When the Berlin Wall Fell, So Did Birth Rates

A Study of Surprising Demographic Trends in Eastern Germany

In the four years since the fall of the Berlin Wall, eastern Germany's population has been jolted by dramatic, anomalous, and in some respects, historically unprecedented shocks. So says the author of this study in explaining his decision to examine eastern Germany's demographic trends, including birth, marriage, and death statistics. [Nicholas Eberstadt, "Demographic Shocks in Eastern Germany," Europe-Asia Studies, vol. 46, no. 2, pp. 519-33 May-June 1994.] Thanks to the establishment in July 1990 for the currency union, and the October 1990 reunification, residents in eastern Germany have experienced a more rapid and complete systemic transition than any other postcommunist population. The social effects surfaced early and were pronounced, and a statistical base for assessing changes became readily available, making cross-system comparisons more timely and robust than elsewhere. Eastern Germany, therefore, can be regarded as a laboratory for framing general hypotheses for countries in transition.

Suspension of Childbearing?

The author identifies a cluster of shocks: a birth shock, a marriage shock and what could be called a “mortality” shock. The crude birth rate per thousand—which fluctuated between 12.9 and 14.6 between 1980 and 1988—fell to 5.2 in the first four months of 1993, compared with 13.3 in the same period in 1989. Such an abrupt decline in fertility is unprecedented for an industrialized society during peacetime. Human populations have only experienced comparable reductions of childbearing during times of catastrophe, war, widespread loss of life, or desperate privation (for example, China’s birth rate dropped by half during the period 1957-61, in the wake of the Great Leap Forward campaign).

Monthly birth totals started to decline steeply only in August 1990, that is, not until nine months after the fall of the Berlin Wall. And in July 1991—nine months after the reunification—births totals resumed their descent. The mass exodus to western Germany—between 1989 and 1992 nearly a million people...
left the eastern territories—and the con-
sequent drop of the population did not
play a significant role in the birth rate
tfall. The real cause has been the dra-
matic decline of age-specific fertility
rates of eastern German women. To
attain generational replacement, women
of childbearing age today would have to
give birth to an average of about 2.07
infants over the course of their lives.
But in 1991, the total fertility rate (TFR)
of eastern Germany dropped to 0.98,
less than one birth per woman per life-
time. This is the lowest TFR ever calcu-
lated for a large population, and it has
dropped even further in the past two
years. Fertility particularly fell among
women in their prime childbearing years
(25 to 34). The decline of births in mar-
rriage exceeded the decline of births
outside of wedlock. By 1992, nearly 42
percent of the babies born in eastern
Germany were delivered to single moth-
ers (as against 12 percent in western
Germany that same year). In interpret-
ing these numbers one should keep in
mind that before unification, contracep-
tives were universally available, and
women had unrestricted access to free
abortions in eastern Germany.

As the study points out, “Eastern
Germany’s adults appear to come as
close to a temporary suspension of
childbearing as any large population in
the human experience.”

Marriage rates also dropped in eastern
Germany, declining by 62 percent be-
tween 1989 and 1992. While the num-
ber of marriages (about 130,000-140,000)
and the marriage rate (7.5 to 8 mar-
rriages per 1,000 residents) were basic-
ally stable between 1980 and 1989, and
were consistently higher than in west-
ern Germany, both the absolute number
and the rate took a dive in 1990. (Wed-
dings first took a beating in July 1990,
which coincided with the declaration of
the currency union, the changeover to
the deutsche mark, and the adoption of
the social market economy.) And by
1992, the marriage rate had dropped to
less than one-half its level in 1989. Crude
marriage rates in eastern Germany are
currently lower than in Jamaica or
Panama, where consensual unions are
the typical living arrangement.

While in many command economies
between the mid-1960s and the late
1980s mortality rates for men and adult
women increased, in the ex-GDR mor-
tality rates for the same period declined
somewhat in every age group. Between
1989 and 1991, however, mortality rates
increased broadly. And while life ex-
pectancy at birth and survival rates of
those above age 65 improved some-
what, a significant reversal occurred for
all other age groups. In the 25-45 age
group, for example, women’s mortality
rate increased by 20 percent, and men’s
by 30 percent. In 1990-91, among resi-
dents of eastern Germany the age stan-
ardized mortality rate was 28 percent
higher for men, and 29 percent higher
for women, than in western Germany.
Comparisons of three selected causes
of death among the 30-44 age group in
both eastern and western Germany re-
vealed profound differences: cardiovascular illnesses killed about 77 percent
more young men in eastern than in west-
ern Germany; injuries, including suicide,
killed 106 percent more east than west
German men, and cirrhosis of the liver,
196 percent more. Similar trends apply
for women.

The Great Mystery

In eastern Germany the upswing of
mortality, and the collapse of births and
new marriages, paints the portrait of a
society convulsed by stresses, a society
that lacks confidence in its economic
future.

A number of macroeconomic data un-
der-score this picture. Between 1989
and 1991, eastern Germany’s GDP fell
by more than 40 percent; and in 1993,
eastern manufacturing output was only
30 percent of its preunification level. In
October 1993, 16 percent of the east
German labor force (1.17 million) was
unemployed, with another 10 percent
working part-time, attending retraining,
or participating in a job-creation pro-
gram. The labor force as a whole had
shrunk to 7.3 million from its level of
11.0 million in 1989. But the situation
is complex, with a number of contradic-
tory elements:

* The average level of consumption in
eastern Germany has increased in re-
cent years. Annual transfer payments
from western Germany, in the form of
goods and services, has come to nearly
equal the GDP of Germany’s eastern
states. Eastern Germany’s disposable
household income—compared with the
nominal income in 1989—had doubled
by late 1992, measured in deutsche
marks (not the defunct ostmark). And
average monthly wages, though still
lower than in the western federal states,
have doubled in recent years.

* Demographic shocks have been less
profound in countries that experienced
economic dislocations of comparable
magnitude. Not even Nazi Germany or
Imperial Japan, headed for unconditional
surrender, experienced demographic
shocks similar to those eastern Ger-
many is now witnessing.

* Despite political and economic unifica-
tion, demographic trends in eastern
Germany did not converge with, but
rather diverted profoundly from, those
of western Germany.

Attention Researchers

The author is hesitant to give a defini-
tive explanation for these mysterious
demographic shocks. He suggests, how-
ever, that they are symptoms of pervasive
uncertainty, perhaps the result of traum-
atic adjustments that have to be made
as the country takes an unknown path to
a liberal market order. In shedding light
on further consequences of the transi-
tion process in postcommunist-societ-
ies, demographic data may be a useful
complement to, and even corrective for,
economic data, according to the author.

Several recent studies of the social ef-
ects of postsocialist transformation in
central and eastern Europe have ana-

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lyzed specific phenomena (for example, welfare gains from the elimination of queues, which exceed welfare losses from the reduced purchasing power of wages. Bryan W. Roberts "The Initial Welfare Consequences of Price Liberalization and Stabilization in Poland").

But a broader set of social indicators is clearly required, since demographic shocks are unlikely to occur in a vacuum and may well point to a broader syndrome. [A balanced approach is evident in the recent study of UNICEF, "Central and Eastern Europe in Transition—Public Policy and Social Conditions." The editor] The issue of how the drastic economic, social, and political changes influence demographic indicators deserves a place on the research agenda.

[Other transition economies are also confronting a birth shock. Just before going to press, Russia reported its latest demographic statistics: in 1993, the birth rate (9.7 per 1,000) plunged to among the lowest in the developed world, the mortality rate is rising, and life expectancy for men has dropped from 65 years (measured in 1987) to 59 years. The editor.]

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### What To Do about Pensions in Transition Economies?

Resolving the public pension crisis can prove to be one of the most formidable challenges in eastern Europe and the countries of the former Soviet Union (FSU). Declines in living standards and the associated fiscal crises have squeezed government expenditures, including social transfers. The population in eastern Europe is aging. The ratio of pensioners to contributors (the system dependency ratio) is high and sharply rising. Since 1989, average pension benefits relative to wages have fallen in Bulgaria, Hungary, Poland, Romania, and the former Yugoslavia, but the systems are no more affordable.

To fund these transfers governments had to raise the payroll tax to a 35 to 50 percent rate. But the private sector evades the high tax rates, and hence the government’s tax base is shrinking and its revenues are declining. And pension expenditures, as a share of GDP, are expected to keep rising, unless the pension systems are fundamentally reformed. (Pension expenditures are about 14 percent of GDP in Ukraine, 11 percent in Hungary and Poland, and 10 percent in Estonia, Georgia, and Uzbekistan, see table, page 4.)

Pension benefits in eastern Europe and the former Soviet Union are low and yet still unaffordable. Expenditures in transition economies, as a share of GDP, are comparable to those of many OECD welfare states, where per capita incomes are at least five times higher. This is mainly because too much money is spent on transfers to people who would normally work in other middle-income countries (those ages 45-65). This leaves little room to meet the needs of the real target population (those 65 and above).

Most public pay-as-you-go systems in the industrialized countries have initially promised overly generous benefits. In the United States the social security systems were started in the late 1930s, and in most western European countries, in the late 1940s, and early 1950s, at a time when the ratio of pensioners to contributors was low—when the populations were young. It did not take long, however, for these governments to realize that without restoring affordability and fairness to the pension systems, the payments could get out of hand. With greater realism, most industrialized and middle-income countries with mature populations, have encouraged the development of private pension systems to complement public pensions. (Pension schemes are of two broad types. The pay-as-you-go system involves redistribution between individuals, so that those still working support the retired. The funded system is based on the savings account.)

Recent Cartoon from Budapest....

Aunt Rose: "Honey, I'm so happy they didn't increase the retirement age. Now I'm sure they'll increase the pension!"

