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Edited by

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Foreword

This volume has been called into being by the growing international interest in affairs of systemic transformation and economic stabilization in what used to be termed 'Eastern Europe' in the political parlance of the post-Yalta period. After the collapse of the state socialist systems, it is the very standards of evaluation which have undergone a fundamental change. The questions arising in the many ways unexpected developments are more numerous, than are answers. With the post-revolutionary emphasis over and under the shadows of the new oil price instability, triggered by the Gulf crisis, and experiencing the serious repercussions of a collapsing Soviet empire, the countries of Central and Southeastern Europe face a protracted and painful transition from Soviet socialism to a liberal political and economic order. It is a historically unprecedented challenge to these nations, and those who fail to address the underlying economic issues, will face a historical decay, a long term degeneration into the underdeveloped world. From the debtors' prison there is no European perspective for the coming generations, but the prospect of commonalty with the much too well known, tragic fate of stagnating nations around the globe. In the meantime, the experience of newly industrializing countries may also illustrate: the modern world is not governed by historic predetermination. Nations who used to be hardly mentioned in the 40s or 50s are becoming world champs in many walks of life. In a nutshell, even abstracting from the dangers of a Soviet civil war waged by nuclear weapons, there's a lot of interesting things for the outside world as well to follow in the unique laboratory of the other half of the European

What are the roots and driving forces, motivations and tricks of successful versus unsuccessful adjustment and transition strategies? This comprehensive field of research is in the focus of activities of the European Association for Comparative Economic Studies, whose first international conference, held in Verona (Italy) between 27-29 Sept., 1990 gave the impetus to the authors to present the first draft of their papers. Out of the more than 150 scientific presentations the editor selected eight outstanding contributions which may provide some insight into the key issues of economic stabilization and systemic transition to capitalism. The outcome might be of lasting interest for students of comparative systems, of economic policies, of international relations, as well as for bankers, journalists and policymakers alike. I should also like to take this opportunity and thank the organizers of the Verona gathering, Prof. Sylvana Malle, then President of the Italian Association for the Study of Comparative Economic Systems and Dr. Carlo Frateschi, Senior Fellow at the University of Padua for enabling us the lively exchange of ideas, which has lead each author of this book to revise, update, restructure and generally improve the standards of his study.

Budapest, 15 February 1991.

László Csaba
Vice-President of EACES

Part I
Introduction

1 New perspectives on systemic change and stabilization in Central Europe: an overview

by László Csaba

The turn of the 1980s/1990s has surely been one of the most fascinating periods of modern European history. With the collapse of state socialism in Eastern Europe and the disintegrating Soviet empire small nations in Central and Southeastern Europe have been facing unexpected challenges. Instead of cautiously or radically reforming the socialist economy they could opt for Western order: the pluralistic political and economic structures.

The objective is not subject to discussion among the major policy forming forces in any of these countries. It is hotly debated, however, how, through which way and in what time horizon this target is to be attained. Not only the normal controversies of mature democracies emerged. The debate has been complicated by two peculiar aspects:

- a previously available evidence/knowledge of the planned economy and of comparative systems theory quickly depreciated as its subject matter simply disappeared. Thus established science in the East and Sovietology in the West could offer a limited help only.
- b Economic science in the West, especially mainstream economics operates with models, categories, motives and laws whose validity is (historically) conditioned by a fully fledged market order, that has evolved over the last three centuries. The fundamentals of this very system, however, have been annihilated in East and Central Europe by the expropriation of the expropriators four-five decades ago. Prolonged existence under a command system has

significantly modified (crippled) the behaviour of all economic agents including the private sector and households.

This is not the place to elaborate on what way distortional effects worked (Winiecki, J., 1988; Kornai, J- 1980; Csaba, L., 1990/a; Soós K. A., 1986). Let it suffice to note that this makes the Central European starting point fundamentally different from that of the privatization drive which has swept through many of the developed and developing nations during the 1980s. The story in Central and Southeastern Europe is not about expanding an already dominant private sector and cutting back an overextended state. It is about creating - and letting to evolve - the market order, where bureaucratic coordination is subordinate to market coordination. These terms of János Kornai (1984) are of crucial importance, as they imply a fundamental distinction from conventional wisdom, having classified the region's economies as 'centrally planned'. Planning - at least in the 1970s and 1980s - was practically nothing more than a ritual point of reference, and the lack of efficient central regulation (both in form of macroeconomic policies and of system design) has been one of the most conspicuous features in the second half of the 1980s, contributing directly to the collapse of state socialism.

