PRIVATIZATION, 
LIBERALIZATION 
AND 
DESTRUCTION 

Recreating the Market in 
Central and Eastern Europe 

Edited by 
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Comparative Perspectives

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1 Introduction

LÁSZLÓ CSABA

In the current flood of books and articles on the transformation of economic systems it might be just as well to define at the very outset the purpose of the exercise of producing yet another volume on the same subject.

Experiences of the last four-five years have shown transformation to be a much more lengthy and controversial issue than many analysts and decision-makers would have anticipated. The process is both more protracted and socially less accepted than most participants and observers of the change had expected. Thus both at the policymaking and the analytical levels there is a degree of disorientation. The need to elaborate new strategies is widely accepted. We aim at contributing to this task.

The collapse of the external and internal Soviet empire as well as of Yugoslavia and Czechoslovakia have confronted major decision-making centres of the world with dozens of new countries with a plethora of problems resulting from the erosion of the peace systems of Versailles and Yalta. Among the many uncertainties one thing seems certain: there is no return to the bipolar 'normalcy' of the Brezhnev and Gorbachev years. The European Communities - confronted with their Northern enlargement and internal reforms of the Common Agricultural Policy and of the Budget - are in imminent need of elaborating more efficient strategies than their involvement in Yugoslavia was. The United States seems to turn towards its internal problems - health and tax reform, improvement of education, integration of marginal groups, tackling the fiscal crisis - at a time when that country has remained the only military superpower in a multipolar world. Finally Japan, the NICs and Germany have yet to find their role and place in addressing many global problems, one of them being the protracted transformation and the resultant explosive situation in one half of the old continent.
But also in analytical terms it is far from clear how the available analyses of what has gone wrong - if anything - with the post-communist developments. It is consensus view that costs are significantly higher whereas benefits are smaller and primarily less immediate than had been expected by analysts and the societies involved. The danger of "Weltmarization", with the resultant threats in terms of defence, migration and overall destabilization is well recognized by most decision-making quarters. However, the novelty, the multiplicity of the tasks as well as the ambiguous results of previous applied analytical analyses make their answers often belated and retroactive both inside and outside of the transformational area.

In order to improve both understanding and action the European Association for Comparative Economic Studies has been organizing a series of conferences and workshops. The idea is to provide a forum for the multiplicity of views, for concerning analyses, for enabling the comparison of available - often controversial - evidence. Thus this book could not be conceived as a monograph, with a strict structure of analysing issues, which is an option some readers may be less willing to accept than others. This option however allows for a reader to get a flavour of the arguments both in terms of geographical and conceptual diversities which is one of the editor’s chief objectives.

Second, this is not a conference proceedings. Though most of the contributors were attending the second general conference of EACES, organized by its current President, Prof. Hans-Jürgen Wagner in Groningen, The Netherlands on 27-29 Sept 1992, this is a highly selective choice from over 120 papers presented there. Some of the authors were giving different papers, others revised their texts substantially on the basis of discussion, still others contributed separately, without having attended the conference.

By the same token as a third factor I should like to stress: it was not my intention to collect declarations of the faithful, thus those looking for conceptual clarity, 'amplification' will be disappointed. But from my perspective, diversity has a value of its own which seems to have been played down in the first years of the transformation debate, in search of the single optimal trajectory of change.

Fourth, there is hardly any direct policy recommendation in this book. With the current pace of changes it seems not very expedient to make such proposals in books. It is the line of analyses which might be of interest for those who will read it not in the immediate aftermath of production.

Finally, it is not the intention of anybody to have passed the final word in the ongoing transformation debate. What all of us expect is that our analyses, at least in part, will remain of lasting relevance for understanding the complexity of transforming entire macrosystems in a diversity of cultural and historical settings.

Involving the experience of Southeast European nations is meant to serve this objective.

