Why this Newsletter?

This newsletter is one of the ways in which the new Socialist Economies Unit (CECSE) of the World Bank intends to fulfill its dissemination mandate. Its audience is primarily the staff of the Bank Group involved in work on socialist countries, although it is hoped that the information will be of use to a wider audience as well.

The newsletter does not promise to be too polished; to be current and relevant are more important. Its main emphasis will be on providing information on research and other analytical efforts concerning the transition problems of socialist countries. Associated events, such as conferences or workshops, will also be covered.

Initiatives, projects on socialist economies are now beginning to multiply rapidly. In this newsletter upcoming, ongoing or recently completed events will be reported. Some will be products of the Bank while others may be products of other institutions, including those in the socialist countries themselves. Some may involve or cover countries which are not members of the Bank Group.

When interesting papers are received by staff in the unit, we will use the newsletter to draw attention to them, either by short references or by concise summaries. However, our intention is to pursue an open editorial policy. Contribution from staff in the Bank Group are welcome! So are inputs from researchers outside the World Bank, who might wish to draw others attention to their work. We also welcome indications of subjects of special interest to our readers, information on upcoming conferences/workshops on socialist economies all around the world. Any other valuable reader contribution and comment are urged and appreciated.

What's inside...

CECSE — A new unit in the World Bank

Alan Gelb, chief of the new unit describes how the group will confront the wide scale of problems of economic transition in the socialist countries. As one of its many goals, CECSE intends to strengthen ties between researchers working on these issues inside and outside the World Bank. (page 2)

Future of the CMEA

The future of the CMEA has a prominent place among the unresolved issues of system reform in socialist economies. Martin Schrenk describes major CMEA reform ideas and tries to answer the question: what are the future options? (page 3)

Hungary: Blue Ribbon Commission Report

A task force of prominent Western and Hungarian economic experts, the privately sponsored and independent Blue Ribbon Commission laid down an economic program and an action plan for Hungary's transition process. The authors believe, that this integrated economic plan will be useful for the new coalition government and hope the report and the process might be replicated in other countries undergoing system change. (page 6)

Angola: An adjustment agenda

The agenda for needed changes in Angola is a combination of economic stabilization and deep structural adjustment. (page 8)

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New Unit in the World Bank

The historic transformation that is sweeping across the countries of Eastern Europe poses unprecedented challenges to their governments, the international community, and the World Bank. The scope, complexity, and speed of reforms indicate a need for a major increase in policy advice, technical assistance, and training efforts directed towards these countries. A growing demand for more advice and assistance also is coming from a number of countries in Asia and Africa as they move in a similar direction on the economic front.

Transforming socialist economies towards market-based systems spans an unusually wide range of problems. Some, such as how to develop appropriate incentive systems and a market for factors of production — and the relationship between these and ownership systems — concern all types of economic activity at sectoral and micro levels. Other problems, notably the maintainance of aggregate balance and the avoidance of inflation during transition to indirect controls, are macroeconomic in nature but greatly affected by responses at the micro level. Yet others involve complex issues of legal and regulatory reform. Links between reforms are important. For example, housing reform is an important factor in facilitating greater labor mobility, which itself is needed to ease adjustment to enterprise restructuring. The study of these topics is complicated by the speed of the changes and the lack of clear historical precedents.

In early 1989 a special East and Central European Program (ECEP) was launched in the World Bank. Its steering committee included representatives from the Bank's Europe, Middle East & North Africa Regional Office (EMN), from the Asia Regional Office (ASI) and from the Policy, Research & External Affairs Complex (PRE).

The ECEP, which is based in EMN/EM4, has initiated a number of activities, including several research tasks, some of which will be highlighted in further issues of this newsletter. Shortly after its inception, ECEP commissioned a consultant survey of PRE's ongoing and planned activity in socialist economies, and a draft agenda was set out for further work. It became apparent that the volume of economic work and research on the socialist countries was increasing, but that still greater efforts would be needed to promote and focus this work and to strengthen links between those working on these issues outside and inside the World Bank.

At the start of 1990, therefore, a new Socialist Economies Unit (CECSE) was established in the Country Economics Department of PRE to provide a focus within PRE for work related to the problems of the socialist economies. The objectives of the new unit are: to catalyze and carry out information on analytical work completed or in process, and to strengthen ties among researchers and also between research and Bank operations in these countries. This is particularly important in view of the nature of the reform processes at work in the various countries.

The creation of the new unit is not intended to centralize PRE's work on socialist economies within one unit — indeed, given the range of issues under consideration, that would not be feasible even within a unit several times larger than the existing one. Rather, in obtaining an overview of the reform process and of the activ-

Quotation of the Month

ZBIGNIEW BRZEZINSKI

"Central Europe's economies are in a shambles. Its political systems have to be rebuilt from scratch. The threat of national and territorial conflicts overhangs the internal difficulties that every Government will have to overcome on the way to the stable democracy all profess to seek.