The abolition of central planning thus has taken place well before the dissolution of its agency in Hungary (a step still to be taken in other Central European democracies). However, monetary and market regulation could not take over, as they continued to remain subordinate to bureaucratic bargains. Thus it is the uncontrolled and in many ways spontaneous intra-bureaucratic power game which shapes actual decisions and outcomes, not officially promulgated general rules, governmental policies or other declarations of intent. This state of art seem to have survived the political earthquake - which is not quite unparalleled in European history. In other words, disintegration and the inability to implement governmental priorities is one of the worst legacies of the ancien régime. Thus the task faced by new democracies is historically unprecedented. On the one hand they have to create what is for Western privatization policies given: a middle class and authentic agents of the market economy. On the other hand, they need to reregulate as well: in part by abolishing the old and creating a small but efficient new governmental administration, in part by bringing about the frame in which the expansion of the private sector is both faster and socially more accepted than under fully spontaneous (wild West type of) evolution.

In other words a new field of scientific analysis has been created by the historic challenges. Meanwhile governmental agencies are forced to act by political exigencies much earlier than ready made recipes were available. Therefore a fruitful and continuous interaction of policymakers and researchers has come into being producing a large number of advisory committees, international conferences and also legislation forming the empirical material in much different directions than any field of the economics profession would have

forecasted five or ten years ago.

In the enjoyably wide and controversial source material this book intends to be something peculiar. International organizations, especially the IMF, the World Bank and the OECD have convened several international conferences on the problems of transition to the market, often resulting in books. These address mostly the general theory of systemic transformation - well exemplified by a provocative title of Rüdiger Dornbusch from the 28-30 November 1990 OECD seminar: 'How to create a market economy in seven days?' General issues are neatly summarized in an already published other conference volume of the OECD. (Blommestein, H. - Marrese, M. - Zecchini, S., eds. 1991). Mention should be made of the European Communities, which sponsors a decade of annual research conferences of the European Science Foundation on the subject. Country studies also proliferate, partly in the countries themselves, capitalizing on the symbiosis of new intellectual freedoms with new material hardships.

There is neither general theory nor country specific analysis in this volume. What is being attempted is to produce an applied and comparative theory of systemic change. We've got the advantage of the authors' being connected by an all-European intellectual stream of the network of EACES. We've got the advantage of having an experience of many years of observation of reforms under one party rule as well as of a year of shock therapy in Poland and in Yugoslavia. Thus we might be able to make the first distinctions among more or less relevant propositions and theoretical statements. For instance, supporters of the big bang approach have concluded on the base of data for the first quarter that the phase of corrective inflation in Poland were over (Lipton and Sachs, 1990). Knowing that annual rates of inflation both in Poland and Yugoslavia remained well into the triple digit margin, this proposition - its theoretical fineness notwithstanding - does not sound particularly convincing from the policy point of view. Similarly, previous Czech propositions about their ability of managing systemic and structural change without sizable inflation (Klaus, 1990) sound like a myth when one reads (without much surprise) about official estimates of 30 per cent inflation for 1991, the first actual year of Czecho-Slovak reforms (Die CSFR.. 1991).

What used to be an independent East German state provides the observer with ample illustration about the costs and benefits of a jump into the market. On the one hand it could be proven (Siebert, H. 1990) that for the Federal Republic swallowing an economy which is one tenth of its own is no problem whatsoever. On the other hand, with the time passing it turned out that official forecasts of the costs of integration are heavily biased downwards (from the Western perspective). Meanwhile the pains to those being swallowed are also well above previous expectations. In what's undoubtedly a beneficial process in the long run (and was a political must, as retroactively demonstrated by events in the Baltic states and Russia in January 1991), the ex offico optimistic Treuhandanstalt forecasted a 70 per previous GDR industry with 1,3 Mn open unemployed and 1,7 Mn part time workers from among a 9 Mn strong labour force despite a mushrooming private sector (cf Handelsblatt, 19 Dec. 1990. and Neue Zürcher Zeitung 11 Jan., 1991).