Let us turn the coin and set out positively what this volume is all about! First of all, this is a state of art report, by which readers can have an overview of the level, nature and standing of the transformation debate in and about the region. Second, one may grasp some of the focal points which have crystallized in the transformation debate. To note just one: the question whether or not there is a need to stabilize before transforming the system or vice versa has been settled by experience. The attempts of the Gaidar team to transform a system without stabilizing first ended with a disaster.

understanding of transformation. Given that economics tended to develop in the direction of formalized models over the last few decades, this is in many ways a reversal of the trend. Experience in the countries analysed here have called attention to those cultural, historical, societal factors, which used to be parts of classical political economy but later tended to be relegated to the realm of obscurity, from which standard economic science often abstracted intentionally and conceptually. While openly acknowledging the virtues of the mainstream, the usefulness of our more traditional approach seems to be increasingly accepted by those who have experienced the transforming economies.

Some of the contributors who have themselves been actively participating in transforming one or other economy, like Kádár, Dabrowski, Daimo and Menéndez lay special emphasis to this circumstance.

The volume is divided into four major parts: regional or functional overviews, analyses of Soviet disintegration, individual country experiences and comparative perspectives. My intention is to allow both for the systematic and the selective reader to find what he is after. For the first, some new insights to the theory of transformation will be offered. In this area, in my view some of the conventional questions may have to be re-stated in the light of the findings presented here. For the second group of readers experiences of such less known cases as those of Slovenia, Bulgaria or Romania, or the rather unconventional approaches of Melle or Welfens might be of special interest.

Following the first euphoric months after the capitalist revolution of 1989, the shuttle of public mood has moved to the other extreme of gloom and loss of perspective. Scenarios foreseeing decades-long crises, self-propelling depressions proliferated. This book might be already a step towards a third phase of the transformation debate: that of realistic expectations. If countries can not be put on a new growth path in weeks, or if the market economy can not be created in seven or even in five hundred days, that might not have to be seen as an evidence for the impossibility of the whole task. Latin America, having earned a bad name over the last 15 years, is back on the growth path and also on the international capital markets - with the notable exception of Brazil and some smaller states. This might support the position of those who believe: setting the time horizon right might be equally important as the elaboration of a detailed master plan for the transition. If for no other reason, than for shaping expectations: the latter and the resultant societal reaction might well be crucial in deciding over the feasibility of the entire transformation exercise.

Finally, I should like to express my sincere gratitude to my colleagues, Ms Kataki Légrádi and Ms Erika Rózsás for their devoted assistance in preparing the camera ready version of this book.

László Csaba
Editor
Budapest, 30 March 1993
Commonalities and differences in transformation

LÁSZLÓ CSABA

The purpose of the exercise is to present a summary view of this author by sketching the landscape one may see on the base of analyses collected here.

First and foremost, the inherited bureaucratic systems of Central and Eastern Europe have irreversibly been changed by their ongoing erosion as well as by the policies aimed at transforming the command economy into a free market. Thus, there is no chance of return to the old ways. Even if and when a restoration of some form of authoritarian rule seems quite plausible in some countries, even if the public sector will remain heavy-weight, even if interventionist policies will be implemented, this will nowhere be equal to the restoration of 'real socialism' of one brand or another. The Soviet empire also belongs to history, even if the present lower ebb of the tide will give way to more expansionist policies of Russia in the longer run.

As a consequence of sweeping changes the concept of shortage economy has also lost its explanatory power for current and future developments. In all the transforming economies money can buy commodities, money has become scarce in relation to commodities and not vice versa. This is a fundamental turn which applies even to the Ukrainian interim currency, the karbovanets whose purchasing power is one third of the ailing Russian ruble at the time of writing.