A policy that responds creatively to all these overlapping dilemmas will have to be comprehensive geographically and ambitiously politically."

That policy should be founded upon the grand concept of a trans-European commonwealth with the European Community at its core but embracing Central Europe and being open also to eventual association with the Soviet Union.

Such a strategic vision should include the following seven specific but interconnected and historically ambitious policy components:

- Acceleration of Western European integration; enhancement of trans-Atlantic ties; consolidation of democratic reform in Central Europe; negotiation of a German confederation within an all-European security framework; facilitation of cross-cutting multilateral cooperation; promotion of Central European regional cooperation, and encouragement of a new Soviet confederation.

These components have to be viewed as a package, with the pursuit of one facilitating and necessary to the attainment of the others. The end result of the effort should be the emergence of a more stable, cooperative and democratic all-European order as well as the termination of the American-Soviet rivalry over the fate of Europe."

(From The New York Times, March 7, 1990)
ties of various divisions in the Bank—and of analysts outside the Bank—the unit can help to reduce duplication of effort while involving itself on a more selective basis.

The unit will also serve as a base for visitors to the Bank who are working in the area and who are funded by the Bank's Research Committee. It should be noted that the unit's country coverage will go beyond Eastern Europe; countries such as China, Vietnam, Laos, and a number of African countries are also included. Although their structural features are in important ways different, the Eastern European countries' experience and lessons are crucial for reform efforts in countries outside Europe, and vice versa.

As a very new entity, the work program of CECSE is still evolving. The unit already has taken a number of initiatives, mostly on a joint basis with other Bank units. For example, a study of legal reform has been initiated with LEGOP, and an issue paper on competition policy is in process. Looking ahead, integration of analytical efforts is especially needed in two broad areas:

* Behavior of enterprises during the reform process, both in the industrial and agricultural sectors, and the incentives created by systems of ownership and regulation. As well as the restructuring and privatization of existing firms, the entry of new, smaller firms will be important in enabling rapid structural change and cushioning the impact on labor.
* Income generation and distribution all during the transition process. Both the initial stages, which may involve substantial unemployment, and the wider issue of reconciling labor mobility with a suitable degree of social protection, deserve far more intensive analysis than they have heretofore received.

Other topics, such as the impact of trading system reform or tax, subsidy and expenditure policies, are also in great need of analysis.

Alan Gelb
Division Chief, CECSE

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**Future of the CMEA**

The future of the CMEA has a prominent place among the unresolved issues of system reform in the socialist economies belonging to this international organization. The urgency of the matter derives from three considerations. First, CMEA trade relations loom so large in the total trade of all members that the organization's role cannot be ignored without serious risks to the success of the reform programs. Second, the traditional CMEA regime has been rejected by reformers in the European small "Six" (Poland, Hungary, Czechoslovakia, GDR, Romania, and Bulgaria) as well as by the USSR. And third, the January 1990 session of the CMEA Council in Sofia seems to have set into motion a process that will either lead to a change of the existing CMEA or to its demise.

The present state of indeterminacy thus offers both unique opportunities for working out a new framework as well as considerable risks of rushing to take unilateral actions that would irrevocably narrow the range of future choices.

Current gains from intra-CMEA trade by the Six are accompanied by severe distortions of their production structures, and to some extent have created these distortions. Under central trade plans, converted into bilateral treaties and implemented under tight control, targets became supply monopolies. At the same time, planning and implementation practices have discouraged product development as new and superior products disturb the agreed balances. And CMEA pricing practices foster the delusion of cost competitiveness.

These and other practices locked the export industries of the CMEA countries into an output structure and into product and process technologies that increasingly separated them from the international pattern. As these conditions prevailed over decades, they had the cumulative effect of making these industries increas-ingly uncompetitive by world market standards. As a result, the Six have severe supply constraints with respect to exports to the world market.

Physical and technological constraints are amplified by the institutional constraint from lack of export marketing know-how and infrastructure. Altogether they have created a high degree of "structural dependency" in much of industry. In the view of most observers, these constraints are so severe that they cannot possibly be rectified overnight, and will impede the options of the Six for years to come.

While the structural dependency is particularly severe for industry, the main export sector for the Six, some structural dependency exists on the side of the USSR as well. Data on the destination of exports and the origin of imports (see page 4) give an impression of the special concentration of trade that is an essential part of the USSR structural dependency.

**Existing reform ideas**

One can identify a number of reform ideas and concepts that have been accepted or are being discussed in one or several CMEA countries. Here is a short, impressionistic account of some of the relevant elements.