From the Hungarian daily Mai Nap
of the individual, which are accumulated and invested, to be drawn on during retirement.)

Reforming the public pension system is a long, painful process in any country, and especially in a more open society. In most transition economies the constituency for pension reform is very little. After decades of central planning, most people are accustomed to thinking of income security as an obligation of the state. As they see it, paying the promised pension benefits is a matter of will and not of wallet. [The claims of the workers who have reached pension age and anticipate for their efforts a fair reward from society, are justifiable. It is not their fault that the wealth they created during decades of a command economy has been squandered or used in unproductive ways. The now-defunct political system deliberately did not involve the public in financing its own social security, implying that it was the function of the political leadership to provide free benefits from cradle to grave. In return they expected the public to support unelected governments. This deception haunts the democratically elected postsocialist governments even today. The editor.]

A viable reform program will probably include two elements: a cutback of the existing entitlement, and the development of new vehicles to allow middle and upper income groups to save for their own retirement during their active years, as is done in most OECD countries. The design, timing and phasing of the reform should differ from country to country.

**Downsizing the Public Pillar**

The transition economies need to reform the "public pillar" of their pension systems, and reduce entitlement. Regardless of income levels, demographic structure, or level of development, the most important step is to raise the effective retirement age. Given current life expectancies at retirement, 65 should clearly be the minimum age for retirement. [This does not contradict earlier findings of deteriorating life expectancies at birth in some transition economies. The editor.] All special regimes should also be eliminated. Because this will involve raising the retirement age by as much as fifteen years for some workers, a phased-in increase will be required. Increases in the retirement age for those entitled to retire at the lowest ages should move more rapidly, while those now entitled to retire at 60, might increase at a slower rate, say six to eight months annually. Disability certification should also be tightened up.

Due to recent inflation in the transition economies, the earnings-related portion of existing pension formulas has become almost irrelevant. Given the obvious difficulties in deciding how to allocate the pension pie, benefit structures should be simplified, earnings-related features eliminated, and the redistributive features accentuated. (This would be more consistent with pay-as-you-go funding, which is a transfer scheme, not a savings program.) Earnings-related benefits could be provided through new, funded schemes (discussed below). Possible benefit restructuring can include the contributions approach and the social assistance approach:

- **The contributions model.**
  Under this model, eligibility for benefits would be based on at least twenty years' contribution into the system and on attaining the retirement age (65). Benefits

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### Financial Characteristics of Public Pension Schemes (percent) in Transition Economies, 1992

<table>
<thead>
<tr>
<th>Pension expenditure as a share of GDP</th>
<th>Pension expenditure as a share of government expenditure</th>
<th>Pension as a share of average wage</th>
<th>Employee contribution rate as a share of net wage</th>
<th>Employee-employer combined contribution rate as a share of net wage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eastern Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hungary</td>
<td>10.6b</td>
<td>18.6b</td>
<td>49</td>
<td>35</td>
</tr>
<tr>
<td>Poland</td>
<td>11.4</td>
<td>24.8</td>
<td>74</td>
<td>30</td>
</tr>
<tr>
<td>Romania</td>
<td>6.7</td>
<td>16.8</td>
<td>43</td>
<td>16.5-25.9</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>9.5b</td>
<td>16.8</td>
<td>49</td>
<td>30</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>8.4</td>
<td>21.5</td>
<td>34</td>
<td>26.7-38</td>
</tr>
<tr>
<td>Albania</td>
<td>6.3</td>
<td>29.2</td>
<td>55</td>
<td>25</td>
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<td>Slovenia</td>
<td>13.0</td>
<td>26.0</td>
<td>85</td>
<td>30</td>
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<tr>
<td><strong>Former Soviet Union</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>9.8</td>
<td>n.a.</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Latvia</td>
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<td>n.a.</td>
<td>52</td>
<td>23</td>
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<tr>
<td>Lithuania</td>
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<td>n.a.</td>
<td>41</td>
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</tr>
<tr>
<td>Russia</td>
<td>4.9</td>
<td>n.a.</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>6.7</td>
<td>n.a.</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Ukraine</td>
<td>13.9</td>
<td>n.a.</td>
<td>39</td>
<td>31</td>
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<td>Kazakhstan</td>
<td>4.7</td>
<td>10.3</td>
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<tr>
<td>Azerbaijan</td>
<td>5.8b</td>
<td>18.3b</td>
<td>n.a.</td>
<td>14</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10.3</td>
<td>n.a.</td>
<td>43</td>
<td>33</td>
</tr>
<tr>
<td>Georgia</td>
<td>9.8b</td>
<td>31.0b</td>
<td>70</td>
<td>n.a.</td>
</tr>
<tr>
<td>Belarus</td>
<td>7.3</td>
<td>14.8</td>
<td>42</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

*Annual Average.

**Source:** World Bank staff estimates
could be equal for all pensioners (a flat benefit system) or could be determined by years of contribution (modified flat). Depending on resource availability, the flat benefit should be set at about 30 to 35 percent of the average wage for current recipients. The modified flat pension would establish a minimum pension awarded after a set number of years of contribution (for example, 15 percent of the average wage after twenty years of contribution). Increases in the pension could be provided for each additional year of contribution. The incremental increase could then be doubled for each year of contribution after the normal retirement age (for example, from an increase of 75 percent annually to 1.5 percent), thus providing an incentive to work longer during the transition to higher retirement ages.

**The social assistance model.** Following this model, pensions would be given to all who reach pensionable age, regardless of income, wealth, or contribution record (the universal flat pension), or only to those who reach retirement age and whose income is below a given level (the means-tested flat pension). In each version benefits should be set at about 30 to 35 percent of the average wage.

**Pillar of Funded Savings**

Individuals, who earn fairly steady income during their working years, prefer funded pension systems (which define contributions). These systems are more transparent and involve fewer distortions to labor supply and demand than the redistributive pay-as-you-go systems (which define benefits). The funded systems promote the development of well-functioning capital markets, enhancing growth prospects. They are free from the “political risk” inherent in government transfer programs, but do require the contributors to assume a substantial amount of investment risk. They are best used in combination with a minimal “safety net” type redistributive public system, which offers protection to the chronic poor.

**Individual savings schemes.** Many experts view the development of a fully funded, privately managed, mandatory savings pillar as the best solution for future generations in the transition economies. Higher-income countries, with emerging capital markets, could opt for:

**Ticking Time Bomb: Pensions in the Command Economies**

The pension systems currently in place across Central and Eastern Europe (and countries of the FSU) face challenges that have roots in the command-economy structure, including:

- **High dependency ratios, low retirement ages.** Normal retirement with full pension in most of these countries in 1989 was at age 60 for men and 55 for women. Special regimes for selected occupations or industries (such as heavy industry or mining), combined with lax disability certification, brought actual retirement age to an average of about 57 for men and 53 for women. As a result of postwar demographic trends and low retirement ages, system dependency rates (the ratio of pensioners to contributors) are high in the eastern European countries, reaching as much as 87 in Bulgaria. The declining numbers of contributors—caused by unemployment and evasion by the private sector—as well as the expected demographic trends could push this ratio to 1.0 by the end of the decade (that is, an equal number of contributors and dependents).

- **High statutory replacement rates, low actual benefits.** During the period of administered prices, open inflation was negligible, and average pensions tended to be close to the statutory replacement rate (the ratio of pensions relative to earlier earnings). In many countries the rate was as high as 80 percent. Pensions were usually based on the previous best three to five years’ earnings, and subject to ad hoc adjustments. Those receiving full pensions (most pensioners) had a solid income replacement stream. But later inflation has eroded pensions and now in several economies the median pension is the minimum pension. For example, in Russia 50 percent of pensioners now receive the minimum pension, and in Kyrgyzstan over 70 percent. In Romania pensions represented about 65 percent of wages throughout the 1980s, and fell to about 40 percent during the initial period of price liberalization. Recently introduced indexation provisions have maintained this ratio. In Poland and Slovenia the rates of average pensions relative to average wages have been maintained or raised since 1989.

- **Unfair redistributions.** Redistributions occur in pension systems when pensioners receive more in benefits than they would have received under an actuarially fair annuity plan based on their contributions. Prior to 1989 those eligible for early retirement usually paid equal or lower contributions than the average and received more pension relative to their contributions. Early retirement ages for women, given their longer life span also result in significant redistributions. Due to low retirement ages and low contribution rates in the 1970s and early 1980s, present pensions even near the subsistence level can represent major redistributions.

- **Lack of transparency.** Contributions are paid almost entirely by employers, obscuring the costs of the system to employees, who bear much of the burden of the tax through lower wages (or unemployment and lower economic growth). The munging of pension contributions and expenditures with other benefits further obscures the costs of the various programs to the taxpayers. The pay-as-you-go funding (with the surplus transferred to the government budget), which provides the illusion of savings but is actually a transfer, further obscures the picture.

- **Dissatisfaction.** The erosion of entitlement by inflation and the uncertainty surrounding future benefits, have created enormous dissatisfaction with the public pension scheme. Frustrated pensioners have set up their political parties and grassroots organizations all over Eastern Europe and the countries of the former Soviet Union. Younger age groups do not find public pension schemes rewarding and try to avoid the formal economy. While there is a pent-up demand for pure earnings-related, private or quasi-private schemes, only a few exist. In most countries these plans are not regulated, and hence the possibilities for consumer fraud are high.
this approach. Such systems follow in the footsteps of Chile, which has been the inspiration for the development of second pillar schemes in Argentina, Mexico, and Peru. Financed from a payroll tax, balances would gradually build up on the contributor’s account.

