sandinistas raised wages, increased spending and increased credit to thwart the new government's announced intention of reducing inflation to zero in three months.

Basic objectives

The government itself was ill-prepared to mount a stabilization and reform program. Largely because no one expected them to win, the Chamorro government came to power with only broad objectives and few specific measures to achieve them. The paradox that emerged in the initial days of the Chamorro government has characterized the stabilization and reform process ever since. On the one hand is a deep and bitter ideological division in the country, with neither side having a dominant position but each well organized to rally around their respective cause. On the other hand is the realization that attacking the fundamental economic disequilibria in the economy will require consensus building, public awareness, and compromise.

Nonetheless, the government introduced some corrective measures, and there are some initial signs that the transformation is taking hold. A new currency, the cordobas oro, linked to the dollar, is being phased in slowly; multiple exchange rates were discontinued, public utility rates increased, and some state-owned enterprises privatized. The government has been able to eliminate the exchange losses of the Central Bank. Broader fiscal and monetary discipline, however, has proved elusive and has prompted the government to examine more closely the causes of the current economic chaos and be more specific about the required reforms.

The government has outlined five basic objectives for the next three years:

- eliminating the underlying causes of inflation by reducing the fiscal deficit to a level that can be financed without monetary creation, linking the growth of bank credit to the ability of the financial sector to attract new resources, and exercising greater control over state-owned enterprises.
- full introduction of the new currency (and anchoring it to the dollar), thus addressing the decline in demand for the old hyper-inflated currency and completing the process begun several months earlier.
- improving efficiency and competitiveness through deregulation, liberalization of the financial sector and foreign trade, tax reductions, foreign investment, and privatization.
- alleviating the social costs of adjustment and eradicating extreme poverty through the social emergency and social investment funds.
- creating a climate of confidence to permit a speedy reactivation of production, investment, and employment through the return of expropriated assets where justified, a clear definition of property rights, and a process of national consultation.

Barriers of ideology

Three factors make the Nicaraguan transformation distinctive:

- It is being done in the context of an external debt overhang that poses an insurmountable financing gap and puts in doubt the sustainability of the reforms. Without considerable debt forgiveness on current debt and concessional terms on new monies to finance the government's stabilization program, reform will not be possible.
- Large-scale demobilization of the Nicaraguan army and the Contra forces is necessary to provide relief to the budget and free resources for the proposed social emergency programs.
- Above all, a significant segment of the population, although a minority, has not rejected the ideology and political impetus of the former statist approach. Thus, while the government has a mandate for transformation, the appropriate mechanism for bringing it about is not clear.

The recently announced reform measures, as outlined above, go a long way toward correcting the current situation and achieving a true transformation of the economy. Additionally the government is working closely with the international community through a broadly constituted consultative group to address the issues of debt overhang, technical assistance, and new financing. Fundamentally they seek to harness the fiscal and monetary forces generating hyperinflation and instability. This implies not only tighter control on the central government but also — in an initial stage — the imposition of strict supervision of state-owned enterprises, including the banks, and later a large-scale privatization effort.

To do this, however, the government must tackle the ideological issue in three ways. First, it needs to take charge of the state machinery where it has not yet done so, to be able to implement its announced goals and objectives. Second, given Nicaragua's adverse social indicators compared to its neighbors, the government must pay careful attention to the social costs of adjustment and design well-targeted programs of assistance. And third, it must continue to work at maintaining a national consensus on the need for reform. As the new government has said on several occasions: the costs of doing nothing are far greater, and the benefits of idleness much smaller, than the cost of undertaking these far-reaching reforms.

Richard Clifford
LA2CO

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Down with Inflation

from the Yugoslav magazine Jeste
Quotation of the Month: “The Task of the State is to Clean up the Mess”

"A n attack on 'market socialism' is now coming from a number of East European economists, converts to free-market ideology, who usually express regret at their own 'naive' illusions of earlier times about the 'reformability' of Soviet-type 'socialism.' A leading exponent of these ideas is Janos Kornai. He expresses his views systematically and cogently in The Road to a Free Economy (1990). Its basic argument is that there is no 'third way,' no viable alternative to Western capitalism in one of its several forms, once one rejects Soviet-type 'socialism.' The experience of Hungary shows particularly clearly the failure of attempts to combine public ownership and marketization. Anything like 'market socialism,' in his view, a chimera.