**Decentralization.** Most CMEA countries, including the USSR, have decided to pass along the trading rights for most goods from central trading organizations (under direct government control) to export producing or import absorbing firms. They have also taken steps to dismantle the existing administrative machinery for trade planning and micro-management in planning agencies, ministries and trading organization. These changes create the conditions for an effective shift to negotiated commercial contracts between autonomous firms. For years this has been demanded by proponents of CMEA reform under the slogan "direct links."
CENTRAL MANAGEMENT. The only remaining central functions would be to determine targets for aggregate bilateral balances and to maintain them at such levels. As the mechanism for central micro-management would no longer exist, resorting to policy instruments becomes inevitable.

PRICE SETTING. Decentralization of trading decisions and dismantling of the existing administrative machinery make it inevitable to leave the determination of transfer prices to the contracting firms as well. In an environment with tightened financial discipline — a central element of all national programs of system reform — firms will have to become price-sensitive and orient their decisions toward cost considerations. In consequence, contract prices would essentially be market-clearing, although initially in a pattern quite different from world market prices, and reflecting the constraints and rigidities of the environment in which these prices are determined. In response to gradual removal of these system defects, a convergence of CMEA transaction prices to the international level through interactions among firms would ensue. Such a process appears a more promising route to price reform than imposing “world market prices” by administrative fiat.

TRADING AND INTERNAL PRICES. In an environment of simultaneous relaxation of controls of both domestic and CMEA prices, and with growing scope for intermediation and arbitrage, synergies are likely to occur in parallel processes. The initial effect would be mostly an alignment of national prices with those under “reformed bilateralism.” In the longer run, this would facilitate a move towards relative prices at international markets.

CONVERTIBILITY. All reformers agree that the introduction of a measure of convertibility is a necessary ingredient of any substantive reform of the CMEA mechanism. This could initially be limited, for instance, to convertibility between pairs of national currencies, within a framework of unrestricted clearing, relaxed further by provisions for “swing” credit lines. If and when domestic currencies acquire full internal commodity convertibility and at least a measure of currency convertibility with respect to hard currencies — for instance as implied by the concept of “internal convertibility” with a “convertible rouble,” at present being discussed in the USSR — one such currency could begin to serve as a common reserve currency. As such it would serve as a means for account settlement, at some point in parallel with international currency. This approach may, in fact, be more viable than the existing practice of merely changing the denomination of bilateral clearing accounts from transferable rouble to a convertible currency without introducing any measure of currency convertibility at the same time.

Options for the future

UNCHANGED CMEA. The ideas of continued operation of an “unchanged CMEA” is receding rapidly as a plausible course in the wake of rapid political changes. In addition, its continuation is rejected by all reforming countries, including the USSR. This is not just for efficiency; it is with the recognition that the traditional CMEA regime is alien to a reformed economic system and that its preservation could threaten the progress of reform. Virtually the only circumstance under which this possibility of an unchanged CMEA could emerge would be if the reform process in all CMEA countries collapsed.

FREE TRADE REGIME. Immediate integration into a global system of trade and payments (“free trade regime”) would bring the embedded dependencies immediately to the surface. However, it is not a realistic option for any of the Six for at least two reasons. First, the supply constraints — the deficient production structure and technology, amplified by the lacking export marketing infrastructure — make a quick export diversion to convertible currency markets impossible. This means it is impossible

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**DESTINATION AND ORIGIN OF CMEA TRADE (1988)**

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Source: Based on official statistical yearbooks of the countries and estimates prepared by DIESA (UN)
EEG: Bulgaria, Czecholovakia, GDR, Hungary, Poland, Romania
DME: Developed market economies
LDC: Less developed countries
ROW: Rest of the World (predominantly Yugoslavia and China)
to earn the foreign exchange necessary to replace the current CMEA sources of imports with alternative ones in the convertible currency area. As both constraints are structural, they can only be relaxed gradually through a costly and drawn out process of adjustment. In principle, an alternative to increasing the capacity to import in hard currency through additional exports would be through increased borrowing in convertible currency for the purpose of financing necessary imports from other sources. But this is not a feasible option in view of the amounts involved, the already existing debt burden, the borrowing requirements for modernization, and the time necessary for effective restructuring. Free trade, thus, can at best serve as the goal at the end of a long term process of systemic and structural change.

Furthermore, even if immediate transition to free trade were economically feasible, it may not be desirable. There are presumably many instances where long-established exports to the USSR are in line with comparative advantages. More important, an immediate shift to a free trade regime could, by effectively terminating most export manufactures from the Six to the USSR, destroy the existing trading links. However, if and when the Six have to start competing with newcomers in the USSR market, their established trading traditions may be the most precious competitive edge they have.

