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Marie Lavigne
Institut de Sciences Mathématiques et Economiques Appliquées (Paris)
and *University of Pau*

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1 What Is Still Missing?

Marie Lavigne
Institut de Sciences Mathématiques et Economiques Appliquées (Paris)
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One may liken the situation of any country in transition to the case of a man who has been severely ill for years. Nobody really thought that his condition would improve. All of a sudden, there is a miracle: a new medicine is discovered. The patient's doctor decides to apply this new approach—a shock therapy—not quite knowing what is going to come of it. Then the miracle goes on: the patient is on his feet again, following a terrible fever. Several years pass. Slowly the patient regains his former functions. There are moments of despair. The process is not even. Sometimes there are bouts of fever. Sometimes the patient has the impression that he is worse than before; for months, his performance declines. Not that he regrets the treatment; the hope is there, and he would not want to return to his previous condition. Sometimes he is angry at the doctor, who sets him impossible targets; he does not want to undergo all these exercises every day. However, little by little, things are steadying. One day, the patient sees that he has indeed not only regained his previous level, but has gone beyond that.

At this point, his doctor tells him that he no longer needs assistance and that he is a healthy man again. His friends tell him the same, as they are tired of being involved in this recovery process. The patient himself is not so sure about his condition. He does not feel all right. Some days he is limping again. A small fever persists. Many unwanted occurrences bother him: he is not quite able to coordinate all his movements, he does or says things that he does not want to do or say, and he loses his temper too often. A number of other elements are missing as well and prevent him from feeling really good. He cannot find the right clothes, he does not work quite properly, and sometimes his memory is failing.

Nevertheless, he resolves to go to his former club and to request readmission. His old buddies are kind but stern. So much time has elapsed since he had to leave the group. The members are ready to consider his application, but they impose several demanding conditions. He is ready to fulfill these requirements even if again it takes time, because he feels that once he is readmitted, he will be able to say, "Yes, now I am cured, I am a normal person."

You must have recognized the actors and the plot of this short story. The patient is a transition country, the doctor is the International Monetary Fund (IMF), the friends are international organizations or other governments providing assistance, and the European Union (EU), of course, is the club. Inflation is the recurrent fever. You may pinpoint the fall of output or slowdown in growth, the lengthy and uncompleted process of structural transformation, the unwanted phenomena, and the missing elements in the process. At least the Eastern or Central European patient is hopeful about his admission to the club. However, when will a patient who is not considered for the club be cured? That is the question facing Russia and many other countries of the former Soviet Union area.

So, when is transition over? The prime minister of the Czech Republic, Václav Klaus, claimed in December 1995 that transition was finished as far as his country was concerned, and this claim seemed reasonable enough. According to a general view, the transition from plan to market is largely completed in Central Europe, and to a lesser extent in Southeast Europe and in the Baltic countries. It is yet to be completed in the former Soviet Union space. Usually the performance is assessed on the basis of several criteria:

- a successful stabilization-cum-liberalization policy
- a solid launching of structural transformation
- the building up of conditions for sustainable growth
- progress in integration in the world economy, and, particularly, in the European economy

I will outline the transition process with a view to identifying what is still missing: what the patient needs to join the club, and what his neighbor who will not be joining the club needs to become healthy. I will describe transition according to the following features: the lega-

cies of the previous system, the building blocks of the transition package, the outcomes of macroeconomic reform and structural transformation, and finally, what still has to be done so as to complete the transition process. This discussion leads to four conclusions. The legacies of the past are still binding, and the new market economies bear the traces of this history. The initial measures did not encompass the whole process of transition and largely left aside the complex task of building a market environment. The outcomes are mixed; several crises in 1996–1997 showed how fragile transition still is. Much has yet to be done to complete the process.

The countries in transition from a planned to a market economy may be grouped into four broad subsets according to a geopolitical division:

- **Group One** consists of the Central and Eastern European countries, including the four Central European countries (Poland, Hungary, the Czech Republic, Slovakia) plus Slovenia (the core "Visegrad" group); Bulgaria and Romania; and the three Baltic States (Estonia, Latvia, and Lithuania). This group comprises 10 countries that have applied to become members of the EU. Hence, the completion of the transition process is very much linked with these countries' meeting the conditions for becoming members and with the "pre-accession strategy" conducted in coordination with the EU. Albania may be included in this group in the future.
- **Group Two** includes the countries of the Commonwealth of Independent States (CIS), with particular attention to Russia, which has played, and is bound to play, a decisive role in the CIS region and in the patterns of transition there.
- **Group Three** includes the Asian countries in transition, with special attention to China and Vietnam. The other Indochinese countries, Laos and Cambodia, should also be included in this group, as well as Mongolia. This group is very different from the others. China and Vietnam share three main features: their commitment to a communist political regime, economic underdevelopment, and an Asian-type strategy of growth and industrialization in the framework of transition to the market.