What about Albania and Serbia one may well ask? The answer seems to be straightforward - underlined primarily in the study of Houbenova; as long as the communists are in charge, as long as those striving for a pluralist political and economic order have not legitimised their endeavours by a solid majority won at free elections, it is unjustified to talk about transformation of any sort. This seems to me a relevant point, as previous evidence of decaying socialism has been indicative of the probability of coexistence of shortages with inflation (Gotz-Kozierskiewicz D. et al. 1992) which has only been supported by Russian experience under Gaidar. In these cases it seems to have been premature to talk about transformation, as the political context has not yet allowed for this term.
experiences (Hermann-Pillath, C. 1993). This interpretation seems to be questionable, as in China and Vietnam the purpose of the exercise is not to abolish and transform, but to maintain the one-party rule and the dominance of public property. Thus bold and competent decentralization notwithstanding, plus ça change, le plus la même chose, thus the Asian reform-socialist experience is by definition irrelevant for understanding what is specific about transforming European macro-systems in their entirety, rather than modifying subsystems of a given economic order.

While the different, even divergent nature of the problems of individual countries is amply demonstrated in this volume, it would be difficult to overlook the large number of commonalities in approaches and issues in transition, once the hangover caused by depression and by unfulfilled initial hopes is over.

Commonalities

One of the fundamental features of the transformation is its destructive nature. Although it could be foreseen (e.g. Csaba, L. 1990) there seems to have been a political consensus at the time of changing the regime that the time horizon of transition is rather short. Besides the ignorance of newcomers to the economics of Eastern Europe, there was a mighty political consensus which moulded the naive beliefs in quick recovery. The outgoing socialists had an interest in demonstrating they had bequeathed an economy which was fundamentally in order. In Poland, Hungary, Bulgaria and in part even in Russia they did launch reforms, thus did what they could: all the blame for the foreseeable depression should lay on their successors. And indeed, personalities like Volski, Yavlinskii or the Bulgarian socialists have actually managed to build up political capital along these lines, by playing the card of inevitable disenchancement. Liberal quarters in their majority seem to have allied themselves either directly - as in Poland and Bobemia - or indirectly - as elsewhere - with the concept of shock therapy. One may and indeed can become a convert to this brand of radical social engineering only if one is firmly convinced of the probability of swift changes, provided persons and policies are right. Conventional abstraction from societal and institutional elements have made a fair portion of the economics profession forthcoming to this seductive approach. Finally, conservatives by definition had to be of the opinion, that preserving 'national roots' is possible while radical treatments are superfluous, thus continuity and go-slow policies - pushing economic issues to the background - were feasible only if there was nothing fundamentally wrong with the economy. In this case the right guys in posts of command can actually deliver what is needed to tackle 'more important' - national, historic, cultural - issues.

Well, this consensus proved to be ill-founded. This was illustrated by the dimensions and costs of successful transformation in Eastern Germany (Welfens, P. 1992), which will have medium - to - long - term repercussions for the German federal budget, its debt position and through this on the entire Maasricht process. In the case of Russia, the Ukraine, Serbia and Poland, where the share of defence sector has been disproportionately high in the national economy, a long adjustment crisis has been inevitable. As argued forcefully and convincingly in

Inevitably implies destroying a lot of capabilities and workforce, which means nobody could create effective demand for the kind of services and products in the quantities they used to produce. Moreover, a negative multiplier is bound to be effective for quite some time, spilling over the entire economy (Samuely, L. 1992, pp. 1792-95). The higher we estimate the share of defence-related industries in ex-Soviet GDP, the more severe this adjustment crisis is bound to be. However it might be controversial to interpret it as a crisis of transition (Koves, A. 1992, p.10), as the crisis of the postusoviet years was laying precisely in the fact that nothing has happened in these fundamental structural terms. On the contrary, the decomposition of the military, the related erosion and spontaneous privatization are the first signs that the backbone of the monster have finally been touched by the developments. Therefore it is not infrastructure and civilian consumption alone which carry the entire burden of adjustment, as was the case for over sixty years. If a structure is economically fundamentally nonviable there is no other way of getting from secular stagnation to a dynamic equilibrium than via an adjustment crisis started by destroying the old patterns.