Radically reformed CMEA. The creation of a radically reformed multilateral CMEA along lines suggested by some reformers essentially a “common market” type institution comparable to those expected for the post-1962 European Community, is unlikely to be politically attainable. Given the long history of acrimonious conflict within the CMEA and the inability of its members to achieve consensus, the CMEA is unlikely to agree upon or implement a comprehensive reform program. The fact that such a program would have to include a synchronized process of reform in all countries requiring them to move “in step”on difficult issues that have never before been on any agenda, such as coordination of macroeconomic management and common trade policy, makes a sufficient rate of progress exceedingly implausible. Most important, time may simply be running out for this option.

Reformed bilateralism. Almost by a process of elimination, some version of “reformed bilateralism” seems the only potentially viable option. It would amount to a refined bilateral framework for trade and payment between pairs of countries, covering rules and procedures on which the two can agree. In principle, reformed bilateralism would be a transitional framework that would support a gradual movement towards integration into the free trade regime, at which point it would have lost its usefulness. The speed of transition could be determined by the parties to each bilateral regime. Similarly, the share of trade under this separate regime could be as large or small as the two countries can agree on, and its size could be changed over time by common agreement. Ultimately the underlying consensus would have to shift the rationale for cooperative relationships from structural dependency to mutual gain. An extension of reformed bilateralism to more than two countries, although logically possible, would, with a growing number of participants, quickly recall the present course of the CMEA, that is, the impossibility of reaching multilateral political consensus.

Since existing trade between the smaller CMEA countries is insignificant and could be merged into a free trade regime, reformed bilateralism would essentially be a framework for trade between each of the Six and the USSR. This points to the political dimension of reformed bilateralism. The bulk of the USSR’s exports can more easily be diverted to Western markets than can exports from the Six. Also, the USSR is not dependent on any single country among the Six, while each of the latter is highly dependent on the USSR. The USSR, thus, is in an inherently superior bargaining position.

Furthermore, as the political rationale for the USSR to maintain costly CMEA relations recedes (a consequence of political detente), it would be unrealistic to expect the USSR to “pick up the bill” for solving the structural problems of partner countries unless this were to the clear advantage of the USSR. Thus, the viability of reformed bilateralism requires the USSR to have a stake in this model and to see it as a positive-sum game. While this proviso is self-evident, its translation into a coherent strategy causes severe difficulties for the Six. Most of all, the relevant features of the future economic system of the USSR, with which reformed bilateralism would have to dovetail, is still undetermined. There are major uncertainties regarding both momentum and specifics of system change. Reform of CMEA relations, thus, would require the Six to build a great deal of flexibility into the rules so that they are compatible with a wide range of “contingency scenarios”.

Lessons of experience

Given the novelty of reformed bilateralism for the CMEA countries, “lessons of experience” from other countries both successes and failures may be important in helping the newly reforming socialist economies to avoid gross mistakes. Regarding the transition to more flexible clearing procedures, restricted to aggregate bilateral balances, the experiences of the Finnish-Soviet trade partnership and the trade system between the two German states could be relevant. For the transition from narrow bilateralism to multilateralism and convertibility, the experience of Western Europe under the regime of the European Payment Union between 1948 and 1958 may be a relevant, empirical case. Members of the EPU entered into the transition process virtually without currency reserves and under regimes of narrow bilateralism without convertibility they emerged with a multilateral regime with full convertibility and with currency reserves sufficient to handle cyclical fluctuations of trade balances. This experience may prove particularly relevant for sequencing the current transition process – the most difficult task in designing and managing any effective and sustainable reform.

Martin Schrenk, CECSE

April 1990
A task force of economic experts — comprising Western and Hungarian economists, businessmen, and entrepreneurs — has produced an integrated economic plan for the transition process in Hungary that may be adopted by whatever coalition government is formed shortly. The report of the privately financed, independent Blue Ribbon Commission, entitled “Hungary in Transition to Freedom and Prosperity,” was released in Budapest and Washington, D.C., on April 6. (The main US sponsors of the project were the Hudson Institute in Indiana, the East-West Forum in Washington D.C., and Indiana University, in Bloomington. The credit for the novel idea and for organizing the program goes to Prof. Paul Marer of Indiana University.) Representatives of the Blue Ribbon Commission, which included Hungarians from several major political parties, hope that the report and the process might be replicated in other countries undergoing a radical change toward a market-based economic system.

The report advocates Hungary’s complete transformation to a free market economy and explains why even gradual economic reform policies have failed in Hungary. Radical changes are needed, it says, but these changes must be coordinated if the transformation is to occur with a minimum of pain. “The key is to provide a preannounced path...and a firm timetable.”