We try to take stock of this empirical evidence just as much as the sobering experiences with ill-concieved particularistic and gradualist attempts. It seems to the present author, that factors usually outside the scope of attention of standard economics may have to be given their proper role. Continuity both in stock variables, and in behavioural norms of economic agents, of masses of people, social expectations, national peculiarities and the historic legacy may milden much of the radicality in any new governments's endavour. This might explain why such a wide variety of 'extraeconomic constraints' produce similar results in thwarting theoretically clear propositions of mainstream economics, if applied indiscriminately.

There's widespread agreement among the contributors to the present volume, that opening up the institutionally closed postsocialist economies and liberalizing the foreign trade regime as well as of the inflow of foreign direct investment is of paramount importance in the final success of the entire exercise. Though views somewhat differ over the proper timing of the measures pertaining to the foreign economic sector, nobody believes that any of the economies in question could be stabilized without substantial liberalization. This consensus may stem from the authors' all being citizens of small or medium sized countries as well as our explicit rejection of dealing with the Soviet economy. This is not to propose that citizens of what's today the Soviet Federation may not draw on the experience collected here, if and when they intend to implement systemic change, i.e. transform rather than improve state socialism. Still, for the present subject the Soviet Union is treated only as an important element of the external environment surrounding the countries transforming their economic order. Other technicalities as well as strategic issues in opening up these economies may easily be omitted from this volume, as a currently published compendium of papers by internationally established scholars (Köves, A. - Marer, P. eds., 1991) provides an exhaustive elaboration of these. Sharing their major conclusions this volume intentionally, focuses on domestic aspects of systemic change and its role in achieving the longer term stabilization of the Central European economies.

The Southeast European countries are by and large not included in the volume, as - at the time of writing - none of them have yet left firmly behind the stage of a single force dominating the political scene. It is obviously true in Romania and applies increasingly to Serbia, having a say through the federal army also in other constituents of Yugoslavia, whereas Bulgaria and Albania haven't crossed the Rubicon formally either.

Having delineated the subject, let us have a brief overview of the outcome. The structure of the present volume goes as follows. In Part Two substantive issues of systemic change are discussed, which - according to the consensus view - form the final objective of the

exercise: an economy based on predominantly private property and on currency convertibility. Chapter Two is devoted thus to privatization, i.e. to the core of the problem through discussing ways and programs to achieve the end, whereas Chapter Three gives an overview of the actual 'state of art' as reflected synthetically in the degree of convertibility of the national currencies of the reforming countries. In Part Three theoretical and policy issues are surveyed, i.e. ways and means to attain the target formulated in the previous Part. How to privatize and how not, how to stabilize and how not, what is the correct sequence of the measures to be taken? Although authors of the various Chapters come to somewhat different conclusions, none of them share the fashionable view that the debate on sequencing were a loss of time enabling vested interest to sabotage systemic change. (Schrettl, W. 1991). Empirical evidence of the Central European countries caution against the indiscriminate adoption of quick fixes readily offered by some quarters of the academic establishment. In Part Four external conditions i.e. the environment of stabilization and the transition are discussed. The collapse of the formerly predominant Comecon environment of state trading poses a rarely discussed peculiar challenge for the Central European states. On the other hand the West also has a role to play in bringing about that systemic congruity which might enable the postsocialist countries of Central Europe to be integrated into the Single European Market by the turn of the millennium.

After the abortive Shatalin Plan I don't see much chance for any all-Soviet attempt to introduce the market order across the board in the whole present federation. However under a new political constellation, Russian, Baltic or Caucasian reformers or even governments of some developing country with a strong étatiste tradition may well want the face the issue of transforming their whole system into the market. They may capitalize primarily on Part Two devoted to the most general and politically most sexy issues of systemic change: privatization and convertibility.