**Employer schemes.** An alternative scheme which is more common in OECD countries, would be voluntary or semifree occupation (employer)-based pension plans. However, these would create long-term liabilities for firms, which would impede enterprise restructuring. If such plans failed to ensure full portability of benefits from day one—a rare feature in occupational plans—they would jeopardize labor market mobility (especially from the public to the private sector). These plans rarely provide adequate and equitable coverage for people working in low-paid jobs, small business and agriculture. Higher income groups would be the primary beneficiaries of this system, further deepening income inequality. Fiscal balance would also be jeopardized if the government were required to bail out failing state enterprise pension schemes.

**States schemes.** A third option, currently in place or under consideration in Bulgaria, Hungary, Russia, and the FYR Macedonia, involves the creation of funded or semifunded public contribution-related pension schemes. The basic model envisages managers of semiautonomous pension funds investing reserves in real estate or shares of firms to be privatized. Evidence from other countries, especially in Latin America, but also in Turkey, the Middle East, and Asia, shows that pension fund reserves invested by the public sector rarely yield a high rate of return. Fund managers—responsive to their contributors who are primarily state sector employees—could slow down restructuring by preventing enterprises in which they hold shares from liquidating assets or firing excess employees.

Phasing in the second pillar is complicated for the following reasons:

- Underdeveloped capital markets.
- Existing debt owed by the currently working generation to those already retired.

Funded pension plans must have investment vehicles of acceptable risk. A minimal set of macroeconomic and overall structural reforms, as well financial sector reforms, are desirable before the second pillar can begin to operate. Some countries, including the Czech Republic, Hungary, and Poland, have achieved these preconditions. In other countries preconditions are likely to be met over the next three to five years. Even these latter countries can start system planning and design. The funded programs can be allowed limited investment options, such as international and domestic government bonds, or equity investments linked to foreign direct investment.

Canceling some of the debt by reforming public entitlement is key. Entitlements in the first pillar—and the payroll taxes to finance them—should be gradually reduced as balances build up in the second pillar. But funded plans will not offer much income security to those due to retire over the next ten years. Therefore, governments may allocate part of the privatization revenues to contributors. This would allow pension funds to be jump-started more easily, and would build up the savings of the active age cohorts while they are still paying some taxes to support existing pensioners. Pension fund managers will need to have full autonomy to manage their portfolios.

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From the Russian daily *Izvestia*
China’s State Industry: A Paradox of Rising Productivity and Declining Profitability

In China, lack of private ownership or well-defined property rights has not prevented state-owned industrial enterprises from improving their productivity. Most studies conclude that productivity in state industrial enterprises grew in the range of 2 to 4 percent during the 1980s, which was probably about half that of the nonstate sector. This rising productivity, combined with a widely reported decline in profitability, is a central paradox of China’s industrial performance.

The emergence and rapid growth of the nonstate sector in the past decade has done much to change the market environment in which all enterprises operate. This environment has become more competitive and this in turn has had a salutary effect on the performance of the state-owned enterprises. Evidence for this development includes:

- Convergence of factor returns. Preceding the reform in 1978, industrial investments were centrally allocated while differences in wages and incomes were kept within the politically acceptable “socialist” norms. Thus, factor returns (returns of factors of production—capital, labor, or materials) differed significantly according to industries and ownership forms. Rewards had little to do with factor productivity (defined by output growth related to unit increase of inputs, whether capital, labor, or material). As the Chinese leadership allowed market prices to prevail in a larger segment of the economy, factor returns began to converge between industries and ownership forms, and factor payments (rewards) correlated with factor productivity.

- Declining profits. While productivity in state industry has been rising, profitability has declined. During 1991 and 1992, approximately one-third of China’s state-owned enterprises were reporting losses. Cumulative losses rose from below 1 percent of GNP during the three years preceding China’s austerity program (1989-91) to nearly 2 percent of GNP in 1991. Even as state industry has recovered, losses continued to hover around 1.5 percent of GNP. Prior to reforms, the state owned enterprises generated central revenues, and the government, through controlled prices in the industrial sector, accumulated surpluses and thus created a pool of taxable profits. However, remitted enterprise profits and indirect taxes fell from a total of 24.7 percent in 1978 to 10.7 percent of GNP by 1989. Profits became more equal across branches of industry.

- Competition of Town and Village Enterprises. Expanding competition from the nonstate sector largely impacts the performance of state industry. Provincial data from 1982-90 show that the profitability decline of state enterprises was the steepest in those provinces where nonstate industry grew the most rapidly. Also, the growth of the nonstate sector has prompted state industry to increase its productivity. For every 10 percent increase in the nonstate sector’s share of industrial output, productivity in state industry—depending on the initial level of productivity—has risen by an average of 2.5 to 4.0 percent.

Fifteen years of reforms have more than quadrupled Chinese real industrial output. In the first half of 1993, while the economy grew at 13.5 percent in nominal terms, the industrial sector continued to boom at 25 percent; while the state-owned enterprises grew at 10 percent, collectives grew at 45 percent and town and village enterprises at 68 percent. Nevertheless, many problems remain as a legacy of partial reforms of the system. These include:

- Negotiated taxes. Many state-owned enterprises continue to show losses that are covered by state subsidies. This is a serious fiscal drain on declining central budgets. Because of unclear tax obligations, there are no firm rules to draw boundaries between central, provincial, and local tax authorities. The recent introduction of new taxes—a value-added tax and a uniform 33 percent corporate profits tax—is an important step toward achieving a more efficient and equitable system, although the effectiveness of these new reforms remains to be seen.

- Social services and pensions. State-owned enterprises are required by law to provide employees and their dependents housing, education, health benefits, and pension provisions. This heavy burden of social services and benefits has to be shed by enterprises—and assumed and reformed by local governments. Reform of the social service system is an essential prerequisite for creating a more mobile labor force and giving enterprise managers effective control over hiring and firing.

- Lack of exit. There is no exit policy for enterprises and bankruptcies are not
allowed; nor can permanent labor be easily fired. Loss makers continue to be bailed out rather than closed.

• Lack of financial discipline. State-owned enterprises still continue to receive the lion’s share of the banking credits, which are subsidized and only vaguely related to performance. Investment credits are provided in a subsidized form. In the first half of 1993, industrial investments grew 71 percent — another boom cycle — and state-owned enterprises accounted for 62 percent of these investments. Investment credits are thus denied to the most productive sectors of the economy, the town and village enterprises. Until the long-awaited financial sector reforms take hold, poor links between administrative credit allocation and enterprise performance will prevent credit allocations along more efficient lines.

• Macro instability. The macroeconomic instability that China experienced — first in 1987-88 and then again in 1992-93 — as well as the boom-brake cycles of growth and contraction and inflation are signs of the uncontrolled investment hunger that characterizes Chinese industries, especially state-owned enterprises. The recurring inflationary booms generated in the economy are tied to the credits from the banking system.

• Lack of well-defined property rights. Industrial progress has been possible without formal private ownership in China, but the need for clear and well-defined property rights — whether public, collective, or private — and the autonomy and obligations that go with them remains a serious problem. Recently, an extensive contracting system was set up between government agencies, managers, and workers, specifying the rights, responsibilities, and rewards of the parties. What is still needed is the ability to enforce these rights through an independent system of laws and contracts.

To sum up, private ownership and privatization may not be the factors that spell the difference between success and failure in enterprise reforms in transition economies. The more crucial determinants of industrial success and enterprise performance are the nature and extent of market competition, proper incentives for performance, corporate governance, and the institutional environment under which enterprises operate. The evidence from China to date does not suggest that privatization or further reforms of state-owned enterprises are dispensible. It suggests rather that significant progress and improvement in state-owned enterprise performance has been possible within a framework of partial and gradual reform, even without undertaking privatization.

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Brandeis University, Waltham

China’s Enterprise Reform: List of Research Papers

As output of the research program entitled “Industrial Reforms and Productivity in Chinese Enterprises,” an initiative undertaken by the World Bank’s Transition Economics Division in the Policy Research Department (PRDTE), and managed by Inderjit Singh, the following studies have been published since early 1990 (CH-RPS Working Papers):


Milestones of Transition

Industrial production in the Czech Republic industrial production fell 5.3 percent in 1993, the Czech Statistical Office reported February 24. The average wage rose 23.8 percent in the same period. Real wages grew by 4 percent, but wages remained 13 percent below the level for 1990. The unemployment rate rose to 3.5 percent. Consumer prices grew an average of 18.2 percent, and inflation for the year was 20.8 percent.

Czech Premier Vaclav Klaus has rejected attempts by Austria to convince the Czech Republic to abandon its Temelin nuclear power plant project. (Earlier, Austrian Chancellor Franz Vranitzky had offered to rebuild the nuclear plant into a power plant using gas.) In early March, the U.S. Export-Import Bank gave the final go-ahead to loan guarantees that will allow Westinghouse Electric to complete the Soviet-designed nuclear power reactor.

Westinghouse will supply $334 million worth of control equipment to the two-reactor power station, which is located about 70 kilometers from the Czech-Austrian border. (See cartoon on page 17.)

The free-trade agreement among the Baltic States, signed last fall, will come into effect on April 1. The agreement abolishes all customs duties and quotas on imported goods, but places restrictions on some exports to encourage domestic industries to use local raw materials. Latvia will place export tariffs of 20 to 100 percent on gypsum, limestone, raw hides, and timber. Lithuania will maintain export duties on raw hides, glands, and some types of timber. Estonia may place quotas on exports of oil shale, gravel, clay, and quartz sand. The agreement will stay in force indefinitely and the three states will set up a joint commission to supervise its activity.

China reduced state employees' workweek from forty-eight to forty-four hours, starting March 1, and ordered eight-hour shifts, giving most workers Saturday afternoons off.

Retail prices in China in the first quarter of 1994 are expected to increase by an annual rate of 14.5 percent, compared with 13 percent for all of 1993, the China Daily reports. Industrial output in the first three months could exceed last year's level by 22 percent. The government has banned new construction permits this year and is freezing loans to nonstate projects. (Prices in China's thirty-five biggest cities rose 23.3 percent in January 1994, compared with the 23.9 percent rise in December 1993.)