"...I agree at once that the Hungarian halfway house — with state enterprises still subject to various instructions, benefiting from subsidies, soft budget constraints, and lack of effective competition — was very unsatisfactory. Also that what he calls 'freedom requirements' for private enterprise should certainly exist: there should be no discrimination in respect to supplies, taxes, access to foreign markets and foreign exchange, no need to apply for permits and licenses.

"I raised earlier the question whether to qualify as socialist, a society needs to impose some upper limit on the size of private activities. This is not a question that concerns Kornai, and this is, of course, an important difference. More important still is Kornai's emphasis on overcorrecting for the Communist regime's ideology of egalitarianism and its negative attitudes toward 'unearned' income, that is, income from property ownership, stock exchange or commodity deals, and the like, as well as income from other kinds of entrepreneurship.

"He is so concerned with providing incentives for private enterprise that he even opposes progressive taxation.

"Here our paths do diverge. But I can see why. He is understandably concerned with legitimizing private acquisitiveness in a social setting in which it was denigrated when it was not actively repressed. To take a Soviet example, suppose there were apples in Krasnodar and no apples in Kharkov. An enterprising would-be trader could make a lot of money by buying them cheap in Krasnodar and selling them at a much higher price in Kharkov. Most of his fellow citizens, as well as the law enforcement agencies, would regard such activities as illegitimate speculation, the apple merchant as 'greedy' and a scoundrel. Clearly, all this must change. The way to prevent fortunes from being made in such ways is to encourage free entry into the apple merchandising business; competition should quickly eliminate the excess profit. This is indeed much, much better than to send the successful merchant to jail or to subject him to a 90 percent tax rate. On this I agree entirely with Kornai.

"But an inhabitant of Thatcherite Britain could be excused for wishing to stress the undesirability of extremes of inequality, much of it based on inheritance, or on what have to be characterized as unproductive activities. To me an entrepreneur is one who devises some new product or method, produces goods and services, thereby enriching not only himself but society. He (or she) works, indeed works very hard and responsibly. This is not quite the same as pocketing an enormous commission for placing privatization issues on the stock market, or buying land needed for housing in order to resell it at a large profit, or the 'work' of corporate raiders, whose take-over is followed not by installing a more efficient man-

agement but by a break-up and sell-off. The many American company executives who award themselves annual incomes of $1 million and more surely do so because of their position at the top of the company's nomenklatura rather than through successful entrepreneurship or exceptional marginal productivity!

"Kornai rightly states that 'the critical deficiency of socialist state property consists in the impersonalization of ownership.' Therefore I, too, would welcome the emergence of real owners who take personal care of their business. But does he not know that in France a company or corporation is known as a Société anonyme? We now have institutional investors who acquire large packages of shares with other people's money and sell them again, maybe a few weeks later,... I connect my vision of a flourishing private sector with the concept that 'small is beautiful,' with owners who do relate directly with what they own. I do not conclude from this that (the firms of) absentee owners should be expropriated, or limited liability companies abolished in the real Western world in which we live. But in envisaging a transition from Soviet-type socialism to something more acceptable, we should not consciously aim to reproduce some of the less desirable features of Western society, and by 'less desirable' I mean also those that contribute negatively to economic efficiency and welfare. True, Kornai shows himself well aware of the fact that private-sector operators can 'greedily want to make money ... cheat customers ... defraud the state ... forgo productive investment,' and so on. Customer choice, 'the dissolution of the shortage economy,' competition, should act as a cure.

"Yes, it should. But should it not also act as a cure to the inefficiency of publicly-owned or cooperative enterprises? Of course a nationalized mo-
A monopoly facing a queue of customers in a sellers' market will often fail to perform adequately. But must public-enterprise systems necessarily operate amid shortage? Yes, Kornai himself wrote in his Economics of Shortage, in which he demonstrated that the generation of shortage was, so to speak, systematic. Let us accept that it is indeed a built-in characteristic of Soviet-type planning. But we are not speaking of a Soviet-type economy.

"Kornai himself would no doubt agree that competition — customer choice — makes a vital difference to productive efficiency, to producer motivation to satisfy demand. . . . Is it not the fact of competition, the absence of queues, of chronic shortage, that really matters? And in some areas of life the sense of public service matters, too. One thinks of the quality contrast between American commercial television channels and the BBC, the tradition (where it has survived commercial pressures) of punctual postal deliveries, and the like.

"Is there not a case for much more research into which publicly-owned enterprises perform well and which badly — and where and why?