Privatization has had very little policy relevant literature up until recent years. Theory was mostly confined to proving the superiority (or inferiority) of private firms over public companies. Policy steps in this area - except for Chile - tended to be minor as they haven't changed the basic macroeconomic pattern of ownership.

In some cases privatization was a success story, in others much less so (depending on the contestability of the given market and on the nature of the given activity). With the fall of state socialism previous conservative experimentation gained immediate policy relevance shaping the entire strategies of the new national governments. In his chapter Anders Aslund provides a very useful summary of internationally available privatization evidence and makes several propositions on how the relevant options can be applied in Central and Eastern Europe. His empirical reference base is mostly Poland, thus counterbalancing Hungarian overrepresentation among the contributions. His appeal for a quick privatization is one of the fundamental messages of his study. He lists several arguments proving

... becomes so protracted, that the overall improvement in macroeconomic efficiency might remain negligible. He also contests the fashionable view that first agriculture should be privatized. Given the agricultural overemployment in all postsocialist states and the secularly depressed (international) prices for farm products a quick privatization may result in disproportionate rural unemployment. This leads to his unambiguous stance against restitution as a basic method to create proprietors: by opening this gate a decade of legal disputes and uncertainties is being created that may undercut the whole transition. He also argues for a free distribution of - at least a part - of state property in order to create a point of no return and a sizable initial momentum for the new capitalist class.

If Aslund approaches to the issue 'from above', i.e. from the perspective of system design, Szegvári on convertibility adopts the perspective 'from below'. In his down-to-earth study he raises the question why the once much heralded liberalizing steps in fact produced rather destabilization of their unchanged overall environment than its gradual change towards the market. Similarly to Kolodko (writing in Chapter 7) he thinks that tasks of macro economic stabilization and systemic change often imply more contradictory than complementary tasks. The virtue of this paper is a comparative study of empirical evidence. On this base he is rather skeptical on the sustainability of currency convertibility before the Central European states and Yugoslavia had mastered their structural crisis. By overviewing the role of foreign exchange accounts and of the paradoxes of restrictive monetary policies applied in an environment where bankruptcy is truly exceptional he points to the fragility of the newly won convertibility of the zloty, the forint and the dinar. By presenting his reservations as bluntly as Aslund argues for his optimistic version Szegvári represents the other end of the spectrum of voices permanently influencing policymakers in the economies under transition.

Part Three of the book is on the theory and policy of how to move from the depressing present to the bright future. This entails questions of what to do, why to do, what way to do and in what sequence to do the right thing. Being on the borderline of economics and politics the Walloon contributor calls it the political economy problems of the transition.

In Chapter Five Roland addresses a core problem of what he terms 'sequencing tactics', i.e. ways to overcome the inevitable rightist-populist backlash at the first bites of the transition. He produces an applied economic theory framework for the uncharted waters of systemic transformation which avoids being country specific. Using the theory of collective action he focuses on the (changing) preferences of the individual in explaining those massive changes of sides without which social change could never (have) take(n) those historic dimensions which have fundamentally restructured the state socialist socioeconomic setup. His description of the state socialist

inequalities call strongly into a question the fashionable theories (e.g. Kornai, 1988; and Hewett, 1988) portraying the 'equality versus efficiency' issue being the crux of the (social side of) the problem. As Roland proves, it is rather the redistribution of previous privileges (situation rents) that explains social resistance to marketization. It is the priorities of the least rather than the best informed which matters as the former tend to change their views the most. Whereas stabilization should occur in one leap, systemic transformation should follow a sequencing tactics with sizable 'carrots' at initial stages for numerous interest groups. Roland votes for the 'first privatize, than liberalize' sequencing. Bankruptcies - he notes - especially in the state sector can hardly be expected in the early stage of systemic change, as this is the core of macroeconomic restructuring, which is - after all - the last phase in the sequence Roland proposes. Free distribution schemes of privatization in his view would probably end up with similar scandal-ridden cases as 'spontaneous', 'wild' or nomenklatura privatization did in Poland (Nuti, 1991) and Hungary (Csaba, 1990/b and Newberry, 1991) - ending up in a rightist populist backlash, thus giving a flaw to the entire process. Therefore reliance on foreign direct investments on the one hand, and the foreign investors' behaving as agents of civilized rather than cowboy capitalism should be the two sides of the same coin. Roland's paper is probably the best example of what may be termed 'radical gradualism', forming the backbone of this volume. Roland addresses the interest structures resisting marketization in a multidisciplinary perspective and finds those being much more intricate than conventionally postulated, therefore more elaborate policies - such as selective rather than automatic across-the-board bankruptcies are needed to provide momentum for systemic change. Sequencing in his view implies the broad ranking of transition phases according to political expediency simultaneously preserving basic economic congruity of the measures promoting the evolution of a market order. However of the minimal speed and quantity requirements proper account should be taken.