The commission has underscored the need to encourage savings and business investments within Hungary and suggests how to do so, recommending “significant reductions” in the current business and personal taxes. But even a massive domestic commitment to savings and investments cannot transform Hungary’s economy, the commission warns, and receptivity to internal investment is

Blue Ribbon Commission Members

Maurice Allais, Nobel Laureate in Economics (France)
Ivan T. Berend, President, Hungarian Academy of Sciences (Hungary)
Eniko Bollobas, Associate Professor of Literature and American Studies, University of Szeged (Hungary)
Csaba Csaki, Rector, Budapest University of Economics (Hungary)
Guillermo de la Dehesa, former Minister of Economics in charge of privatization (Spain)
Pierre S. du Pont IV, former Governor of Delaware (United States)
Helmut Geiger, Chairman and C.E.O., Deutsche Sparkassen und Giroverband, Bonn (Germany)
Herbert Giersch, former President of the Institute of World Economy of the University of Kiel (Germany)
Janos Peter Hrabovsky, former Senior Policy and Planning Coordinator of the Food and Agricultural Organization of the UN (Australia)
Geza Jeszenszky, Professor of International Relations and Dean of Social Studies, Budapest University of Economics (Hungary)
Koichi Minaguchi, President, Nomura Research Institute, Inc. (Japan)
Istvan Orban, C.E.O., Aegis Pharmaceutical Corporation, (Hungary)
Sylvia Ostry (Cochair), Chairman, Center for International Studies, University of Toronto (Canada)
Gyorgy von Osvath, Co-Director, EC Documentation Center, Budapest (Germany)
Sung Sang Park, President, Korea Institute of Economics and Technology, (Korea)
Laszlo Rozsahegyi, C.E.O., RO-LITRON, private enterprise in Budapest (Hungary)
Hans Seidel, Professor, University of Vienna (Austria)
Miyohesi Shinohara, President, Institute of Statistical Research (Japan)
George Soros, President, the Soros Fund Management, New York (United States)
Gyorgy Suranyi, Deputy President, Planning Office (Hungary)
Istvan Szalikai, former Vice President of the National Bank of Hungary (Hungary)
Marton Tardos (Cochair), President, Financial Research Ltd. (Hungary)
Sir Alan A. Walters, Professor of Economics, Johns Hopkins University (United Kingdom)
a must. Attempting to counter worries that “outsiders” will buy up Hungary, the report notes that “at the beginning of 1990, foreigners own only about two percent of Hungary’s industry, so there is ample room for expansion, by any reasonable standards.” The commission calls for creation of an “Invest Hungary” office to speed the attraction of foreign capital, skills, and technology.

Emphasis in the report also is placed on moving to a convertible currency, although the commission divided on how swiftly this can be accomplished. First, monetary control must be strengthened, which in turn requires that vast sums of non-performing loans run up by state-owned enterprises and banks in Hungary be written off.

The report calls for “a new Act on Agricultural Land” whose “first object...is to guarantee the right of private ownership of land and the right to dispose of land to those having preserved land ownership to the present day, including those whose land is used by the cooperatives. Land transferred earlier to the cooperatives, or similar land, should be offered for repurchase to the original owners.”

Sponsors of the Blue Ribbon Commission assert that the report represents the first time that “the many elements of a transformation from a communist system to a market system have been examined in combination and an integrated and detailed economic agenda provided to a new government.

Unusual also in its reliance on philanthropic and volunteer support, the Blue Ribbon Commission has been reviewing Hungary’s serious economic conditions and possible solutions for more than six months during meetings in Indianapolis, Brussels, Vienna, and Budapest. Some 30,000 copies of the Blue Ribbon Commission report will be circulated in Hungarian as inserts in Figyelo, a Budapest economics weekly, while other copies will be sold at newsstands and bookstores in Hungary. In addition to strictly economic measures, many political, institutional and administrative changes are recommended by the Blue Ribbon Commission as adjuncts to economic transformation. Devolution of local spending and taxing authority to municipal governments is recommended, as is national civil service reform, a Freedom of Information Act, and an end to public monopolies in education and medicine. This is all in order to break up bureaucratic impediments to competition and efficiency and to create an ethic of government service to citizens. Submission of political issues (including the economic program) to public scrutiny at open hearings is recommended. Consumer rights and environmental acts are proposed, along with an overhaul of social services — for example, separating a proposed program of unemployment benefits from the social security retirement system. In respect to retirement, an age increase, to 65, for benefits eligibility is recommended (presently it is 55 for women and 60 for men). Establishment of occupational safety and health programs and a process for free labor relations are advocated.

Hungary’s present housing policies, which are criticized as costly and unfair, should be gradually but entirely privatized, except in the case of the very poor. They should receive direct subsidies, the commission says.

The report suggests that Hungarians should “not count on large governmental assistance (from other countries) nor assume that even necessary assistance will be granted if correct decisions are not presented or postponed.” It observes that past loans were used, in large part, to shore up temporarily the standard of living. The commission warns against any attempt to resume that wasteful practice, which has given Hungary the highest per capita foreign debt burden in Europe, a major obstacle to economic growth. Instead, the report proposes, “Any temporary financial assistance that governments and international organizations grant to Hungary should be dedicated to helping finance the foreign exchange cost of import liberalization; the...cost of switching from transferable ruble to dollar accounting in CMEA trade; the import needs of new investments; and the cost of investment for environmental protection.”