A similar consensus of ignorance seems to have evolved around the issue of privatization. Here again, as argued by several contributors, public opinion seem to have been misled by the debates over the search of the ideal option, the real single way by which privatization could be speeded up and implemented in an equitable manner. Though the superiority of private over public firms is an established fact both in theory and by statistical evidence, this general consideration has a long way to go before it can be operationalized. As Mencinger shows, in the Slovenian case the adoption of radical mass privatization was intimately related to political infights, and was instrumental in the crusade of political redistributors against management whereas economic considerations were relegated to the background. Similarly as Malle and Hrncir explain, there is nothing 'just' about creating a vast number of petty owners who can barely make ends meet as a result of their own under management. Restructuring and modernization of large dinosaurs costs money, jobs, and needs foreign management and organizational skills, as detailed by Wellens. Moreover people are quite right in their resisting the seizure of assets by randomly selected new owners who have no record to be trusted as efficient modernizers. Furthermore, Western experience also indicated that popular capitalism is a rather costly exercise which has fairly little to do with improving management and modernizing large firms.

Thus the area of experiment does not seem to have been adequately chosen.

While the people's lottery involved millions of citizens and raised hopes for quick recovery, the sobering truth about restructuring seem to have gone under. Thus not only legitimate outcomes against misuses prevail, but losses of any output and jobs are also widely taken as palpable evidence of failure. The trivial fact that recovery has not yet started, since the operation is in a rudimentary stage, is often depicted in dramatic tones (see e.g. Kornai, J. 1993). Though experience of developed and developing countries indicate: there is nothing just and immediate welfare-enhancing in privatization, but it is a necessary medicine to be taken by countries with a heavyweight state sector. Further it is an essential ingredient for bringing about a free market economy. Privatization - as Malle notes - is about taking responsibility, is about living under uncertainty, taking risks and harvesting the results, be those good or bad. This fundamental truth

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countries of Central and Eastern Europe aim at their reintegration to the mainstream of human development in cultural, economic, social, technological and historic terms. Therefore in the longer run the issue is far more comprehensive than ensuring a reasonable degree of price stability, positive real rates of interest or the predominance of private ownership in the overall economy. The real strategic task is to lay the foundations of sustainable economic growth. This certainly entails developmental tasks, institution building, creating an environment favourable for investments. There can be no doubt that private capital formation and the enhanced propensity to invest are the clues to solving this problem. Recognizing this fundamental interrelationship has certainly immediate consequences on legislation in terms of taxation, labour legislation, social spending and the rule of law in general. In particular, the improvement of financial intermediation converting available savings to investment use is of fundamental importance.

At this level of discussion it might be expedient to underline: transformation is thus to be seen as a package of macro-policies and systemic changes at least at the normative level. At the descriptive level, as can be seen from the chapters discussing individual country experiences, the above required consistency has become a truly scare commodity. Whereas in the Czech Republic and Bulgaria macroeconomic policies are consistent and go in the right direction, institution building is lagging behind not only the self-set schedule but also behind what would be required by elementary consistency criteria. Likewise, in Hungary, Poland and to some extent in Russia, institution building proceeds, whereas macro-policies follow twists and turns that are more contingent upon the current shorter term political controversies, than on any strategic concept or congruence consideration.

In the above said criticism has been voiced against dogmatic radical marketization concepts, still a strategy was required. That would mean that until transition is over no new paradigm is needed and pragmatism should be the first commandment of policies, as Koves (1992, p. 16) suggests? It seems to me that no strategy can be elaborated without having a clear vision about what we are driving at. Moreover, not even a clear-cut judgement can be passed over concrete reform policies without being clear of our point of reference. This holds a fortiori for comparative approaches. Therefore I think the somewhat didactic, still comprehensive and explicit set of criteria elaborated by Schrader in this volume may indeed be very useful in orientating both analysts and decision-makers. True, it does not answer the question how to get to the ideal point, but lacking the point of reference may only serve for selling policies of muddling through and of shirking radical but necessary reforms.