China had a 1993 trade deficit of $12.2 billion on the heels of a 1992 surplus of $4.4 billion. Imports in 1993 rose almost (continued on page 16)
The Uruguayan Round and the Transition Economies: The Attractiveness of GATTing in

Around the world, market access has improved, nontariff barriers have been reduced, and international trade rules have been extended to new sectors (such as the trade in intellectual property). That was the result of the Uruguayan Round, the most recent of the eight multilateral trade negotiations undertaken since the inception in 1947 of the General Agreement on Tariffs and Trade (GATT). The negotiations encompassed a far wider range of issues than any previous round. The participants decided to replace the GATT with the World Trade Organization (WTO), probably by 1995. The reforms are to be implemented gradually over ten years following the formation of the new organization. Negotiations are continuing in several key areas, such as market access. Results will be finalized in April 1994, at the ministerial meeting in Morocco. Then the entire package will be submitted to the national legislatures for approval.

Joining the Club: Duties and Rights

Because of the command economy systems in place in the Central and East European countries, when Poland (1966), Hungary (1973), and Romania (1975) joined the GATT they were accorded a “special status” that legitimized trade restrictions against them. Even today, though state socialism is long over, goods produced by the transition economies face quantitative restrictions, and are subject to special antidumping procedures in the European Union. In the United States, most of the transition economies receive only annually renewable most-favored-nation (MFN) treatment for import duties, subject to a review of their immigration and human rights policies.

To become full members, Hungary, Poland, and Romania need to renegotiate the GATT protocol and comply with the Uruguayan Round commitments. (Two postsocialist economies, the Czech Republic and Slovakia, are already regular members because now defunct Czechoslovakia, one of the GATT founders in 1947, formally kept its membership during the communist era. When both countries rejoined in 1992 they were given carte blanche, and did not need to renegotiate any protocols.) Other transition economies have observer status (Azerbaijan, Estonia, Lithuania, Kazakhstan, Kyrgyzstan, Turkmenistan and Viet Nam), or as observers are already negotiating to join the GATT (Albania, Armenia, Belarus, Bulgaria, China, Croatia, Latvia, Moldova, Mongolia, Russia, and Ukraine). A few countries have no ties yet with the GATT (Cambodia, Georgia, North Korea, Tajikistan, and Uzbekistan).

Joining the GATT provides unconditional and nondiscriminatory access to markets. Most duties of the trading partners are bound and nontariff barriers are subject to multilateral rules. It also provides an international forum for solving trade disputes under common rules. This can result in greater stability of policies and increased investor confidence. By binding domestic policies in the international setting, countries in transition can

The GATT in Nutshell

The General Agreement on Tariffs and Trade (GATT) came into effect on January 1, 1948. The GATT rules promote free trade with transparency, predictability and fair competition. Its basic pillars are the Most-Favored-Nation (MFN) principle, whereby all sources of imports are treated equally, and its national treatment principles, whereby domestic goods and imports are subject to the same treatment. Border protection is to be based on bound tariffs. (By binding its tariffs, a member of GATT commits itself not to increase them without compensation). Industrial tariffs have gradually been lowered in eight successive negotiation rounds conducted under the auspices of GATT. (During the sixth, or Kennedy round, between 1964-1967, tariff reductions were negotiated on whole groups of goods. The next, Tokyo Round, between 1973 and 1979, addressed both tariff and nontariff trade barriers. Results of the recently concluded rounds, or Uruguay Round are even more wide-ranging). Quantitative restrictions on exports or imports (quotas) are, in principle, forbidden. Subsidies are tolerated, if they do not have trade effects. Exports can be taxed.

The GATT recognizes the existence of externalities and non-economic objectives, and provides for some flexibility in its basic principles. Exceptions relate to the protection of health, animal and plant life, the conservation of exhaustible natural resources, as well as the balance of payments, the national security, and safeguards against unforeseen surges of imports. The GATT was amended in 1965 to enable developing countries to trade with developed countries on a nonreciprocal basis. This permits the generalized system of trade preferences (GSP), thereby waiving the most favored nation clause.

Enforcement aims at balancing rights and obligations. Changes to acquired rights are subject to compensation. Non-compliance with obligations can be subjected to retaliation, sometimes by withdrawing tariff concessions. Both the rules and actual GATT practice promote consultation and negotiation in solving disputes before sanctions can be applied.

The General Agreement has been complemented by various Codes: the Subsidies Code, which clarifies rules governing subsidies, and the Standards Code which sets rules for the application of standards.

The GATT might not reach the age of 50. By all intentions and purposes it will be replaced next year by the World Trade Organization (WTO).
also lock in domestic reforms, which may serve as a basis for resistance to domestic demands for protection.

Membership also has its obligations, to which the Uruguay Round agreement adds substantially. Members are expected to adopt the new rules and market access commitments within phased periods of time, depending on how developed they are. Most members are likely to be required to:

- Make commitments to bind a large share of their duties and remove most distortionary nontariff barriers to trade.
- Show progress in transition to a market economy.
- Comply in their domestic policies with the revised rules from the Uruguay Round.

**Rules of the Trading Game**

Most important of the GATT rulings are prohibition of export subsidies and adoption of the tighter international disciplines on other subsidies; compliance with the revised rules on agriculture, including tariffication of all border protection; and reduction in domestic support and subsidized exports. The game rules include removal of trade-distorting investment incentives such as local content requirements and trade balancing, adoption of laws on protection of intellectual property, framework agreements on services, and commitments to open services markets.

Most of these obligations are likely to result in important economic benefits for the participating countries. The adoption of international disciplines can also support and hasten transition and can improve the investment climate and private sector incentives. Market access will improve moderately as a result of lower duties, and more substantially from lower nontariff barriers. Preliminary data for industrial countries show that the weighted average import tariffs would decrease from 6.4 percent to 4.0 percent. Existing and future nontariff barriers will be disciplined, especially in agriculture, textiles, and clothing and in sectors subjected to voluntary export restraints (footwear, consumer electronics, steel). There may also be losses. As overall protection is reduced, the value of preferences decreases and may lead to losses of markets. Furthermore, some net food-importing countries may also experience terms of trade losses from higher world food prices as subsidized exports are reduced.

All countries should benefit from the income gains. Estimates show substantial trade and income gains from the market access part of the Uruguay Round. GATT, OECD, and World Bank studies suggest that the Uruguay Round in the longer run would bring about a 1 percent annual gain in world income over the next ten years, ranging from $200 billion to $300 billion per year in 1992 dollars. In addition, there will be important dynamic gains arising from externalities generated by increased competition, economies of scale, greater innovation (technology spillovers), and the positive effect of higher productivity growth on investment and savings. These are more difficult to measure, but can be even more substantial than the above mentioned static gains. GATT expectations are that, owing to the Uruguay Round, trade will be about 12 percent higher in ten years’ time at 1992 prices, implying an increase of 4 to 5 percent in the annual average growth of trade.

**Fair Share of Gains?**

The “allocation” of the gains and losses to economies in transition depends on their exports structure, reliance on preferential trade, food trade balances and, most important, their ability to take advantage of opportunities as they arise.

**Sectors with export potential.** The largest gains for the transition economies are expected to arise from the removal of nontariff barriers in clothing (60 percent), textiles (34 percent), agricultural, forestry, and fishery products (20 percent), and processed food and beverage (19 percent). These economies are also likely to become important exporters of resource-based products (especially Russia). On average, duties in these products, which are already low, would decline from 4.0 percent to just 1.4 percent.

**Preference erosion.** By reducing overall protection, the relative value of preferences will lessen. The Uruguay Round will not change the preferential access the transition economies currently enjoy in OECD countries—under the EU free trade agreements or the generalized system of tariff preferences—but the economies can nonetheless suffer market losses because barriers to third countries in general will be reduced. In practice, potential losses from preference erosion are likely to be small compared with likely income gains.

**Agricultural trade.** Net food importers (that is, most transition economies, with the notable exceptions of Hungary and Romania) may experience adverse terms of trade effects in the medium run if reduced subsidies in agriculture lead to higher world prices for food. The potential for losses will depend on the speed of transition and the trend of world food prices in the near term. (Real food prices at present are nearly 40 percent lower than in 1980.) As market-based reforms take hold, many transition economies are likely to become net food exporters. Price increases are not expected before the end of the decade, and the impact might well be small, taking into account the expected gradual cutback of subsidies in many industrial countries. The likely emergence of China as a net importer, or of part of eastern Europe as a net exporter, will also change world market conditions.

**Supply response.** Much depends on how well the transition economies take advantage of the new possibilities and how fast they react to the changing trade environment. By reducing discretionary nontariff protection, the new agreements of the Uruguay Round will
reward producers who are fast and competent. The Uruguay Round thus aims to reward reform.

**Risk of discretionary protection.** Much depends on the extent to which export partners abstain from using protectionist measures such as general safeguards, antidumping measures, and special safeguards in textile and agriculture agreements. Countries outside the GATT are the most vulnerable to these measures since they do not benefit from the checks and balances in the multilateral rules.

The Uruguay Round achieved a lot, but the list of unresolved international trade issues is still long. Further liberalization is needed in such key areas as agriculture and services. Discussions on trade rules will continue. As border protection declines, attention is shifting to nonborder policies that affect competition in international trade. Environmental issues and labor relations may give rise to new trade conflicts. The multilateral approach in discussing these issues remains important for smaller countries because it allows them to make their voices heard in the face of power-based actions by larger countries. This advantage, coupled with the concrete benefits arising from the Uruguay Round, are likely to make membership in the World Trade Organization especially attractive to economies in transition.