In turn, the commission urges western countries to ease import restrictions in response to Hungary’s own trade liberalization, to dismantle COCOM restrictions on Western technology exports, and to support technical assistance in fields such as tax administration, statistics, entrepreneurial education, labor laws, and encouragement of a more vital “voluntary sector” outside both business and government.

A “Program for the First 100 Days” is included in the report, outlining crucial steps that the new government should take to gain control of the present economic crisis and begin the transformation of the economy. □
An Adjustment Agenda for Angola

Throughout its post-independence period, Angola has followed a policy of fixed domestic prices, wages and exchange rate, with import rationing as the adjustment mechanism equating ex-post demands and supplies of foreign exchange. However, neither the oil sector nor the military is apparently subjected to any kind of foreign exchange restrictions, and foreign exchange supply to rest of the economy consists of only a residual of Angola's export earnings. Therefore, economic growth in the rest of the economy is constrained by both the availability of foreign exchange and the war situation.

The lack of price or wage adjustment mechanisms has resulted in a substantial drop in the production of non-oil tradable and non-tradable goods that aggravated the macroeconomic imbalances, drove the remaining domestic production towards parallel markets, and created additional pressure to import formerly domestically produced consumer goods. Domestic demand levels in the formal urban sector were maintained through the accumulation of fiscal deficits that were fully monetized.

In spite of skyrocketing prices in parallel markets, the nominal wage level was kept unchanged, but a variety of entitlements and payments in kind complemented the workers' monetary remuneration. Due to the extremely high black market premium, workers have been reselling those entitlements in parallel markets. The current institutional organization has resulted in a extreme case of so-called "Dutch disease" — the various leakages of foreign exchange that are financing illegal imports feed the parallel market activities.

To a certain extent, Angola exhibits similarities to the classical centrally planned economies:

- means of production are almost totally in the hands of the state, with a "command-distribution" economic system;
- production is determined by planned targets, and prices, wages, inputs, and outputs are fixed;
- foreign and domestic trade is administered by the central authorities, which determine the allocation of foreign exchange to the economy;
- shortages and bottlenecks on the supply side are not corrected by tight domestic demand policies; on the contrary, subsidies to consumers and the absence of financial discipline at the firm level continuously create excess demand;
- finally, a monolithic banking system has been monetizing both private and public sector deficits.

However, Angola also presents differences from this classical framework. Although the government intended to introduce a centrally planned economy similar to the Cuban and the Eastern European systems until recently, a planning system was never put fully in place. What resulted instead was an extreme case of a controlled economy helped by sizeable rents from oil. These were distributed among the urban elite behind the facade of the centrally planned economy. In addition, weak administrative capabilities and Angola's peculiar system of remuneration introduced additional constraints into the typical centrally planned adjustment agenda.

The agenda for needed changes in Angola is a combination of stabilization and deep structural adjustments. Two general objectives should govern these changes:

- The non-oil sectors can and should be the main sources of growth; and
- A more rational, efficient use of the oil surplus is necessary.

These objectives require a drastic change in the internal terms of trade, mainly through changes in pricing and exchange rate policies.

The government had stated its general intention of reforming the economy, with these objectives in mind. However, no specific macroeconomic measures have been introduced, probably as a result of the influence of entrenched interests that would be affected and also due to a genuine fear of an unknown process.

The strategy for effecting the main changes, particularly on the exchange rate, price liberalization, and remonetization of wages, has not
been decided by the government. Indications are that an official foreign exchange market will be maintained for a while even after substantial movement towards reform. Such a market would be combined with a clearance "window." Some form of rents would therefore be maintained through the allocation of foreign exchange at a low price.

The government is proceeding with the privatization of some rural estates and also intends to privatize enterprises in several other sectors. The peasant sector had not been "collectivized" though peasant production has been affected by lack of incentives and war. It has been pointed out that privatization without opening up the economy to competition and before a substantial devaluation of the local currency, could be, in some cases, a mere transfer of privileges.

The government deficit is high, reaching over 11 percent of the GDP at adjusted prices or over 22 percent at official prices. The consolidated public sector deficit is smaller, suggesting that the oil company (Sonangol) retains a large profit. The oil company enjoys a large degree of independence and is basically free from ministerial interference. Reduction in the budget deficit should come largely from an increase in the transfer of profits from the oil company.

Prices of agricultural goods are freely set for the most part. Liberalization of prices could be extended to industrial goods and services, with some exceptions. Payments in kind and purchasing rights (at low official prices) should totally or gradually be replaced, according with the adjustment strategy followed by the government. The present system of remuneration creates sizeable transaction costs and prevents the implementation of a rational incomes policy.