Should one infer the conclusion from the above said that a general theory or even a cross-country strategy of transformation is possible, even commendable? This is a very widely shared suggestion, represented chiefly by Andreff in this volume, but also joined by prestigious international organizations. Both for Central Europe and the CIS the idea is recurrently formulated, that at least a degree of convergence in transformation strategies could be helpful for various groups of transition economies, as it could support their reintegration to the existing economic framework.

This conclusion seems to be questionable. One of the basic commonalities of the transition economies is their qualitatively different starting position. Different
Conceptual differences

If we take national differences for normacy, we should treat conceptual differences equally. However, it might be useful to highlight some of those differences, contributors to this volume - as well - approach in a very dissimilar way.

One of the fundamental fields of disagreement lays in the ways and means that may be conducive to economic recovery. Whereas some of the authors, notably Kádár, Daniû, Welfens and Houbenova speak up for active governmental intervention relying on elaborate means of industrial and commercial policies, others, primarily Dabrowski but also Malle and Schrader, are much more sceptical about what any governmental action is likely to bring about. These differences are partly philosophical in nature: whether one believes in the growth-promotional role of the state and finds East Asian examples relevant for the region, or conversely, puts his faith in private investors and time, inclined to sit out until the sky deer gets out of the forest and private people place a point in putting their money into investment use. Believers in the latter point to the very depressed price of assets during the adjustment crisis as well as the very high risk premium they earn, provided the rule of law is preserved and taxation is not perverted for political profiteering. This difference must be seen as a reflection in nature mirroring similar divisions in the international community of general economists.

In part, however, these convictions have to do with the level of development the countries in question. Less developed countries normally have less accepted. Further, countries with a relatively large entrepreneurial class and a remunerated economy differ fundamentally from the endowments of the Ukraine and Belgium where the quest for national independence is bound to strengthen statist approaches.

There is a clear difference of approaches in interpreting the uses of stabilization policies, including fiscal and monetary stringency and instant convertibility for promoting transformation strategies. It goes without saying that these considerations are frequently in conflict, like the endeavour to privatize more and the need to keep the budget in a reasonable shape and many others. Some of the contributors, like Andref, Houbenova and Kádár underline the contractionary effects of these policies and caution against one-sided obsession with fiscal and monetary targets. Others, like Dabrowski and Schrader, conversely believe that lack of monetary and especially of fiscal discipline is an immediate cause for the lengthier than expected recession.

It seems to me that it is difficult to pass judgements on a general base, without considering actual macroeconomic indicators of a given period. Hungary, for that matter, with a general government deficit equaling to 8-10 per cent of the GDP in 1992-93 is certainly not a good case for an overdose of monetarism. Likewise, Russian policies should be judged on their actual accounts rather than on the frequency of statements of intention to make the ruble convertible overnight. In assessing the deficit the causes are of equal importance. If and when the well-known fiscal crisis of the transition is at hand, with the loss of revenues coupled with the explosion of outlays both due to recession - there is very little room for more expansionary policies of any sort.

In fact, the fundamental question in this respect is whether or not the lack of effective demand is at the crux of the problem as Laski (1992) suggests? If not, a less contractionary policy could only be interpreted in a way that has rightly become infamous in Latin America.