Piritta Sorsa
Department of International Economics, the World Bank

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**Quotation of the Month:** “The Most Recent G-24 Scoreboard Estimate Vastly Exceeds the Assistance Actually Delivered to Date”

Robert L. Hutchings Suggests Changes in Western Assistance Strategies

Since the inception of the Support for East European Democracy (SEED) Program, the U.S. assistance effort has passed through three main phases.

*In 1989 and 1990, the priority was on “targets of opportunity,” with a premium on getting programs up and running as quickly as possible. It was politically essential to do so—to show U.S. engagement and support at that critical moment.*

*In 1990 and 1991, the United States put in place the “building blocks” of the program: the American enterprise funds, dozens of partnership programs, and large regional contracts in areas such as privatization assistance. Although more systematic than phase one, the stress was still on speed and flexibility of delivery.*

*Beginning in 1992, the United States worked out, in close consultation with each government in the region, detailed country strategies that set priorities, established objectives, and lent greater predictability and transparency to the U.S. assistance effort.*

The particular strengths of the U.S. program have been its reliance on grant assistance, rather than on loans or lines of credit, its speed and flexibility, its success in building public-private partnerships... [and] its organization under the direction of the then-Deputy Secretary of State. The U.S. program involves some eighteen separate agencies, each providing unique perspectives and expertise, under the overall coordination of the Department of State.

**Improved international coordination is becoming more critical.** The Group of 24 countries (G-24) has proved useful as a forum for assessing progress in eastern Europe, reinforcing conditionality and setting priorities, but it has not supplied the kind of strategic coordination of assistance envisioned at its inception. The haphazard nature of Western approaches was acceptable during the initial phase of the postcommunist transitions, when central and eastern European governments were disorganized and when a degree of experimentation was inevitable, but the continuing duplication of effort and competition among G-24 countries is now proving unacceptably costly for central European governments whose own reform programs have become more sharply focused. Rather than create yet another

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**Where the Money Goes**

(assistance commitments to Eastern Europe, 1990-92, in billions of dollars)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovenia*</td>
<td>$0.2</td>
</tr>
<tr>
<td>Estonia</td>
<td>$0.5</td>
</tr>
<tr>
<td>Latvia</td>
<td>$0.6</td>
</tr>
<tr>
<td>Lithuania</td>
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<tr>
<td>Albania</td>
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</tr>
<tr>
<td>Bulgaria</td>
<td>$3.2</td>
</tr>
<tr>
<td>Yugoslavia*</td>
<td>$4.4</td>
</tr>
<tr>
<td>Romania</td>
<td>$6.2</td>
</tr>
<tr>
<td>Multi-country Aid</td>
<td>$7.4</td>
</tr>
<tr>
<td>Czech R./Slovakia</td>
<td>$8.4</td>
</tr>
<tr>
<td>Hungary</td>
<td>$12.6</td>
</tr>
<tr>
<td>Poland</td>
<td>$25.3</td>
</tr>
</tbody>
</table>

*former Yugoslavia, except Slovenia

Source: G-24, Commission of the European Union.
International bureaucracy, the best solution may be to focus on limited but sharply defined areas in which coordination is most urgently needed: improved, strategic coordination among the major bilateral and international donors, and strengthened operational coordination "on the ground" for major projects involving multiple donors.

There is an urgent need for a one-time infusion of support for the countries neighboring the former Yugoslavia, whose efforts toward building stable democracy have been dangerously jeopardized by the effects of sanctions against Serbia (and before that, Iraq). U.S. humanitarian aid to Bosnia in 1993 totaled more than $400 million; a similar amount for neighboring countries could avert a widening of the conflict and avoid even greater costs later.

Western assistance needs to meet still-rising needs in central and eastern Europe. Based on their evolutions to date, it appears likely that assistance needs will remain roughly constant (albeit with shifting emphases) for the more advanced countries of central Europe for another two to three years, followed by a gradual phasing down. The needs of the rest of the region are much harder to forecast, but it is clear that they will continue to rise before tapering off, with the net result that it will be some years before the overall assistance needs in the region diminish substantially. Meanwhile, U.S. assistance to central and eastern Europe remains at the 1990 level of $400 million a year, roughly the amount the United States once spent on Costa Rica alone. Originally intended for three countries in central Europe, the assistance is now being stretched to cover more than a dozen countries from the Balkans to the Baltic, with a combined population of some 135 million. Other G-24 countries have not done much better: The most recent G-24 "scoreboard" estimate of nearly $50 billion vastly exceeds the assistance actually delivered to date.

Assessing how much is enough is a subjective business, but the minimum requirement would be a doubling of total Western assistance, to be sustained at least through the end of the decade. This would allow sustained support for the more advanced countries of central Europe while also meeting rising needs in the Balkans and the Baltic states.

Western assistance needs to be embedded in a larger strategic plan for integrating central and eastern Europe into the larger democratic community. The two most crucial steps in achieving this integration would be a firm commitment by the European Union to accession by the new democracies of central Europe, according to a clear timetable and set of conditions; and similar efforts by the North Atlantic Alliance to infuse the "partnership" program with substantive content, airming toward eventual full membership by these same countries (leaving aside for now the possibility of additional new members at some future date). For NATO, such a goal need not and should not be publicly stated, lest it generate an unwanted backlash farther east.

Renewed commitment to the success of the new (or aspiring) democracies of central and eastern Europe is not the only task facing the Western community in the post-Cold War world, but it is among the essentials and is integral to a grand strategy for achieving a secure new order. It does not require an unacceptable investment of leadership or resources. For all the difficulties these countries face, conditions are much more auspicious than in 1945 or 1919. There is no large external threat on the near horizon. A prosperous, democratic, and integrated western Europe is a magnet and point of reference. The United States has not retreated across the ocean. There is a functioning, if sluggish, global economy. European and transatlantic institutions, to which these countries can adhere, already exist. Virtually all the countries of the region are oriented toward building secure democracy (albeit with differing levels of commitment and capacity)—and many have already achieved substantial success. It would be a bitter legacy of the long struggles of this century if we failed to address the "Eastern Question" when there finally seems to be an answer to it.


Where the Money Comes From
(Assistance commitments to Eastern Europe, 1990-92, in billions of dollars)

| Source: G-24, Commission of the European Union |  
| The G-24' |  
| Macroeconomic financial assistance | 16.5 |
| Official export credits | 13.9 |
| Economic restructuring assistance | 9.8 |
| Nonspecified official support for private investment | 5.4 |
| Emergency assistance | 2.6 |
| International Monetary Fund | 2.2 |
| World Bank | 9.5 |
| European Bank for Reconstruction and Development | 8.4 |
| TOTAL | 57.0 |

*Group of world's twenty-four richest industrial nations.
Conference Diary

For the Record

**Russian Institutional and Economic Change**

January 27, 1994, College Park, Maryland

A luncheon seminar, sponsored by the Central European Russian Area (CERA) Forum and the Center for Institutional Reform in the Informal Sector (IRIS), with Sergei Glaziev, recently elected to the Duma in Russia and now head of the Economic Policy Committee as featured guest. Formerly the minister for foreign economic relations in the Yeltsin government (he resigned in October 1993) Glaziev said that despite massive hyperinflation, only fifty firms in all of Russia went bankrupt in 1993. Reasons include:

- The spread of new banks associated with, or established by, firms. The banks provide credit to their owner-enterprises and increase pressure on the government to soften monetary policy and offer more cheap credit. Because of the constant availability of credit, there is no competition for inputs.
- Without real incentives to find cheaper inputs, most firms remain tied to their old industrial contacts—regardless of price. The outcome is hundreds of small monopolies, each riddled with inefficiency. About 60 percent of Russian firms get 70 percent of their inputs from a single supplier, and 30 percent of Russian firms use just one supplier to provide 90 percent of their inputs.
- In the absence of a strong central government, local and regional authorities insist that firms provide for the social infrastructure, housing, power, telephone service, and public transportation for the surrounding community. These arrangements are informal and are enforced by the threat of unleashing local criminal elements against the firm’s managers.

Information: The CERA Forum, Center for International and Security Studies at Maryland/School of Public Affairs, University of Maryland, 4132 Van Munching Hall, College Park, MD 20742, tel. (301) 405-7687, fax (301) 403-8107, e-mail: cera@puafmail.umd.edu.

**Credit Guarantee Schemes for Small and Medium Enterprises [SMEs] in Poland**

March 21-22, Warsaw, Poland

The meeting, coorganized by the OECD/ILE Program and the PHARE PIL, will focus on the particular organizational, legal, and conceptual dilemmas that have been encountered in the first Polish Guarantee Schemes, and ways to solve them. It will bring together Polish practitioners and finance specialists working in OECD and developing countries.

Information: Martin Forst, OECD, Initiatives for Local Employment Creation, tel. (3314) 524-9170, fax (3314) 524-9098.

**Social Protection and the Enterprise in Transitional Economies**

March 25-26, Vienna

International conference organized jointly by the Centre for Economic Policy Research (CEPR) and the Institute for Advanced Studies in Vienna, sponsored by the EU. In the transition economies, historically, enterprises were an important delivery vehicle for the administration and financing of programs for social protection. In most cases (such as for health care) this was through systems mandated by the State. There were also many nonmandated roles of social protection initiated by firms in response to labor market conditions (Eastern Europe’s fringe benefits).


Forthcoming

**Government and the Media in Countries of the Former Soviet Bloc**

April 10-12, Washington, D.C.

International conference, sponsored by The American University, School of Communication, in cooperation with the Freedom Forum, on how the news media is being reshaped and rebuilt in the region. In several countries, governments continue to view the media, especially television, as primarily a means of serving the state’s interests or political objectives. Control of principal broadcast operations remains in government hands. Conference topics include: Media Economics and Business Management; Judging Government’s Current Role in the Region’s Media Affairs.