- **Group Four** includes the countries that are for the time being largely left out of discussion because of the political context, for example, the countries of the former Yugoslavia (Slovenia excepted).

I shall focus mainly on the two first groups.

THE LEGACIES OF THE PAST

History still heavily constrains the transition process. Contrary to an optimistic view that prevailed at the beginning of transition, it was not enough to overthrow the communist regime in order to clear the way for a smooth and full-fledged operation of the market. My stance is that most of these legacies, if not all, are negative from the point of view of the transition to a new system. This stance does not mean that I regard all of the achievements of the old system as negative. Obviously, the system was very wasteful in human and material resources at the times when it yielded its higher rates of growth. Later, it failed to achieve modernization and left all its countries lagging behind Western, developed economies. It caused great damage to the environment. However, fundamental needs were satisfied, including high standards of collective consumption in health and education. A great degree of security characterized these societies, with protection against unemployment and provision of basic goods and services on a rather egalitarian basis, even taking into account hidden inequalities and a large amount of politically based corruption. I present the legacies roughly according to a scheme devised by János Kornai. There are three types, with examples for each: systemic legacies, functional legacies, and assets and liabilities.

The first systemic legacy is the ideological and political monopoly of the Communist Party. Although standard state institutions existed, there was no state policy outside the party's decision. Hence, once the party's structure collapsed, the state institutions were not prepared to fulfill their functions. One thus had the impression of a "demise of the state" in the operation of the judiciary, the executive branch (ministries), and the state administration. The fact that one could find "institutions" in the planned economies with the same names as in market

economies ("banks," "ministries," "agencies") gave the false impression that, once the system had collapsed, these entities could function as market institutions.

Second, the system was characterized by dominant state (collective) ownership of the means of production. The state sector was huge, meaning that privatization is much more difficult than the same process in market economies. Even in those economies that have privatized faster and more extensively than others, there remains a very large residual state sector. In the state-owned enterprises (SOEs) that have been formally privatized, the weight of the "insiders" (the former management, which generally uses the employees to support it) is very big. As the SOEs were large, their privatization may mean a shift from public to private monopolies; thus, de-monopolization is an issue. The SOEs were not only production enterprises, but also social security institutions: they provided for such needs as health care, child care, and housing, so that the building of an independent Western-type social safety net is very difficult.

The third systemic legacy is central planning. As a result, there is now a distrust of all forms of planning, including strategic planning as practiced in Western governments and big corporations. Yet there is a surviving "planning mentality" in managing stabilization; for example, the "targets" set by the IMF have often been treated like plan assignments. The same mentality survives in managing structural transformation; for example, privatization programs are essentially state undertakings tightly controlled by the government.[1] A lack of understanding of market-type coordination, a "legacy" shared by many outside advisers as well,[2] leads to the idea that, as soon as planning is abolished, a market economy immediately begins to operate.

Two of the functional legacies are a distorted production structure and autarky. The production structure was a consequence of the Soviet strategy of extensive growth imposed upon Central and Eastern Europe. That policy left the countries in transition with an overdeveloped heavy industry sector, lacking competitiveness with Western markets. In addition, the ratio of exports to gross domestic product (GDP) was lower than in market economies of similar dimensions, and most of the trade that did take place was concentrated in Council for Mutual Economic Assistance (Comecon) countries. Hence, the demise of Comecon created a substantial shock.

A less concrete but just as important functional legacy is the inheritance of a wide set of specific social values. The relationship between the state and the economic agent was marked by what Kornai calls "paternalism." The state enterprise had to carry on political and social functions, and the individual was protected by the state "from cradle to grave." Many individual legacies follow from paternalism: the belief of the plant managers that they will be bailed out even if their operating costs exceed their revenues (this is the definition of the "soft budget constraint"); the belief of the bank managers that they have to supply "their" client enterprises with credit whenever the latter ask for it; the belief of the workers that they have to be paid just for showing up at the workplace and that they cannot be fired. Even under the conditions of transition, these legacies of an implicit "social" contract and of an implicit "state-enterprise" contract often remain, as in Russia.