One of the fundamental factors of budgetary disequilibria is the loss of trade due to the disruption of Comecon and of the USSR. How should one assess this loss? Many authors - especially Andref in this volume - would see it as an immediate cost, a loss of welfare borne for basically political reasons. This seems to me a statist approach. As it is known, much of the current lack of competitiveness of Central European - and indeed, Russian - industries is intimately related to the developmental model which was embodied by Comecon. For one, this meant decades-long seclusion from international competition, for another, an environment where plan-fulfilment under the given output structure was rewarded and innovation of products and technologies penalized, with marketing and product-related services existing on paper only. This state of affairs was only aggravated by the economically inadequate choice of partners, where Russia sacrificed its potential gains from trade with USA, Germany and Japan for trade with Bulgaria for instance. Meanwhile, others were involved in specialization patterns which were incongruous to their factor endowments. In other words, the nature of the intertwinning was barren for competitiveness, as there was no way to transform existing patterns into competitive structures. The recent closure of several Hungarian large firms is indicative of this built-in, irreparable deficiency.
mainstream is hardly possible without correcting structural and also trade disparities. In fact, one of the few surviving large industrial companies in Hungary, Dunaferr, might demonstrate this point. Conceived by the Germans in the 1930s to utilize Ukrainian iron ore and the transport route of the Danube the firm found by the late seventies that the underlying idea was wrong. In order to restructure its production it bought Japanese technology, switched imports from the Ukraine to India and Brazil, and via a many-years restructuring strategy has fought itself into one of the largest exporting firms of Hungary, causing headaches for the steel lobby of the EC.

In sum, a dynamic perspective is needed. Given that the Visegrád countries have access to the markets - in terms of volume - that they lost (as reported in Frankfurter Allgemeine Zeitung, 19 Feb. 1993) then the gains in terms of volume and market shares they even gained (Stankovsky, J., 1992), there is no justification to be very dramatic about the trade diversion effects inherent in the transition. True, in countries of the CIS the situation is different. As Andreff shows, their interwining in 1988 was four times that of current EC levels. Even if allowing for a correction of plan-prices, the interdependence must be seen as substantial and splitting up the empire surely entails losses. But no calculation should be made on the assumption as if the empire could be added together for eternity. Further, it should also be considered, that the starting point was not steady growth, not even stagnation, but that of secular decline. The Ukraine, for one, could opt either to be an integral part of a fight over redefining the borders of a great power, with the concomitant military conflicts (catchwords: Abkhazia, Tadzhikistan, Transdniestrian Republic etc) or alternatively try to make use of the benefits of joint industrial and agricultural potential. It is small wonder that Russian minorities in the Baltic also voted for succession (true, prior to the discriminatory Baltic legislation on citizenship). In sum, indirect application of conventional tools of international trade analysis might lead us to a dead end, though their results must certainly be kept in mind.

One of the classical issues of reform literature is decentralization. Decentralization has been one of the basic endeavors for any reform policy. In the transition debate one of the major issues is whether before or after privatization is there a need for chopping up large state monopolies. (e.g. Newbery and Stiglitz, 1992, p.330). Analyses in this volume indicate, that a fair degree of caution is needed in the quest for decentralization. Dăianu shows convincingly, that delegation of authority to companies with soft budget constraint and with strong trade union control over management has been an important ingredient in the economic implosion following the collapse of dictature. If authority is delegated but responsibility is not, the entire decentralization issue may backfire. This issue is being discussed by Schrader and Sušec at length. The issue of sovereignty is one of the worst legacies of Soviet past. This explains to a great extent that the same legislation is not valid the same way in various parts of the same country - this is a tough reality any business executive should learn first. Which we've been witnessing under the reformist disintegration of Russia under Yeltsin was that emergent local powers were far from being puritans of more enlightened and more entrepreneurship. On the contrary, as evidenced by examples from Uzbekistan to respresenting those Soviet enterprises investing in which the enlightened central power was just about to abolish. Equally, the lobby of the Civic Unionists in Russia are rightly seen as a group of organised vested interest pursuing completely rational self-interests (Elman, M. 1993) rather than the personified devil. True, these are the independent managers who tend with reasonable success to socially the risks and costs of their attempts to preserve an antiquated pattern of production and employment. The relative strength of Chernomyrdin seem to have lain in their support. But from the point of view of transformation - as evidenced by the above cited example - decentralization might well become a fairly diverted way to the market, unless it is interpreted within the frame of a traditionally assumed (but not always present) set of systemic preconditions. All in all, the finding is that decentralization is not merely a sequencing issue, but a principal one: the delegation of responsibility, as Malle emphasizes.