Information: Mr. John T. Trattner, School of Communication, The American University, tel.: (202) 885-2068, fax (202) 885-2099.

**Sixth World Bank Conference on Development Economics**

April 28-29, Washington, D.C.

Organized by the World Bank, inauguration by President Lewis T. Preston, with keynote address by vice President Michael Bruno on development Issues in a Changing World: New Lessons, Old Debates, Open Questions. One major theme “Transition in Socialist Economies” includes Macropolicies in the Transition to a Market Economy: A three Year Perspective (Leszek Balcerowicz and Alan Gelb, Anders Aslund, Janos Kornai) Russia’s Struggle with Stabilization (Jeffrey Sachs, John Williamson, Maxim Boycko); Establishing Property Rights (Andrei Shleifer, Oliver Blanchard, Roman Frydman); Chinese Reform Experience with State and Collective Enterprises (Thomas Rawski and Gary H. Jefferson, Nicholas Stern, Shahid Burki).

Global Countertrade: Strategy and Implementation May 8-11, Philadelphia

This conference sponsored by the American Countertrade Association will be the third biannual meeting of the countertrade organizations of the world. Information: ACA, 121 S. Meramec Avenue, #1102, St. Louis, Missouri, 63105-1725, tel. (314) 727-5522, fax (314) 727-8171.


This conference, hosted in May 1994 by Georgetown University, will deal with the critical issues facing transitional economies, drawing from the Latin American experience, but focusing on lessons that are relevant to previously centrally planned economies, PCPEs. Academicians and policymakers of national and international renown will be selected for debate and discussion. The conference will be organized around three issues: privatization; monetary control and financial institutions; and safety nets and labor markets. Information: Pew Economic Freedom Fellows Program, 1304-36th Street, N.W., Washington, D.C. 20007, tel. (202) 687-5277, fax (202) 687-5288.

Business and Investment Opportunities in Vietnam: Asia’s Next Tiger May 19-20, Washington, D.C.

International conference organized by the World Economic Development Congress with the participation of Vietnamese government officials. Features of the conference will include discussion sessions on: Possibilities for Local Financing; Analysis of the Five Top Business Sectors; How to Set Up a Local Office—Quickly and Cost-Effectively; The Future of the Banking System in Vietnam; Benefiting from the New Foreign Investment Laws; Protecting Your Intellectual Property; and Patents and Trademarks. Information: Ms. Ellina Tsirelson, World Economic Development Congress, 1000 Winter Street, Suite 3700, Waltham, MA 02154, tel. (800) 767-9499 or (617) 487-7900, fax (617) 487-7937.

Ukraine in Transition: Reforms, International Relations, Ecology May 23-27, Odessa, Ukraine

Second Congress of the International Ukrainian Economic Association. Calls for papers (to be delivered in Ukrainian, English, or Russian.) Information: V. N. Bandera, Economics Department, Temple University, Philadelphia, PA 19122, tel. (215) 204-5039, fax (215) 204-8173.

Contemporary East European, Russian, and Eurasian Education: Common Legacies and the Struggle for Reform June 15-18, New York

This conference is organized by the Association for Slavic and Eurasian Educational Research (ASEER), in cooperation with the Institute on East Central Europe of Columbia University and the education section of the Deutsche Gesellschaft fur Osteuropakunde. ASEER, a new, international professional working group based in the U.S., is dedicated to fostering comparative and collaborative research and policy analysis on East European, Russian, and Eurasian education. Conference themes include: new information technologies for educational research and exchange; new approaches to the history of East European, Russian, and Eurasian education; the effects of Sovietization on national education systems; attempted education reforms since 1989 (or 1991); the revival and use of comparative and international education studies in the former Soviet bloc; and the role and prospects for Western technical assistance and cooperation in fostering education reform. Information: Mark S. Johnson, ASEER, 246 Hawthorne Street, Memphis, Tennessee 38112, tel. (901) 272-0083, fax (901) 726-3718.

The Economy of Defining Economic Democracy after the Cold War June 16-18, Portoroz, Slovenia

Seventh Conference of the International Association for the Economics of Self-Management (IAFESM). Papers dealing with workers participation, self-management, and economic and industrial democracy are welcome, (from the perspectives of economic theory, institutional and historical studies, experience in Central and Eastern Europe, and experience in developed and developing economies.) Information: Vice president Milica Uvalic, IAFESM, Borgo Santa Croce 17, 50122 Florence, Italy.

Environmental Economics and Policy Analysis Workshop June 27-July 29, Cambridge, Massachusetts

The Harvard Institute for International Development announces its annual workshop to be held at Harvard University. Policy issues considered at the workshop will include forest management, watershed protection, soil conservation, water pricing, energy efficiency, industrial pollution, urban congestion, land tenure, pesticide management, fisheries, structural adjustment and trade liberalization, biodiversity, and global climate. Information: Dr. Theodore Panayotou, Program Director, Harvard institute for International Development, One Eliot Street, Cambridge, MA 02138, tel. (617) 495-9173, fax (617) 496-3956.
30 percent to $104 billion, while exports grew only 8 percent to $92 billion. Chinese imports in January 1994 exceeded imports for January 1993 by 42.3 percent, further widening China's trade deficit. (The economy grew by 13 percent in 1993.)

Uzbekistan's President Karimov decreed the formation of a state committee for property management to pursue a "unified mixed economy policy" in the country. The committee is also expected to negotiate foreign investment and manage protection of the ownership rights of foreign corporations.

Ukraine's government should issue 10 trillion karbovanets ($790 million) in credits to ease debts between state enterprises, warned Deputy Prime Minister Valentyn Landyk. The country needs hundreds of millions of dollars in fresh credits to escape a severe payments crisis threatening to cripple its industries and deepen energy shortages. Debts between Ukrainian enterprises almost tripled to at least $3 billion in January 1994 when inflation ran at a monthly rate of 119 percent and 300 major enterprises—a third of the Ukrainian total—shut down, Viktor Yuschenko, the central bank chairman, reported to the Ukraine Parliament. Yuschenko also said capital flight from Ukraine totaled $18 billion over the past two years.

On the energy front, the Russian gas company, Gazprom, has repeatedly reduced gas supplies to Ukraine because of Kiev's failure to pay for gas imports. Ukraine's gas debt to Russia is reported to be more than 1 trillion rubles. In total, Russia is owed 3.6 trillion rubles for its gas by Ukraine, Moldova, and Belarus. And officials in Turkmenistan, another source of Ukraine's gas imports (about 35 percent), claim that Ukraine has paid only $3.4 million of a debt of $154.1 million for gas supplied in 1994 alone. Bills from 1993 also remain unpaid.

General Motors Europe and the Russian Automobile Alliance are expected to form a joint venture to manufacture a new model of passenger car at Tolyatti. The factory, estimated to cost some $3 billion, will produce up to 300,000 units a year by 1997. (The basic production model will be the latest version of the Opel "Corsa.") Total output of passenger cars in 1993 was reported to be 956,000 units, but production fell sharply in January 1994 when AvtoVaz virtually closed down because of arrears in payments and shortages of components.

A decline in the populations of most CIS states was predicted in mid-February by the CIS statistics committee. The total population in the CIS member states will be 279.1 million by 1995, and 281.5 million by 2000. In 1993 the population was 278.4 million. Rates of population growth for the entire CIS area will continue to drop. While the population grew annually by 2 million in the 1980s, it will only increase by 900,000 in the first half of the 1990s and by only 500,000 in the second half of the decade. By 2015 the populations of Moldova, Belarus, and Ukraine will be "the oldest" among the CIS states, with old people constituting 20 to 23 percent of their populations.

Western creditor governments have granted Russia a four-month extension of last year's major debt rescheduling accord. The nineteen Paris Club creditors agreed to extend to the end of April 1994, on identical terms, the 1993 accord that called for a rescheduling of about $15 billion of principal and interest due last year. The extension might ease Russia's debt-service burden by between $2 billion and $3 billion during the first four months of the year. The creditors consider this a short-term measure.

Russia will introduce new tariffs on practically all imported products on March 15. The new import tariffs for consumer goods and industrial products will average 7.5 to 15.0 percent, and those for agricultural products 20.0 percent. The tariffs are temporary and may be reduced in September, according to the government's Operative Committee.

Effective March 1, in Russia's minimum capital requirement for new commercial banks will be raised from its present 100 million rubles to 2 billion rubles, central bank's deputy chairman Dmitrii Tulin announced. Existing banks have until January 1995 to increase their capital to 2 billion rubles.

Some revised tax rates for Russia, effective January 1, have been set out in Rossiiskaya Gazeta January 29. The profits tax has been raised from 32 percent to 35 percent, of which 13 percent will be allocated to the republican budget and 22 percent to the budgets of the components of the federation. Tax concessions for small enterprises have been expanded. An additional special tax of 3 percent is to be levied, like a value-added tax, for the support of priority sectors of the economy, and a transport tax of 1 percent will go toward financing the development of road and rail transport.

Russia's Finance Ministry announced plans to borrow $6.3 billion abroad in 1994, including $2.5 billion from international financial institutions. The ministry report said Russia planned to pay $6.4 billion in debt service this year. Economics Minister Alexander Shokhin said the most optimistic projection for the 1994 budget deficit was 7.0 percent to 7.5 percent of GDP. The Russian budget for 1994 foresees income at an estimated 118 trillion rubles (about $75 billion). Expenditures, originally planned for 243 trillion rubles, have been cut to 174 trillion rubles. Of the projected deficit of 56 trillion rubles, 37 trillion will be covered by central bank credits and 19 trillion by foreign credits. It is still hoped that the monthly inflation rate can be brought down to 10 percent by the end
of 1994. Russian central bank deputy chairman Aleksandr Khandruyev has confirmed that the consolidated budget deficit in 1993 was 24.6 trillion rubles, appreciably higher than the figure of 17.0 trillion rubles previously given by the Russian government, meaning that the deficit was equivalent to 14.4 percent, rather than 10.0 percent, of the GDP.