Longer-term reforms that should be initiated urgently are the ones for the financial system, on parastatals, and on the civil service system.

Carlos Elbirt, APSCO

**Milestones of Transition**

- In the Soviet Union the Parliament approved a property law in March that allows citizens to own the "means of production," thus giving private citizens the right to own small-scale businesses for the first time since the 1920s. The law also clears the way for widespread use of stock plans to create worker-owned enterprises and protects property against confiscation by the state. The law, which would take effect July 1, avoids the words "private property," instead it refers to "citizens property." A companion bill, approved earlier, forbids the private ownership of land but allows property to be leased for life with the right of inheritance. Further sweeping reform plans include: a changeover to a tax in kind on basic farm produce combined with free trade in surplus agricultural products; laws to "demonopolize" the economy; a rational profit tax and income tax system; and the creation of commodity and stock exchanges.

- In Hungary, under the continuing program of structural economic reforms, the authorities have increased the share of freely determined prices, reduced tax rates, further decentralized the banking system, and taken steps to restructure or close down some loss-making state enterprises. Further import liberalization was introduced, and new laws were adopted to promote private enterprises and to establish a more transparent framework for the transformation and privatization of state enterprises. A State Assets Agency was formed to oversee the selling-off of state-owned property. The ceiling on the number of private companies' employees (500) was abolished, and legislation was approved to establish a stock market. The Parliament passed a deregulation law that may speed up the liquidation procedure of insolvent state enterprises.

**New Books and Working Papers**

Das Gupta, Kalyan Kumar
Marxism and political economy of socialism: experience of Soviet and East European economies.

Richet, Xavier
The Hungarian model: planning and the market in a socialist economy.

Kuboniwa, Masaki
Quantitative economics of socialism: input-output approaches.
Kinokuniya Co., Tokyo, 1989. 278 p. (Economic Research series, the Institute of Economic Research, Hitotsubashi University; no. 27)

Mandel, Ernest
Beyond perestroika: the future of Gorbachev's USSR.

Nee, Victor and Stark, David and Selden, Mark (editors)
Remaking the economic institutions of socialism: China and Eastern Europe.

Schulz, Brigitte and Hansen, William (editors)
The Soviet bloc and the Third World: the political economy of East-South relations.

Griffith, William E. (editor)
Central and Eastern Europe: the opening curtain?

Macesich, George and Lang, Rikard and Vojnic, Dragomir (editors)
Essays on the Yugoslav economic model.

Bergson, Abram
Planning and performance in socialist economies: the USSR and Eastern Europe.

Aganbegian, Abel Gezevich

(continued)
Conference Diary
Forthcoming Conferences

AGRICULTURAL REFORM IN SOCIALIST COUNTRIES: DILEMMAS AND STRATEGIES
August 29 to September 1, Budapest, Hungary

Sponsored by The World Bank and The National Bank of Hungary, cosponsored by the Ford Foundation

Despite their many differences, Eastern European countries and the USSR face common issues as they attempt to design and implement agrarian reforms.

The conference intends to explore these issues and the particular experiences of several East European countries, among them Hungary, Poland, Yugoslavia, and also the USSR. It has three objectives: to synthesize experience to date with agrarian reform in socialist countries; to identify alternative strategies for reform; and to identify key areas of research to facilitate the design and implementation of reform programs.

The conference will focus on the role of incentives, organizational structures, and policy, both at the farm level and in the larger economy.

Expected number of participants: 80
Participants will include leading East European, Soviet and Western economists.

Attendance: by invitation only.
Conference paper availability: a short summary paper and a book will be published after the conference.

Contact: at the World Bank: Avishay Braverman, Division Chief, Agricultural Policies Division, 1818 H Street, N.W. Washington D.C. 20433, USA. Tel.: (202) 473-0378; telefax: (202) 334 0568. In Hungary: Prof. Csaba Csaki, Rector, University of Economic Sciences, Budapest IX. Dimitrov ter 8. Tel.: (361) 1176-268; telefax: (361) 1178-883

INVESTMENT PROMOTION CONFERENCE
September 10 to 12, Budapest, Hungary

Sponsored by the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group and the Ministry of Finance of Hungary

The purpose of the conference is to provide investors with the opportunity to evaluate investment possibilities in Hungary, mainly in the agro-processing and electronics sectors.

Participants: Hungarian officials, businessmen, bankers and international experts will be available throughout the conference for consultation with investors. Business executives representing leading companies, banks, and investment houses from Europe, North America, Asia, and the Middle East have been invited to participate. Senior officials representing the World Bank, the International Finance Corporation, the IMF, and the European Community will also attend.

Attendance: The conference is open with registration.

Some key speakers: (preliminary) The Prime Minister of Hungary, Ministers of Finance, Trade and Industry, Agriculture, and Justice.