A similar interpretative difference might be crucial in terms of privatization as well. Schrader criticizes e.g. the Ukrainians that they plan to divest only 60 per cent of state-owned assets and even that only in 4-5 years. For me it is more important to clarify, what privatization in the given context actually means. In Albania e.g. direct sales meant peasants picking up the railway lines and using the wood lining underneath for heating purposes. Restructuring, as East Germany evidenced, may be directly counterproductive for privatization to proceed. In Hungary, one of the fundamental hindrances for large companies - owning chains of restaurants and retail shops - to be sold to actual private buyers is the fact that they have already been corporatized. Analysing the voucher scheme many have come to the conclusion that in fact a more complicated form of state ownership, rather than private property has been created through the investment funds. In sum, although a real world it might be difficult to draw a strict delineation between private and public property, this demarcation still must be instituted in order to avoid confusion. Thus the question is not so much the speed as the effect and the material substance of privatization policies.

Thereby we have come to a point where similar words may carry completely different meaning under different arrangements. Few believers in the market would doubt the usefulness of antitrust policies. In Russia however, as Schrader points, the trend is covert way of introducing those policies (ibid, p. 1992, p.330). Analyses in this volume indicate, that a fair degree of caution is needed in the quest for decentralization. Dăianu shows convincingly, that delegation of authority to companies with soft budget constraint and strong trade union control over management has been an important ingredient in the economic implosion following the collapse of dictatorship. If authority is delegated but responsibility is not, the entire decentralization issue may backfire. This issue is being discussed by Schrader and Sušec at length. The issue of sovereignty is one of the worst legacies of Soviet past. This explains to a great extent that the same legislation is not valid the same way in various parts of the same country - this is a tough reality any business executive should learn first. Which we've been witnessing under the reformist disintegration of Russia under Yeltsin was that emergent local powers were far from being puritans of more enlightened and more entrepreneurship. On the contrary, as evidenced by examples from Uzbekistan to
policy without stabilization, as under Gaidar is bound to failure. Whereas all or most Bulgarian economic agencies are getting the right signals and are pushed to adjust to them, among others by foreign competitors, the disintegration of the Russian market has already prompted Russian authorities to require a more bureaucratic controls. This covert centralization could well be observed - as done by Suteja - in the entire reform period, when there were no official deliberations as yet to reintroduce the officially fixed ruble rate or the de facto monopoly position of old foreign trade corps on all major exported items (as reported in Vidnezidske bidder, 26 Feb., 1993). Thus, owing to the spontaneous restoration of controls, Russian private and public agents tend to get the wrong signals, and maladjust, just unlike their Bulgarian counterparts. In sum, a destabilized economy can not be efficiently transformed, whereas stabilization may be the entrance fee for transformation policies to make sense.

In sum, liberal policies in terms of transformation may hardly be equalled to the politics of state desertion (Abel, I. and Bonin, P., 1993). This is not only because of developmental and social tasks, but as Dabrowiak pinpoints, in order to roll the state back active state policies need to be pursued. Wellens draws attention to several facts why abolishing controls is a necessary but clearly insufficient condition for being reintegrated in the world economy. In the stiff competition for international capital, locational advantages have to be created and risk premia reduced by instituting the rule of law and by joining in organized international cooperation. The latter has serious ramifications, e.g. the size of the budget deficit can't be chosen at will, or the line of legislative experimentation can surely not go counter to the tide. In sum, with due regard to national specificities, open, cooperative and civilized adjustment policies may bring about results. This proposition might be at odds with some simplistic concepts of 'zero protection', 'zero state' and 'instant convertibility', but might be congruous with the complex realities of transformation in the other half of Europe.