"Electricité de France, the Dutch railways, Norwegian coastal shipping, American airports, Swiss postal buses, Swedish telephones, even Budapest's own municipal transport system, could be contrasted with examples of wasteful or unsuccessful 'public' activities, which exist also. Must not Kornai also study the many cases where the state- or municipally-owned enterprise is subjected to a hard budget constraint? The world is full of complaints that public-sector expenditures of all kinds have been repeatedly cut, so it seems obvious that governments can resist pressures and can close down the unsuccessful, if determined to do so.

"And what of the role of the state as provider or financer of health, education, public parks, roads and other infrastructure, old-age pensions, a better environment, low-rent housing? Do such things lead us along the road to serfdom? Kornai may rely on private-sector provision. But take just one example: housing. He is all for decontrol, for market forces to operate. But he must know that in Budapest, as in London, New York, Paris, and so on, the market rent exceeds the total earnings of a high proportion of teachers, postal workers, cleaners, hospital staff members. As for infrastructure, even in affluent America the individualist tax-cutting ideology has led to a dangerous backlog of repairs to roads and bridges. The USSR, Poland, and Hungary need large-scale infrastructural investment of a kind typically financed by the state in all countries.

"'Inflation', says Kornai, 'is not a natural disaster, it is created by governments or the political powers behind them.' An oddly Friedmanite formulation. In Britain, despite the government's commitment to combating inflation and [despite] a budget surplus, inflation has been fueled by unrestrained credits and loans granted by deregulated private financial institutions.

"Last, a word on structurally significant investment and the related question of the functioning of a capital market. . . . In Britain, at least, the stock exchange is not a significant source of venture capital or of resources for real investment. . . . Hungary, too, has inherited a number of structural distortions. I imagine Kornai's reply: yes, and these distortions were due to state control, state intervention, state investments, so why should the remedy involve more of the same? To which one can only reply: the state also neglected the environment and achieved record levels of pollution, but it still remains the task of the state to clean up the mess. To clean it up in association with private business, private capital, including foreign capital, is most certainly needed to finance necessary investments.

". . . Kornai is, after all, not Hayek or Friedman. He does recognize a role for the state beyond that of a 'night watchman.' Of course his ideas are deeply influenced both by East European experience and by the urgent need to compensate (even overcompensate) for the distortions imposed by the state and party under communist rule.

". . . Which leaves us far from socialism in any variant of that ill-defined word. Perhaps we would both settle for a kind of welfare-capitalism-with-a-human-face, not easy to distinguish from a socialism with a big role for private capital and individual entrepreneurs? Much may depend in the end on the stability of the international system that the East Europeans are now so keen to join. What if it founders under a mountain of debt and cumulative trade-and-payments disequililibria? As far as I am concerned, not devoutly to be wished. But who can say that it is impossible?"

From Alec Nove's recent article "Market Socialism" and "Free Economy" published in Dissent, a New York Quaterly. The author is Professor of Economics at the University of Glasgow.
Milestones of Transition

Algeria has abolished state trading monopolies and is allowing foreign firms, through local agents, to sell scarce goods in the country for the first time since the 1970s. An embryonic stock exchange will operate soon, and Prime Minister Mouloud Hamrouche has pledged to shift the country to a market economy by 1991. He also announced the decision to convert state enterprises into autonomous profit centers, setting their own budgets, prices, and production targets. State-owned companies with heavy losses will be closed down by year-end. The government is considering elimination of price subsidies on basic goods in favor of targeted assistance to the needy.

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China's Prime Minister Li Peng confirmed in a recent speech that the country would continue its cautious slow-growth policy for the foreseeable future, slightly increasing investment targets, gradually boosting imports, and accumulating foreign exchange reserves to meet debt repayment obligations. Beijing's annual growth target for 1991-95 had been 5.5-6%. Although the tight credit restrictions were loosened in the spring, aggregate demand remained weak and output stagnated through mid-year. According to economic forecasts, real investments will surge during the last quarter and industrial growth could reach 5-6% for the second half of 1990.

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The Serbian Republic, abolishing de facto Yugoslavia's internal common market, is imposing duties on goods from Slovenia and Croatia — Slovenia is retaliating with corresponding measures. Officials have said that Yugoslav republics seeking to secede would be liable for their share of the national debt of $16.5 billion and would face problems getting new loans. According to official figures released in October, retail prices in Yugoslavia almost doubled in the first nine months of 1990, industrial production fell by 10.4 percent compared to the same period in 1989, the trade deficit reached $2.2 billion, and bankruptcy procedures began against 771 companies employing more than 450,000 people.