Chapter Six, written by Dembinski and Morriset is on outcomes of IMF stabilization policies in Latin America and in Eastern Europe in a comparative perspective. Their basic message cast doubt over the suitability of conventional stabilization policies to produce those acceptable growth rates which external lenders expect from adjustment in indebted nations. Their fundamental idea is that the coat tailored to par excellence cyclical imbalances do not suit to the figure of structural and growth-disequilibria. Credit contraction may not result in current account surpluses or (even less) in the reduction of the rate of inflation. By presenting a formalized approach they lend extra support to their critical stance. Credit contraction is bound to slow down adjustment and harm output levels - this is what they prove, further it may even worsen inflation. Their basic policy recommendation is to revert standard propositions for sequencing, and make structural and systemic treatment preceding (conventional) stabilization measures.

In his essay Kolodko addresses a peculiar issue in Chapter Seven:

Since state socialism collapsed in all walks of life, the room is open to experiment with any radical idea. He rejects both the previously prevailing self-limiting empiricism as well as the recently fashionable arrogant messianism of various wizards allegedly possessing with the single best solution to all dilemmas. Kolodko warns of the rather widespread mistake of mixing up abstract models with socio-political exigencies emerging in a multi-faceted crisis and transformation period. The need to act may emerge earlier then truly scientific answers are available, still this does not exempt policymakers of the consequences of their ignorance: predominant governmental improvisations imply a fairly suboptimal use of commonly available evidence. Thus openly declared pragmatism of some governments were equally misguided and disastrous as the theoretical obsessions of others. He lays great emphasis on the specific contradictions stemming from the transitory nature of empirically observable economic regimes, carrying a heavy historical legacy under the new target-setting as well. Unlike Dembinski and Morriset, he favours the more conventional approach: first to stabilize and only later to change the fundamentals of the system. He gives a general frame of explanation why negative adjustment prevails and positive supply responses remain weak under shock therapy - ending up where Szegvári and the Dembinski-Morriset duo does with their different lines of thought. His invoking evidence of Latin American stabilization policies adds the empirical material to support the formalized argumentation of the Swiss contributors. Economists thus bear a crucial responsibility, whether or not they can visualize what brand of market economy are they actually bringing about in the postsocialist context of middle income countries. An overdose of monetarism may aggravate the already serious developmental drawbacks of Central Europe.

In Chapter Eight Oblath deals with a peculiar problem which remains often outside the focus of attention on systemic change: the legacy of the collapsing Comecon. Since trade with the Soviet Union used to be of dominant significance for economic policies all over the four decades of state socialism, both reorientation of commercial relations and the fundamental modification of the previous state trading system constitute shocks to the existing macroeconomic structures.

In this field the customary overpoliticization of issues diverted attention from processes actually taking place. For instance the Mazowiecki Government followed a tough principal stand in its talks vis-a-vis the Soviets insisting on (Sachs inspired) debt reduction or even on forgiving - on historic grounds - all or most of the 5,6 bn roubles Polish debt to the Soviet Union. In the meantime during 1990, i.e. a single year a surplus of 4,7 bn roubles appeared on the Polish current account. In other words most of the debt is already paid for, without any formal intergovernmental agreement. It is correct to note (Mizsei, 1990; and Winiecki, 1990, pp. 780-781) that this surplus is surely to blame for accelerating inflation (which seem

to have taken some IMF people by surprise). Equally unexpectedly, the Soviet share in Hungarian trade was cut by half between 1988 and 1990 without producing more than 2 per cent unemployment. The much feared series of bankruptcies haven't happened and Hungarian liquidity position in trade with the West even improved (Csaba, 1991).[1] So while theorists went out their way to prove the infeasibility of the whole exercise, the lion's share of the entire operation has been mastered, without sizable (extra) external help, without having recourse to rescheduling, debt relief or even special balance of payments credit facilities.