Acting Russian Finance Minister Sergei Dubinin announced that payments appear in the fuel and energy complex have risen to 16 trillion rubles. This is in addition to the more than 22 trillion rubles (about $14 billion) owed by the state to industrial enterprises. The crisis of non-payment has led to closures and reduced operations at enterprises throughout the economy and was largely responsible for the sharp drop in output recorded in January 1994. Dubinin offered three proposed solutions: a massive extension of credits (but this would fuel inflation); the introduction of promissory notes—if these were not honored, bankruptcy proceedings against the debtors could be initiated; or appropriation of part of the revenues of defaulting enterprises, to be transferred to tax collectors, suppliers, and the enterprises' workers. Although bankruptcy proceedings have been authorized for nearly one year, they have rarely been applied. More than 8,000 enterprises are "legally" insolvent, but only eight firms had been ruled as bankrupt by the end of 1993. The principal reasons for the slow implementation of bankruptcy legislation are the political unacceptability of massive, open unemployment, the lack of an effective social safety net, and the fact that many unprofitable enterprises provide kindergartens, clinics, and the like, that would be lost if the plants' were closed.

Russian First Deputy Prime Minister Oleg Soskovets noted that with the ruble not depreciating in line with domestic cost inflation, the prime cost of producing a ton of oil has reached $192 as compared with a selling price of $88 on the world market. (The prices of many energy carriers were freed from central control in 1993, but remained under the influence of regional authorities.)

The average salary of a head of a scientific laboratory or institute in Russia is now only 65,000 rubles a month. This puts scientists' salaries only slightly above the official subsistence level of 50,000 rubles a month, disclosed biology Professor A. Akifev in a letter published February 3 in Sovetskaya Rossiya. (About a quarter of the Russian population now lives below the subsistence level, according to Russian sources.)

"Russia's privatization program is now irreversible," reported Deputy Prime Minister Anatoly Chubais, who added that by the end of 1994, 70 percent of small businesses will be in private hands. Some 11,000 of the country's 14,500 large and medium-size businesses have been transformed into joint stock firms, according to Chubais. (Some 7,000 major firms were already in the private sector.) Roughly 110 million Russians have invested their privatization vouchers, and voucher privatization is expected to be completed by July 1994, Chubais said.

The real level of unemployment in Russia is more than 10 percent, whereas the official level is given as 1 to 2 percent, according to the latest study by the International Labour Organization (ILO) on unemployment in Russia, released on January 31. "Only 16-17 percent of those without jobs in urban areas even bother to register because the process is so difficult, the benefits are too small, and the process gives almost no help in finding a new job." The ILO's recommendations include centralizing of the unemployment system to eliminate inequities and transferring the provision of social benefits from enterprises to local authorities.

The G-7 countries plan to hold a ministerial summit in Poland at the end of May. The focus will be on the role of the Central European countries in the world economy, along with GATT and other...
trade issues. U.S. Commerce Secretary Ron Brown, who proposed the summit, also announced that the United States has designated Poland as one of its ten major emerging markets (a list that includes India, Indonesia, and Turkey, but not Russia) as part of a new strategy to encourage exports. The Sejm's recent adoption of a long-delayed copyright protection law has removed important obstacles to U.S. investment in Poland, Brown said.

Kazakhstan, Kyrgyzstan, and Uzbekistan took the first step in setting up a previously agreed-on Central Asian economic union on February 1 by removing customs on the common borders of the three countries. Although attempts to set up a Central Asian common market have had little effect, the current effort appears to have a greater chance of success because of its more limited initial focus on a customs union.

Wealthy nations gave Eastern Europe and the states of the former Soviet Union (FSU) less real aid in 1992 than in 1993, despite promises of largesse from Western politicians, according to the Organization for Economic Cooperation and Development (OECD). In a report published in February, the OECD said its twenty-four rich member states gave Eastern Europe and the FSU $8.1 billion in official aid compared with $7.8 billion in 1991. After accounting for inflation, this represented a real decline in aid of 3 percent.

The European Bank for Reconstruction and Development (EBRD) intends to increase its staff in Eastern Europe and the FSU by about half in an attempt to bring its services closer to potential clients as part of a decentralization effort being implemented by EBRD President Jacques de Larosiere.

Central European trade officials signed an agreement to speed up trade liberalization among their four nations and create a free trade zone by January 1, 1998. The agreement was signed by representatives of Hungary, the Czech Republic, Slovakia, and Poland. It reduces from eight years to five the period over which tariff and nontariff barriers for manufactured goods are to be lowered or abolished.

Poland recorded GDP growth of 4 percent in 1993, Poland's Statistical Office (GUS) confirmed on January 28. Industrial production was up 6.2 percent, but still below figures for 1989 and 1990. Industrial firms' finances improved, showing 3 zloty in profits for every 1,000 zloty of turnover, well ahead of the 15 zloty in losses recorded in 1992. Housing construction collapsed, however. Agricultural production rose 2.2 percent. Prices rose 35.3 percent, an average of 2.7 percent a month. Although the purchasing power of wages declined 1.8 percent and of pensions, 2.6 percent, consumption rose 6 to 7 percent in 1993, as the public borrowed or drew on savings. The budget deficit of 43.8 trillion zloty (just over $2 billion) was 54 percent less than the planned 81 trillion zloty. In the first nine months of the year, the trade deficit had reached $3.5 billion. Imports rose by 47 percent, and exports by 24.1 percent.

Poland's lower house of parliament, the Sejm, approved on March 5 the budget drafted by Prime Minister Waldemar Pawlak's coalition cabinet. The budget allows for a deficit of 83,000 billion zlotys (to 3.7 billion), or about 4.1 percent of projected GDP. Spending on education, culture, and social welfare will be raised by 3 trillion zlotys (including 500 billion zlotys to promote investment in areas threatened with high unemployment); revenues will be raised by similar amount. Prime Minister Pawlak pledged to revise the budget after the second quarter if the growth and inflation rates remain constant.

Unemployment in Poland rose to nearly 3 million in January and now stands at 16 percent. Opinion polls show that fear over job security is a serious popular concern, particularly among skilled workers. More than 51.6 percent of the unemployed do not have the right to benefits, while 25 percent admit to working in the "grey economy."

The Polish cabinet has approved draft legislation designed to impose new wage controls on state firms. In December the Sejm ignored government pleas and voted to abolish the existing "tax on excess wages" (popiwek) by the end of March; since then, many firms have simply ceased paying the tax. The cabinet has given the new draft an "urgent" tag in order to put new limits in force by April 1. Firms without debts to the state treasury will be able to choose among four methods for setting wage levels; indebted firms will face a government-imposed limit. The bill will affect 5,600 firms employing 1.8 million people.

Meeting in Prague in early February, the economic ministers of Hungary, the Czech Republic, Slovakia, and Poland, agreed to speed up by three years the implementation of their Central European Free Trade Agreement (CEFTA). The declaration signed by the ministers calls for liberalizing trade among the four Visegrad countries within the next five years. CEFTA had previously called for the liberalization of trade within eight years.

Of 5.4 million Romanians entitled to farmland seized by communists forty years ago, only 740,000 have received deeds to date, according to the Agriculture Ministry. The ministry said the effort has been hindered by a money shortage and insufficient staff to measure plots, but it also blamed local officials for abuses such as favoring friends or issuing deeds that don't specify sites. Many state-owned farms remain intact.

During its mid-February session the Slovak parliament approved amendments to the large-scale privatization law breaking ties between the cabinet and the National Property Fund (NPF) and ending the terms of the current members of the NPF Presidium and Supervisory Board. The NPF's income and expenditures will be separated from the
Transition state budget. Members of the new pres- sidium and supervisory board will be elected and dismissed by the parliament. In Eastern Europe’s first electricity privatization, Hungarian authorities cleared the way for foreign groups to acquire up to 100 percent of the country’s regional power distribution companies and conventional power stations.

The Budapest Stock Exchange’s index rose by 58 percent in January. The new high level was achieved mainly through a substantial inflow of foreign capital into the Hungarian market. At the same time, the Crédit Suisse First Boston investment company announced the launching of a $200 million fund that is to become active on the stock exchanges of Budapest, Prague, and Warsaw.

Bulgaria has returned 47.7 percent of the land confiscated under communism to its original owners and hopes to transfer the rest by the end of this year, the Agriculture Ministry reported. The Bul- garian parliament is currently considering its 1994 budget. A 6.7 percent budget deficit and a 35 to 40 percent annual inflation rate are envisaged in the present draft.

Albania’s gross domestic product rose in 1993 for the first time since the end of communism in 1990, expanding by 11 percent in real terms.

*We appreciate the contributions from the RFE/RL Research Institute.*

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**World Bank/IMF Agenda**

**$300 Million Road Loan to Russia**

On February 17, the World Bank approved a $300 million loan to Russia in support of a three-year, $340 million project aimed at upgrading deteriorating roads and bridges. The Russian government is cofinancing the project with $35 million, and the U.S. Federal Highway Administration with $5 million. The Bank’s loan is also designed to help introduce competitive bidding and privatization into the road construction industry in Russia. Russia boasts more than 450,000 kilometers of paved roads, but as a recent Russian study showed, because of poor care and dwindling road funding more than 60 percent of Russian roads urgently need repair, or at least thick overlays. The new project marks the first Bank loan to a transporta- tion sector in a country of the former Soviet Union.