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The European Bank for Reconstruction and Development (EBRD) anticipates starting operations by April 1991. Two-thirds of its 42 member nations from East and West, the European Community, and the European Investment Bank, have ratified the articles of agreement. Besides lending to both public- (40 percent) and private-sector (60 percent) projects, the London-based EBRD will hold equity in companies, advise on privatization, and train specialists in banking and accounting. The EBRD proposes to take the lead in Poland in financing transformation of the telecommunications network and will help organize the privatization of companies and banks and the reform of the social security system.

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A complete overhaul of the Council for Mutual Economic Assistance (CMEA), the economic and trade organization of the former communist countries, is underway. The council's Reform Commission submitted recommendations for radical changes in the trading and payment system, removing all vestiges of multilateral economic cooperation. The successor organization, under a new name, will serve as a regional economic secretariat, preparing briefs, disseminating statistical information, and carrying out technical and macroeconomic research. Trade and payment matters will be negotiated bilaterally.

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The Hungarian government has set up a $64.5 million Livelihood Fund to allow Hungarians to purchase state-owned assets or to bid for one of the 10,000 smaller retail shops, gas stations, restaurants, etc. that the State Property Agency plans to sell. The second state-initiated privatization round is scheduled in December, state holding companies are for sale. The first round in September opened with a tender to handle the privatization of 20 profitable companies slated for sale and attracted an average of 10 bids for each enterprise. State-initiated privatization will take place three or four times a year, each round offering 40-50 companies for sale. According to the government plan, by the end of three years the size of the state-owned sector will have shrunk from 90 percent to under 50 percent.

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Romania has devalued the lei by nearly 50 percent. Subsidies on most consumer goods have been removed although prices for bread, meat and electricity will remain fixed to protect low-income workers. The country faces inflation, food and energy shortages, high unemployment, industrial stagnation, and a deteriorating trade balance. The trade deficit for the last quarter of the year might amount to $1.2 - $1.5 billion.

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Czechoslovakia has devalued the commercial rate of the crown by 35-38 percent against leading currencies. The new rate to the dollar is 24 crowns. Tourist rates were devalued also, but by a smaller amount.

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The new Soviet banking law transfers full authority to the Central Bank for controlling monetary and credit policies. The central banks of the Soviet republics are no longer subsidiaries and have become legally independent. The law also creates a commercial banking sector.
Overcoming the Housing Crisis: Proposals for Action

Housing reform is becoming a high priority issue in most state-controlled economies. With the failure of earlier low wage-low rent policies, the problems include huge housing subsidies, overburdened budgets, chronic housing shortages, aging and worn out housing stocks, frozen household savings, and constrained labor mobility. Social tensions have been aggravated by the housing assignment system and by regressive subsidies.

The Infrastructure and Urban Development Department (INU) of the World Bank held a seminar in Washington (June 12-14) on housing reforms in socialist countries. The meeting was attended by delegates from China, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia, by international experts and senior World Bank staff. Attendees reviewed a wide range of actions to reform the management of existing housing stock and diversify the production of new housing. As a result, a draft conclusion was worked out and discussed with the interested parties.

We asked the author, Bertrand Renaud, Housing Finance Adviser (INU), to explain the substance of this document.

Q. What was the participants' general diagnosis of the ailing housing sectors in the socialist countries?

A. Severe shortages and ever-expanding public sector subsidies are today's most visible problems. The full legacy of central planning, when it comes to resource mobilization and decision making, will not disappear overnight. In an effort to control savings, the authorities provided uniform low wages to cover current expenses while health, education, and housing expenditures were expected to be covered through the redistribution system. As a result, crucial housing decisions were removed from the control of the population. In most cases citizens were unable to decide on the size, comfort and location of their housing. Private housing was at best tolerated and usually confined to the social and geographical fringes of the society (at least in the early stages of central planning). On the other hand, the state guaranteed subsidized low rents and utilities and took responsibility for the development and maintenance of existing housing stock.

This situation has meant that:

- Property rights for tenants in public housing are often stronger and more valuable than ownership because the occupancy rights to heavily subsidized units are permanent and can be transferred to relatives.
- Access to heavily subsidized rental housing in most cases does not depend on household income.
- Rents are uniformly fixed at the national level. The most extreme example is in the Soviet Union where regulations on prevailing rents were passed in 1928.
- There are serious impediments to subletting, transferring, or exchanging property. Private rental housing is forbidden, in principle.