Under these circumstances it is of particular interest to see how technically the switchover from clearing to hard currency trade occurred, what kind of regulatory dilemmas and options emerged in the course of decisionmaking. The first hand experience of Oblath allows him to present an insightful paper to this 'terra incognita' as (for obvious reasons) no public description of the existing trade and payments regime has ever been presented to the English speaking community. His analysis is a valuable contribution to the realistic assessment of actual costs of a fundamental change in the trade regime entails for an economy which is already farther on the way of transforming its economic system than other Central European countries are (Csaba, 1990/b).

The contribution of Dietz is devoted to the role played by the other - quickly growing - half of the foreign economic intercourse on Central European systemic change, i.e. on relations with the West. Adopting a system theorists' approach the Austrian author deals with the ways and means, as well as the policies required for a post-socialist economy to become successful in its marketization. In other words, the issue is how to create systemic congruity between the domestic systems (shaped by the state socialist legacy) and the determinant external environment of the Single European Market? Only if the postsocialist systems obtain those fundamental characteristics that enable them to be integrated to the modern international economy, do they stand a chance for being integrated to the EC. On the other hand, Western countries can't simply wait and see if and when systemic transformation and economic stabilization succeeds, and decide only later, on this condition, their assistance to, and the possible integration of, (at least some of) the economies in transition. Economic processes may well tend to develop towards chaos rather than a liberal economic order unless well-founded competent and selective Western help is provided to mastering the historic task of transforming a command system into a liberal market order. Falling short of this task the Western countries will inevitably experience what they fear most: the uncontrolled spillover of the waves of a protracted crisis in Central and East Europe.

What are the conclusions - if any - to be drawn from such a multivocal choir of voices? Certainly everybody has the liberty to interpret these analyses according to his preferences. In my view however some tentative policy conclusions may well be drawn.

For the Central but also for the Southeast European economies, and let me add - this time without elaboration - also for the Soviet economy and its components the actual task they face is to introduce a fully fledged market economy, with its appropriate private property structure and the rule of law (Rechtstaatlichkeit). Thus there's nothing more remote from reality than the assumption: 'The conceptual challenge they face is to structure a new order, one that absorbs the most beneficial institutions of capitalism into a socialist value system' (Feige, 1990, p. 2.) or that they were to resolve class conflicts via popular capitalism (ibidem, pp. 47-48). On the contrary, the theoretical debate may well (and surely will) go on, but in political terms it is over. It has become part and parcel of the political consensus in Eastern Europe (and of the professional consensus in the Soviet Union): the third way is not a feasible alternative to consider.[2] So if there is a danger, it is posed by the much too indiscriminate acceptance of conservative values in Central Europe and also in Russia, without paying sufficient attention to the social component making modern Western societies 'capitalism with a human face'. Due to the protracted nature of the crisis and the considerable time horizon of improvement, under socially insensitive technocratic practices the amount of social explosive may accumulate. Thus the general atmosphere of 'no more experimentation, please' dominating the East European region is good news and bad news in the same time. Good news, as long socialist grand designs are out of the political agenda for many years to come. Meanwhile European postsocialist societies are already intensively intertwined with advanced Western welfare states whose practices are widely known and appreciated by the Central and East European public. Due to the resultant social preferences these states are probably ill suited to become experimental fields for empirically yet untested radical monetarist economic propositions. The social feasibility of applicable economic theories may not be directly related to their intellectual appeal or fashionability.[3] This is the bad news.