For further information and registration contact: at MIGA, Mr. Samir Bhatia, Sr. Policy Advisor, Policy and Advisory Services. 1818 H Street, N.W. Washington D.C. 20433. By telephone: (202) 473-6164; telefax (202) 334-0265; telex: 248423.
Czechoslovakia and Bulgaria apply for membership

The governments of Czechoslovakia and Bulgaria have applied to become members of the World Bank and the International Monetary Fund. Czechoslovakia filed the formal application in January 1990, Bulgaria applied in February. Membership in the IMF is a prerequisite for World Bank membership. Bulgaria has applied for the first time; Czechoslovakia was a member of the IMF and the Bank between 1945 and 1954.

Resident mission in Poland

The World Bank will establish a resident mission in Warsaw. One of the mission's functions will be to serve as a channel for discussions about the Polish government's development strategy and programs. Ian Hume, currently Director of the Bank's Personnel Policy Department, has been selected as the Bank's resident representative in Poland. He will take up his assignment in early July 1990.

Bank resumes lending to China

The World Bank resumed lending in February to China, suspended since last June, with the approval of a US$30 million credit for earthquake relief. The credit will be provided by the International Development Association (IDA), the bank's concessionary lending affiliate, for housing, economic-assets recovery, social services and physical-infrastructure reconstruction in the quake area.

A second credit was approved at the end of February: increased production of food and other agricultural goods in China's Jiangxi Province will result from a project supported by a credit of US$60 million from the IDA. The 20-year project is designed to accelerate and diversify agricultural development and boost productivity by making farming commercially oriented and putting idle lands to productive use.

First loans for Poland

On February 6, the World Bank approved two loans for Poland totaling US$360 million. The loans mark the first time that Poland has borrowed from the Bank. These amounts will support Poland's efforts to modernize its manufacturing and agricultural-processing industries and boost exports to countries with convertible currencies. Barber Conable, the Bank's President announced in Warsaw that he anticipates "the Bank will lend over US$5 billion to our current Eastern European borrowers over the next three years — up to US$2.5 billion for Poland".

At the same time Mr. Conable pointed out that assistance to Eastern Europe "should be additional so as not to come at the expense of assistance to other — and poorer — parts of the Third World". The Bank's two loans were preceded by a US$723 million IMF stand-by agreement for Poland; this was Poland's first use of IMF resources since it rejoined the Fund in June 1986.

Loan to key reform agencies in Algeria

Algeria will use a US$26 million loan from the World Bank to strengthen two key agencies — the Ministry of Economy and the Central Bank — for implementing a wide-ranging program of economic reforms through technical assistance. The training programs and studies supported by the project will help improve managerial, technical and administrative skills in the agencies and in the country's seven banks and will assist the government in designing the next phase of economic reform.

IMF stand-by loan to Hungary

On March 14 the IMF approved a stand-by arrangement for the Hungarian government, authorizing purchases up to US$206 million over the next 12 months in support of the government's economic and financial program. The program aims at reducing the domestic and external imbalances while continuing the process of restructuring, reforming, and liberalizing the economy.

The broad objectives of the program for 1990 are to reduce the convertible current account deficit to US$550 million, achieve balance in the non-convertible current account (following a US$800 million surplus in 1989), contain the rate of consumer price increases, and avoid further decline in GDP. Fiscal policy under the program is designed to reduce absorption of resources by the public sector, thus increasing their availability for the productive sector and to support external adjustment. The Hungarian government is planning reductions in expenditures across a broad area that includes defense and subsidies while holding the growth of other expenditures below that of nominal GDP.

IDA credits to Laos and Ethiopia

A project to improve telecommunications services in Laos will be financed partly by a credit of US$24.5 million from IDA. It will support the first phase of a nationwide digital telephone network and improvements in international services. The project includes installing automatic digital exchanges in Vientiane, the capital, and in five provincial capitals.

Residents of small cities across Ethiopia will earn higher incomes and improve their living conditions as a result of a project being supported by a credit of US$40.2 million from IDA. The project will help improve health conditions and increase employment opportunities for women in sixteen smaller cities. Houses will be built, roads and drainage systems repaired, and power lines extended to new areas. The project is expected to increase the food supply by making it easier for farmers to bring their goods to markets.
Bibliography of Selected Articles

Socialist Economies


Eastern Europe


Kolesi, Tamas. Chances to get out of a blind alley. *The New Hungarian Quarterly* (Hungary) 30:23-39, 1989. *Soviet type socialism had ended up in a blind alley. The author surveys the historical background and the reasons for it both in the Soviet Union and in the Eastern European countries. He analyses the "Hungarian lesson," the conditions for a breakthrough, the alternatives, the possibility of a self-regulating society, the models and the major problems of a social, economic and political transformation in Hungary.*


USSR


Asia


Africa


CMEA


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