The undesirable results of such a housing system are that:

- The housing stock is poorly utilized; many people are inadequately housed, and still some residents live in luxury.
- Subsidies are highly regressive; the bigger the unit, the more the tenant benefits.
- Housing mobility rates are extremely low, thus impeding labor mobility.
- Subsidization, with chronic excess demand, has created permanent housing shortages. (In Poland 80 percent of married couples live with their in-laws for an average of ten years before finding an apartment.)
- Since rents in most cases cover about one-third of the maintenance costs, the housing stock is in poor condition and new housing construction has to be subsidized.

- The system creates large price distortions. The ratio of the market price of average housing units to median annual family income is between 10 and 12 in these countries — and 22 in the case of Poland — in contrast to a ratio of 3 in countries with healthy housing situations.
- After decades of bureaucratic management, housing has become an extremely complex financial and fiscal chain of distortions, large transfers, and inefficiencies. The grey economy covers a growing proportion of extra-legal housing transactions.

Q. Has any consensus emerged from the conference on rehabilitating housing in these former socialist countries?

A. The participants agreed to work on market-oriented reforms of the housing system, removing ideological, political, and market monopolies. This means implementing market wages and letting the majority of the population choose freely between renting and ownership, and pay in full for the housing of its choice. Public resources should be concentrated on the socially disadvantaged groups who need direct support. Experts have begun working out detailed reform programs.

The draft framework incorporating the outcome of the seminar and views of the participants is analytical in nature. The individual countries must, of course, consider their specific sectoral and macroeconomic conditions.

Q. What is the right sequence of housing reform?

A. The best route is to reform the management of existing housing stock, starting with the ownership and rent regulations. Housing stocks...
make up about 25-35 percent of total tangible wealth (including industrial facilities, non-residential real estate, etc.) in most of these countries.

Reform of the financial mechanism is extremely important as well. Housing subsidies should be placed under the direct control of the household; rent reforms, the mobilization of savings for housing, and the introduction of long-term loans have to be considered. At the same time, changes should be initiated in the construction of new housing.

Q. What specific steps do you have in mind?

A. In their fiscal policy these countries should phase out both budget and off-budget subsidies, whether in the form of loan subsidies granted to builders, underpriced subsidies on construction materials, or free real estate. Temporary subsidies should be up-front, transparent, and integrated into the budget. In their financial policy they should eliminate subsidies on the supply side also.

Mortgage loans must be adjustable to inflation rate and financially sound. Credits are to be separated from subsidies, and the latter must be minimized over the life of the loans. The privileges of large construction firms in terms of their access to land, materials, and financing must end. Some other advice: encourage competition among builders, support newly-established private developers and construction companies, shift land-use controls to local governments, and upgrade land-use regulations.

Q. How could the World Bank facilitate these efforts?

A. The World Bank provides member countries with technical assistance to formulate an appropriate housing policy, and organizes and coordinates access to international practice. The Bank also offers financial support, disburses loans to pilot operations, and provides seed capital to accelerate reforms in the sector.

### Strategic Actions for Better Management of Existing Housing Stock

<table>
<thead>
<tr>
<th>Strategic Areas</th>
<th>Proposed Actions</th>
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<tbody>
<tr>
<td>Reform of property rights</td>
<td>• Convert permanent and guaranteed tenancy rights to fixed-term renewable contracts</td>
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<td></td>
<td>• Develop commercial contracts balancing the interests of owners and renters</td>
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<td></td>
<td>• Lift restrictions on private property</td>
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<td>Rent reform</td>
<td>• Charge full rent to cover long-term replacement cost</td>
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<td>• Shift utility charges to full-cost pricing, peak-load pricing and universal individual metering</td>
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<td>• Combine rent increases with improvement of maintained units</td>
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<td>Subsidy targeting</td>
<td>• Use housing allowances as a transition subsidy</td>
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<td>• Provide the new social subsidy directly to the family and detach it from the use of a specific housing unit</td>
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<td>• Target subsidies based on a mix of socioeconomic characteristics and the choice of unit</td>
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<td>Exchange of units</td>
<td>• Develop listing and information systems</td>
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<td>• Write laws for efficient brokerage services</td>
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<tr>
<td>Privatization</td>
<td>• Base the valuation of unit and selection of sale price on the macroeconomic situation and local market conditions</td>
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<td>• Give priority to present tenants but allow sales to any interested buyer</td>
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<tr>
<td>New owners of rental property</td>
<td>• Develop new decentralized nonprofit local institutions to manage housing stock with financial autonomy (compare various European models)</td>
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<td>• Deregulate and convert state cooperatives into private cooperatives</td>
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<tr>
<td>Financing</td>
<td>• To overcome the high price/income ratio, work out some combination of seller financing and mortgage loans</td>
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<td>• Consider shared appreciation mechanisms to avoid large windfalls</td>
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Book and Working Paper Briefs