What is needed thus is a kind of ordnungspolitisches Denken or radical gradualism. It implies that being conscious of the current state of art (i.e. the economic system's being an instable mixture of various constituting elements) governments do not justify or accept it. Rather they do have a clear objective they well as a blueprint about how to get to the land of promise. Moreover - they use their legitimacy to dose the medicine in sufficiently large packages. Only if the public is convinced that there's absolutely no other way, the government knows where it is driving to and how, and the public gives credence to the governmental programme, may radical changes be implemented (Millar, 1990 pp. 68-69) - this point is supported both by the relative success of Polish and the undoubted failure of Soviet attempts to marketize and stabilize in 1990.

A further conclusion from the limited knowledge available at this point is that the abstract theoretical and political debate on shock therapy may sidetrack energies from vital tasks. Most of the issues related to sequencing sounds quite different under Hungarian or Soviet, Bulgarian or East German conditions. Thus - as Winiecki (1990

p. 787-788) suggests, a country by country approach seems to be the justified in addressing all issues of the transition - just like in medicine it makes no sense to theorize about the vices and virtues of amputation per se. Similarly to this author the rapporteurs of the OECD volume, Blommestein, Marrese and Zecchini (1991, p. 20) have also found the theoretical debate being stronger than differences in actual policy advises of serious economists.

The limited but undoubted success of the changes in 1990 allow for giving up the illusions of swift systemic changes. True, systemic change and stabilization are intimately intertwined, but far from identical tasks. The former can be done quickly, the shortage economy is relatively easy to master, and hyperinflation can also be arrested. However as Balcerowicz (1991) noted, it does take years to create such fundamental institutions of the liberal order as capital market, labour market, constitutionally guaranteed proprietary rights as well as limiting the direct influence of organized minorities on policymaking. An other former theoretical supporter of quick fixes, Czech Privatization Minister Jezek now also believes that the operation will last three years at least. (Die CSFR...1991). This is the horizon in which the State Property Agency intends to complete in Hungary privatization of half of all public assets, with 130 privatizations already completed in the first 9 months of its existence (Csepi, 1991). And this is where is difference remains largely semantic between 'radical gradualism' and the 'jump into the market'.

We have learned a bit more about the dead ends of privatization. For one, transforming state owned firms into joint stock companies, which is normally seen as a welcome first step to their sale, have in fact turned out to be the most efficient way of nomenklatura privatization. The modern legal form has thus become an immediate barrier to actual transfer of state assets to private hands. In Hungary e.g. out of the more than 40 thousand restaurants and retail shops less than a fifth can, even in theory be privatized, as all the rest are already integral parts of various joint stock companies formed by the previous medium level control organs. This was one of the causes why the first privatization program simply faded away in a few months, just as public property did.

It seems to have become obvious in Hungary at least that restitution is bad economics. The presence of a single issue agrarian party pushing reprivatization of land has created continuous legal uncertainty, and slowed down the whole transformation process tremendously, as noone will ever invest until countless 'previous owners' may knock on the door. Moreover, restitution through vouchers (probably entitlements) is obviously inflationary. Moreover, as the chairman of the board of the Budapest stock exchange Bokros (1991) demonstrated, the high probability of cashing the vouchers (by the mostly elderly peasants) is bound to depress the entire securities' market and drive further up interest rates, thereby further aggravating economic recession, which will certainly last for some time during structural readjustment. Fundamental remains, however the standing legal uncertainty around once acquired property, which is hard to damages start to be undone, which undermines the entire economic order based on private property and freedom/sanctity of contract.

All in all, a lot of further research remains to be done before an empirically based and methodologically sound general theory of systemic transformation can be formulated. We are at the stage of figuring out relevant questions and identifying major stumbling blocks. Having accomplished that this author hopes to have done a useful job in compiling this volume which might be of help to other countries' economists and policymakers in their not repeating Central European errors. For economic theorists in East and West the peculiar experience of this region may well remain a lavish source for inspiration and interpretation for quite some time to come.

Notes

1. Actually, trade with the West showed a nearly 1 billion US$ surplus, with a current account surplus of 300 million in 1990.
2. For a good summary of the relevant (conventional) arguments cf. e.g. (Linder, 1990) and (Nuti, 1991).
3. Some international consultants to Hungary e.g. have repeatedly proposed more radical market-type regimes in the social security and public utility spheres than practized in most OECD countries.

Part II
Systemic change and stabilization: goals and substance

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