**IMF Moves Ahead on ESAF**

The IMF’s Executive Board has given the go-ahead to the $9.6 billion Enhanced Structural Adjustment Facility (ESAF). The replenished ESAF consists of two parts: a $6.3 billion capital account for loans to the world’s poorest nations and a $3 billion subsidy account that subsidies the credits. (Loans under the ESAF to be provided to low-income members to finance three-year reform programs will continue to carry an annual interest rate of 0.5 percent, repayable over ten years with a five-and-a-half-year grace period. Armenia, Georgia, Kyrgyzstan, Tajikistan, and the FYR Macedonia have been added to the list of ESAF-eligible IMF members, which also includes Al- bania, Angola, Cambodia, China, Ethiopia, Laos, Madagascar, Mongolia, Mozambique, Tanzania, and VietNam—altogether a total of seventy-eight nations.

**$100 Million to Hungary for Power Generation**

A $100 million World Bank loan to Hun- gary, approved on February 18, will support a five-year, $242.5 million energy and environment program to upgrade the country’s power-generating capacity and improve its energy management systems. The project includes the construction of a new gas-burning power generator of 235 MWe and 240MWt at the Dunamenti Power Plant. Besides new equipment and training, the money will help establish stronger energy-related environmental safeguards. The loan is for fifteen years, with a five-year grace period, and has a variable interest rate (at present 7.27 percent).

**New IDA Credits Help Agriculture in China**

The International Development Asso- ciation (IDA), the World Bank affiliate for concessionary lending, is providing a $205 million credit to support agriculture on the Songliao Plain in northeastern China. A further $382.3 million of concessional credit will raise the incomes of some 518,000 poor farm families on the plain: improvements in irrigation, drainage, and soil conservation, the development of 15,000 hectares of low-lying wastelands for shrimp, shellfish, and river crab production, and support for fourteen agroprocessing plants (including an apple juice plant, a wild mushroom processing plant, and a sesame oil plant) are expected to generate about $188.3 million in added revenue each year.

Another $150 million IDA credit will help finance the development of productive small farms in the red soils area in southern China (more than 52,000 hectares of land). The average annual per capita income of about 67,000 households in this region will triple from the present average of $95. (China’s average annual per capita income of $370 makes it eligible to borrow IDA funds.)

The World Bank last year committed $2.9 billion to various projects in China, the largest increase in a year since the country reentered World Bank membership in 1985. The Bank has provided a total of $16.9 billion for 131 projects in China, according to the Chinese Minis- try of Finance.
New Books and Working Papers

The PRDTE unit of the World Bank regrets that it is unable to supply the publications listed.

World Bank Publications


Using a sample of eighty countries in the 1980s, this paper distinguishes between two types of factors that explain variations in income inequality. One type of factor—per capita income level, for example, or regional heterogeneity—is not influenced by economic policies, at least not in the short term. These factors are included in the standard formulation of the Kuznets’ curve. From the economic policy perspective, these are given factors that result in a given inequality. On the other hand, the social-choice type of factor—say, size of social transfers and of state sector employment—is the result of deliberate decisions by a society to mitigate inequality and is not included in the Kuznets’ curve.

As the income level of a country rises, its social-choice factors become increasingly important. As a society develops the divergence widens between actual inequality and the inequality predicted by the standard Kuznets’ curve. Inequality in affluent societies is less, not only because of economic factors, but also because these countries deliberately opt for less inequality.

To order: Mr. Chris Rollison, World Bank, Rm. N11-029, tel. (202) 478-4768.


The Czech (and Slovak) mass privatization program transferred claims on assets worth about $10.7 billion in 1,491 enterprises to 8.5 million participating citizens. This was equivalent to daily privatization of three large or medium-size enterprises. The entire cycle of project preparation, public information, and nationwide bidding took fourteen months. Equity objectives were achieved by transferring equal claims—equivalent to about $1,250 per person—to all participants and by putting in place a transparent and decentralized process.

The government’s role was to provide a framework and a set of rules for potential firms, managers, and shareholders to find and deal with each other. Simultaneous, sequential bidding rounds enabled bidders to gather information and interact. During bidding, shareholdings became more concentrated in the Czech enterprises, and more diffuse in those in Slovakia. In both countries, the higher the bids were, the more concentrated the ownership structures became. As a result, enterprises could be evaluated according to their future prospects. But enterprises that could have survived in some form, had they been restructured before privatization, were sacrificed to speed the decentralization.

To order: Ms. Anita Correa, World Bank, Rm. H11-105, tel. (202) 473-8549.


Banking reforms need to be integrated into an economywide strategy to improve resource allocation. Russia would benefit from cutting back government subsidies and other transfers, especially to the enterprise sector, and using instruments that do not interfere with the price system. New institutions and laws should clarify, guarantee, and enforce property rights. Currently, the unstable macroeconomic situation impedes the development of the banking system. The proposed strategy for banking reform has three main policy components:

- Phasing out directed credit
- Improving the soundness and efficiency of the commercial banking system by creating a new tier of good banks
- Restructuring the large specialized banks.

(Report also contains recommendations on how to upgrade Russia’s banking sector infrastructure and how to finance investment, housing, and agriculture.)


The newly, revised System of National Accounts (SNA) offers a comprehensive method of accounting for what happens in virtually any economy in the world today. During the past decade, dozens of experts from a special interagency group of the World Bank, the IMF, the UN, the OECD, and the EC collaborated on revising the SNA. (More than 200 experts from around the world either contributed to or commented on the new SNA.) First intro-
duced fifty years ago, the system served as a method of recording the various stocks and flows in economies; it has since become the main accounting framework used in economic analysis. The system was last revised twenty-five years ago. Today’s SNA has gained new life from the end of the Cold War and from the decision by most transition economies to shed their old accounting systems in favor of the SNA. The system can be used to compare economic data across almost all countries. It addresses such issues as how the depletion of natural resources and the costs of environmental degradation should be measured in assessing an economy’s size.

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CEPR Discussion Papers


The great majority of east Germany’s state-owned enterprises have been privatized and are now genuine capitalist firms with owners. Meanwhile, eastern Germany has been deindustrialized, with employment in mining and manufacturing falling to one-quarter of its preunification level. The Treuhandanstalt privatization agency, even though it was required to take into account the shadow price of labor in its privatization negotiations (employment subsidies were offered to prospective purchasers), nonetheless carried out large-scale labor shedding of labor prior to privatization (using the market wage). The agency had little choice given its mandate to privatize Treuhand enterprises rapidly. The focus on corporate governance and the policy of selling to “competent outsiders” diverted attention from the possibility that such a policy would not guarantee the retention of a minimum core of industrial activity. Late in the day, the Treuhand recognized that greater use had to be made of economies of scale in management and control to achieve the forward-looking restructuring of its remaining portfolio.


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WIW Papers


To order: Vienna Institute for Comparative Economic Studies, P.O. Box 87, A-1103 Vienna, tel. (431) 782-567, fax (431) 787-120.

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Institute for World Economics


Hungary’s Association Agreement with the European Communities, RRT no. 18, 1993, 20 p.


Privatization of the Hungarian Services Sector, RRT no. 27, 1993, 18 p.


The Transition from Internal to External Currency Convertibility, RRT no. 15, 1993, 17 p.

To order: The Institute for World Economics, Hungarian Academy of Sciences, 1124 Budapest, Kálo esperes u. 15., 1531 Budapest, P.O. Box 36, Hungary.

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Lithuanian Institute of Agrarian Economics


To order: Publications Secretary, Center for Agricultural and Rural


To order: Institute of Economics, Latvian Academy of Sciences, Turgeneva 19, Riga LV-1524, Latvia, tel. (3712) 222-830, fax (3712) 228-784.


*Other papers of the Transit Club Series, 1993:
Debt Management, Exchange Rate Policies and Convertibility of the Forint, no. 1.
Unemployment in Hungary, no. 2.
The Macroeconomic Dilemmas of Transition, no. 3.
Will Hungary Get Latin-Americanized? no. 4.
Chances for Hungarian Agriculture, no. 5.

To order: Budaorsi ut 45, H-1502 Budapest, P.O. Box 262, tel. (361) 185-0777, fax (361) 185-1158.

New Books:

This book, the result of a recent research project cosponsored by the World Bank, focuses on the former Soviet Union’s oil, natural gas, and coal resources; compares the impact of various reform outcomes; and projects the production, consumption, exports, and foreign exchange revenues to the year 2005. The FSU’s oil and coal production probably will remain well below the historical peak. But the natural gas sector is capable of sizable expansion over the long term. (In the medium term, prospects are clouded by inadequate domestic demand, the payment difficulties of key customers, such as Ukraine, and the constraints imposed by existing pipelines.) Given the large reservoir of untapped energy efficiency (estimated at 37 percent of total energy use), market reforms can generate large improvements in energy use.

Oil exports may decline to zero soon because of output contraction and lack of savings in consumption. On the other hand, in the FSU a natural gas “bubble” (excess delivery capacity) could develop, due to falling domestic demand and inadequate expansion of exports. Foreign support to liquidate the gas bubble would strengthen the FSU’s foreign exchange earnings. Such support could involve the financing and construction of new pipelines and the wider opening of the western European markets for FSU gas.

The fluctuations of FSU oil and coal sales would have only a temporary and limited effect on international prices. But FSU natural gas deliveries can play a crucial role in the isolated European market, and supply swings could have a significant impact on prices. The plans of eastern European countries to reduce their energy dependency on the FSU by investing domestically and diversifying imports seem overambitious. Continued imports of FSU fuel seem likely, even without price reductions, given the geographical proximity of the states of the FSU, the abundance of Russian gas, and the costly transport infrastructure that is already in place.
Bibliography of Selected Articles

**Central and Eastern Europe**


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*From the Hungarian magazine Hocipo.*

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**Road sign somewhere in eastern Europe**
Bibliography of Selected Articles (continued)

Africa


CIS and the Baltics


China


Viet Nam