Arye L. Hillman and Adi Schnytzer

The authors focus on each CMEA participant's comparative advantage and on the incentives to resist trade liberalization and market-oriented reform because of rents accruing to industry-specific factors of production.

Eastern European economies benefited in the 1980s from preferential terms of trade that provided an implicit subsidy from the Soviet Union. The Soviet Union provided the hard goods: oil, natural gas, and raw materials (potentially for sale for hard currency) and took soft goods in exchange: machinery, equipment, etc. that were of poor quality and not marketable in the West at prices that would recover costs. This trading pattern meant that enterprises could produce goods acceptable only for CMEA transactions (i.e., capital was transaction-specific). The abolition of the CMEA trading system and the transition to world market prices will impose substantial terms of trade loss on the economies of the member states. Consequently, the integration of the CMEA with Western markets will decrease the value of the capital stock of Eastern European enterprises.

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Erika Jorgensen, Alan Geib, and Inderjit Singh

The paper explores firms' responses to the Polish stabilization, trade reform, and market liberalization package. The microeconomic perspective gained by the examination can provide important commentary on the macroeconomic questions: when will a positive supply response from producers kick in and when will the economic revival gather steam?

The authors analyze nine case studies of manufacturing firms in a wide range of industrial sectors. Many of the firms are searching out new export markets in response to falling domestic demand and uncertain CMEA trade.

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Kang Chen

The paper shows the intricate interplay between China's government hierarchy and enterprises, addressing three important issues: (i) How much power did local officials actually gain in the decentralization process in the 1980s? (ii) Why have local governments come to be regarded as both anti-reform and pro-reform? (iii) Are the central officials capable of enforcing their demands and taking power away from the local governments and what are the constraints on recentralization?

In the process of economic change, local officials captured decisionmaking power that was intended to establish enterprise autonomy. The outcome has been an "aristocratic economy" ruled by "dukes" and "princes" who exercise local protectionism, pursue regional expansion, and take no responsibility for macroeconomic instability. China's reforms in the 1980s were characterized by both rural decollectivization and administrative decentralization. These two changes reinforced one another in a way that inhibited both subsequent recentralization and further reform. Local governments were a liberalizing influence in sustaining past policies and resisting recentralization, but the very authority and means that permitted this also gave rise to local protectionism, contrary to domestic rationalization of resources and commodity flows.

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Mario I. Blejer and Silvia B. Sagari

Financial policy in Hungary is becoming a crucial indirect lever for managing macroeconomic policies as well as achieving a better and more efficient allocation of resources. The authors indicate that the first steps of the economic reform are clearly in the right direction, but changes in macro-financial indicators are still of little significance, indicating the presence of administrative and technical obstacles. The paper underscores four supporting measures: (i) monetary authorities' ability to conduct monetary policy must be enhanced. This requires upgrading their monitoring and forecasting capabilities and development of an interbank money market; (ii) improving the operations and the financial conditions of the intermediaries: commercial banks, specialized financial institutions, insurance companies, etc.; (iii) encouraging healthy competition among financial intermediaries; (iv) establishing a satisfactory regulatory framework that does not discriminate against development of the securities markets.