Instead of a summary

Transformation of economic systems does not take place in a vacuum. Its prehistory as well as its societal environment and international context are important factors influencing the outcomes of the individual strategies to a considerable extent. The relevance of stabilization policies - be those orthodox or heterodox - differ case by case. Whereas in Czechoslovakia there was nothing to be stabilized, in Romania an inverted stabilization took place mostly spontaneously, heavily influencing the meaning and outcomes of transformation policies. East Germany will never share the fate of Albania, and the Ukraine has a separate road to enter. Therefore grand designs of how to transform a 'socialist economy into a market economy might be of academic interest at best, while remaining hardly instrumental in shaping the actual course of events. Prospects of the individual stories may crucially depend on factors usually outside the scope of economic analysis, like historical, cultural, and political factors, societal perceptions of purely economic propositions, the standing of the government, and last but not least on the reaction of the outside world. Reactions of abandoned children are rarely very rational and foreseeable. Therefore it might be misleading to believe that by neglecting the problems of 350 million people the repercussions of economic depression with its attendant effects on the whole of the old continent.

Two questions are left to be contemplated. First, is it true that the price transforming societies have paid is too heavy? Second, is it really true that standard economics does not hold for this peculiar post-socialist region?

My tentative answer to both would be negative. First, if most of the disruption is inevitable, the concomitant price is inherent in the process thus is not really a subject of the debate proper. All economics familiar with countries with a high share of second economy know how little official GDP and living standards estimates are reliable. Though the drop in consumption is hardly to be disputed away, an indiscriminate acceptance of statistics not measuring the healthy part of the economy and self-sufficient ways of consumption are equally misleading. All in all, GDP should be forgotten as the major or basic success indicator in a period of transition. The same applies to most physical indicators. E.g., total Hungarian exports, the same in volume in 1989 and 1992 were about 6 bn dollar worth in the late eighties and were 10.7 bn dollar worth in 1992. This was the point of the entire reorientation exercise, the feasibility of precisely this was doubted by its opponents from the very beginning. Thus only a more sophisticated set of indicators may reflect actual outcomes of the change.

The 'too high a price' proposition fails to take account of the fundamental circumstance, that not really growing, balanced economies were started to be transformed. As seen above, a greatly distorted official statistics, insensitive to most disequilibria has given a false picture to the public. Moreover, as the catalyst was not to be unmade anyway, there has not been an option of doing nothing. Those who did nothing are actually faring the worst, as Belarus or Albania might indicate. Thus the actual price of transformation can only be measured against the opportunity costs of a policy which nobody really managed to operationalize. In fact, Romanian, Serbian, Albanian, Ukrainian, and current Russian policies are demonstrably inferior - measured by any indicator - to the 'monetarist' policies of the Central European countries. Thus only very strong and mostly hardly operational assumptions may lay at the foundation of presumed alternative policies, against which opportunity costs of the actual line may be measured. Even then, most of the output and employment losses could hardly have been avoided. Only the differential, not the entire loss is thus the subject of the controversy.

Any economist working on less developed countries can advance a thousand of arguments why standard economics should not apply for the region. However, Polish and Czech but even Romanian and Bulgarian experience runs contrary to this proposition. The exchange rate in all the three countries proved to be able to influence elasticities of supply and demand. And conversely, expansive monetary policies in Russia did bring about the demand-pull inflation that was only to be expected. In sum, not repeating many analyses, the standard framework does have a lot to offer in analytical terms. True, when it comes to policy advice, the customary process of interpretation an application for the specific institutional setting can probably not be saved. Thus, the time of the 'flying Dutchmen' might be over, but it should not be that wrong for established economics either. There might well be a return to normally, to the encounter of new subjects with established methods, interacting and producing relevant new findings for the benefit of both, as has already happened so many times in history.
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