New Books and Working Papers

Branco Milanovic

Michael C. Burda

Gregorz W. Kolodko

Zdenek Drabek

Peter Bofinger
On the World Bank/IMF Agenda

Aid to Eastern Europe

Willi Wapenhans, vice president of the World Bank (EMN) recently said in Prague that the Bank and the IMF will not let Eastern Europe’s reform process be derailed by the economic effects of higher oil prices and the disintegration of the Comecon. He estimated that Eastern Europe will suffer $7-8 billion a year in trade losses from Comecon, and the same amount if the oil price averages $25 a barrel annually. Earlier, U.S. President Bush pledged help for Eastern Europe in the face of rising energy costs and urged the IMF to provide an additional $5 billion. According to U.S. officials, the IMF could raise its lending limits to permit additional loans to Hungary, Poland, Yugoslavia, Czechoslovakia, Bulgaria, and Romania. The EC Commission also is stepping up pressure to create a special rescue fund to support balance of payments adjustments and currency convertibility. In a memorandum to the Group of 24 industrial nations, the commission estimated that Eastern Europe would need about $10 billion in 1991 to cope with the Gulf oil crisis and keep economic reform on track. The G-24 pledged $15 billion to Hungary and Poland and a further $3.5 billion to Bulgaria, Yugoslavia, and Czechoslovakia. In addition, Bettino Craxi, special representative of the UN on debt issues, has recommended a debt moratorium for countries most affected by the Gulf crisis.

Humanitarian Loan to China

The World Bank and its affiliate the IDA cleared loans and credits totaling $275 million to China on October 30. The $75 million World Bank loan and a $200 million IDA credit are to be used to reduce poverty, create jobs, finance agriculture and rural enterprises, develop local banking and improve education, health, and housing. However, $750 million of previously approved World Bank loans have been on hold since the June 1989 events in Beijing. (During the FY90, the World Bank approved five loans to China totaling $590 million, less than half the previous year’s total of $1.35 billion).

Tour de l’Europe de l’Est

To decide whether Romania is eligible for IMF credits could take some time, said the Fund’s managing director Michel Camdessus. He was speaking in Bucharest during his first visit to the country in October. Earlier, the IMF and the Romanian government worked out a technical assistance program to bring an IMF team to Romania to help the country establish new monetary and budget policies. In Bulgaria Camdessus focused on the government’s decision to suspend servicing its $10 billion foreign debt, noting that “international economic help is offered only if the IMF can convince the world that Bulgaria’s program to change into a market economy is feasible.” Camdessus also met representatives of the Czechoslovak government and agreed to send an IMF team to study the economy, in light of the current negotiations for a standby facility.

The IFC in Czechoslovakia

Czechoslovakia, having joined the International Finance Corporation, the private sector development arm of the World Bank, is negotiating terms for establishing a mutual fund to invest in privatized companies. Finance Minister Vaclav Klaus said the fund would help with the mechanics of privatization and would encourage the development of an institutional investor base.

World Bank to Help Telephone Program in Hungary

Hungary will modernize and expand telecommunications, especially for businesses and other high-volume subscribers, by connecting about 300,000 additional customers to a new digital network. The project, which will cost $1.35 billion, is supported by a $150 million World Bank loan. In addition, the European Investment Bank will lend $100 million. Officials said the new network will boost telephone capacity 50 percent over three years and by the end of the decade will reduce the current 12-year wait for a telephone to one year.

IDA Credit to Ghana

With a credit of SDR 12.5 million ($16.5 million), the International Development Association (IDA) is supporting Ghana’s project to diversify agricultural exports. The world’s third largest producer of cocoa will expand production of coffee, oil palm, rubber, and pineapple by encouraging private sector investments in small farms and low-cost processing plants. The project will also improve small farmers’ access to bank credit and fertilizers and will upgrade rural roads and develop crop markets.

Poland Initiative

The World Bank will help Poland speed up direct private investment and has proposed setting up an international fund with the European Investment Bank, the EBRD, and the European Community, revealed Moeen Qureshi, senior vice president of the Bank. He declined to mention a target amount for the fund but said that seed capital to restructure the energy sector alone would require about $500 million to $1 billion. The Bank could also underwrite arrangements to protect the rights of foreign investors, to transfer profit, or buy and sell assets in Poland, he said.

Albania Ante Portas?

The Albanian government is currently negotiating conditions for membership in the World Bank and the IMF, according to Dhimiter Gazgza, an official of the Albanian State Bank. Albania has short-term debt of $30 million and long-term debt of $52 million. Gazgza added that the Albanian economy could likely support $2-4 billion of debt. The government is moving toward partial convertibility of the lek as soon as January 1991.
Conference Diary

Technology and Environment
September 22-27, Leningrad

International S/Pugwash Conference on "Technology and Environment" discussed the Soviet and Eastern European environmental problems. Lack of information on each other's activities severely restricts their respective environmental research and policy analyses. Participants will publish studies on the region's comparative environmental policies. Interested parties will meet in Prague, Czechoslovakia, in March 1991. (For further information, contact: Jorge Wong-Valle, (202) 473-7592.)

Adjustment Lending
October 4-5, Pulitzer, Poland

Conference on "The World Bank's Experience with Adjustment Lending: Lessons for Eastern Europe," organized by the World Bank (CECMG) and the World Economy Research Institute of the Warsaw School of Economics.

Reform-oriented governments in Eastern Europe should be prepared to sustain restructuring programs that will require two to three years to achieve their goals. The alternative is perpetual stagnation and long-term deterioration of living standards. The conference also dealt with the comparative evaluation of stabilization programs, the sequencing of policy changes, the adaptation to the new economic environments and constraints, and privatization strategies. (A brief summary of the lecture "Life Under the Big Bang" appears on page 13.)

Adriatic-Danube Cooperation
October 14-16, Vienna, Austria

Conference on "Cooperation in the Adriatic-Danube Region." Sponsored by the Aspen Institute and the government of Italy, the conference focused on possibilities for regional cooperation within the new Europe (such as the Pentagonal, a loose group of five Central European nations: Austria, Italy, Hungary, Yugoslavia, and Czechoslovakia). Sessions covered problems of modernization, international competitiveness, and the role of the West in promoting change. Participants also reviewed possible targets of future foreign investments that are considered best suited for new subregional interaction: transportation, communication, environmental protection, tourism, and energy.

Nuts and Bolts
October 18, New York City

One-day seminar organized by the National Foreign Trade Council of New York, on the human aspects of setting up a business in Eastern Europe: obtaining advice and assistance, finding employees and motivating them, and calculating salary scales.

Technology, Culture, and Development
October 26-27, Columbus, Ohio

International conference on "Technology, Culture and Development: The Experience of the Soviet Model," organized by the Ohio State University Center for Slavic and East European Studies and the University Learning Guild, Office of Continuing Education. The conference explored the present condition and future prospects of technological development in the Soviet Union and Eastern Europe and the impact of social and cultural influences on technology. (Information: James P. Scanlan, Director, Center for Slavic and East European Studies, 344 Dulles Hall, 230 W. 17th Ave., Ohio State U., Columbus, OH 43210-1311; Tel. (614) 292-8770.)

Economic Revolutions
October 29-31, at Baylor University, Waco, Texas

International business conference on "Economic Revolutions in the Soviet Union and Eastern Europe," focused on the expected pace and sequence of institutional changes from the Eastern European perspective (the intended role of Western trade, aid and investments) and from the American perspective (how Eastern Europe fits into U.S. corporate and governmental strategies). Participants included Soviet, Eastern European, and U.S. experts.

Global Outlook
October 29-November 1, Philadelphia, Pa.

Organized by the economic consulting group WEFA. This year's International Economic Outlook Conference dealt with the "Shocks to a Vulnerable Global Economy." Topics included: Shock Treat-
ment for Eastern Europe: Results so Far; Financing for Eastern Europe — How Much is Needed and Where; Asia's Planned Economies; Reform and Reconstruction in the Soviet Union and Eastern Europe; and the Soviet Union: Chaos followed by Chaos, or Stability?

Forthcoming Conferences

Implementing Privatization
November 7-8, Ljubljana, Yugoslavia

"Latest Implementation Problems of Privatization in Eastern Europe," a conference organized by the International Center for Public Enterprises in Ljubljana, the Economic Development Institute of the World Bank, and the UN Development Programme. The conference will include presentations on selected country experiences from Poland, Czechoslovakia, Hungary, and Yugoslavia, followed by analyses of advisory, training, and technical assistance. Participants will include heads of national privatization agencies, policymaking advisers from the above four countries as well as from Bulgaria, Romania, and the Soviet Union, and observers from consulting firms, brokerage firms, merchant banks, and other international organizations.

Transition to a Market Economy
November 28-30, Paris, France

"The Transition to a Market Economy in Central and Eastern Europe," an OECD-World Bank-sponsored conference. Plenary sessions will cover design and implementation of a strategy for economic transformation; lessons from the West's experience developing a market strategy; and sequencing reforms and policy measures in the transition to a market system to maintain durable economic growth. Workshops will cover tax reform, labor markets, social policy, balance of payment constraints and convertibility, and restructuring the enterprise sector. Participants will include senior officials and experts from the participating international institutions and countries involved in the reform process.
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* More information from the Joint Bank-Fund Library, Tel:623-7054

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