Similarly, due to such lingering social values, the image of the "good" manager as someone who has a positive relationship with the authorities and is by principle reluctant to lay off workers remains in the countries that are less advanced in the transition process. By contrast, the efficient manager who tries to reduce costs and increase profits, and who is not adverse to downsizing, has the negative image of a speculator, if not of a mafioso. Entrepreneurial skills as such are not favorably judged.

Human capital and physical infrastructure comprise two legacies that may be seen as assets or as liabilities. The stock of human capital (skilled workforce) is usually viewed as a positive legacy of the system. However, the innovative capacity of individuals was hampered by the obsolescence of techniques and by the very weak link between research and applied development. Hence, the remaining legacy of human capital is more a liability than an asset, and the quality of human capital is rapidly diminishing in the transition process, along with the decline of health and education indicators, which are embodied in the Human Development Index. The physical infrastructure is obsolete and not adapted to the needs of modern market economies, as it was developed out of strategic and military considerations more than out of considerations linked to the development of civilian economies. This infrastructure may be an asset, as in the use of the former military telecommunications network for civilian needs, but generally it is a liability, as in the case of roads.

Why are these legacies detrimental to the course of transition? The answer is because they cannot be separated from the system. For example, quasi-full employment went with low productivity; skills gained in school and professional education went with weak incentives for efficient activity; and low-cost housing led to an overall deterioration of the civilian housing stock.

THE TRANSITION PACKAGE

The building blocks for transition have basically been the same for all of the countries that engaged effectively in reform. The program packages have been devised by experts from the countries in transition (who are often trained in Western economics) and have been supplemented with additional features following agreements with the IMF. The standard package is an adaptation of the "Washington consensus."[3] The package may be divided into three sections:

- initial liberalization of consumer and producer prices, of domestic and foreign trade, and of foreign exchange transactions
- stabilization aimed at resolving macroeconomic imbalances[4]
- beginning of structural transformation

There was much discussion initially about the sequencing and the speed of the reforms. In fact, these debates lost relevance rather quickly, as fine-tuning policies appeared illusory in economies characterized by rather primitive market conditions, and as the choice between the "big bang" (or "shock therapy") model and the "gradualist" model was largely artificial. Stabilization and liberalization had to be conducted fast (otherwise there could be no reform). Transformation had to take time, and what mattered was to announce what would be done and to establish credibility. When one looks at the nations in transition overall, including those in the former Soviet Union, the true dividing line lies between the countries that moved toward reform (which does not exclude traveling in the reverse direction, as in the case of Bulgaria for some years), which also comprise all the applicants to EU membership, and the countries that have hardly begun

implementing reform (most of the CIS states) or have implemented it in an erratic way (Russia).

The package of measures to be taken everywhere has encompassed the following steps. First, very soon (if possible, on day one), take early liberalization measures—of prices (with the usual exceptions: housing, utilities, and energy to be freed up to several years later), of domestic trade, and of foreign trade and foreign exchange transactions. Also on day one (in the case of "shock therapy"), begin stabilization measures aimed at curbing inflation, reducing the budget deficit, and steadying the exchange rate. Third, to be announced on day one but to be completed much later, undertake long-term measures of structural transformation, including privatization (first, small-scale privatization and later, large-scale privatization of big firms), banking reform, the introduction of a capital market, tax and social security reform, and establishment of environmental and industrial policies.

The means and instruments of achieving these objectives have depended on the tasks themselves. For liberalization, it was supposed that it would be enough for the authorities just to end state involvement. For stabilization, the standard measures used in market economies were expected to bring about the desired results. Nevertheless, the market had not yet arrived; it was to be effected through structural reform.

Price liberalization, through the emergence of market-clearing prices, led very quickly (almost overnight, in the case of Poland) to the curtailment of shortages. Several outcomes have become evident. All economic agents are now allowed to buy and sell. Street trade has expanded, and private shops have opened. However, the large inherited wholesale (supplier) organizations in most cases have remained for some time. The state retail outlets have sometimes been taken over by foreign distribution chains. State foreign trade organizations have been dismantled, and enterprises may conduct foreign trade transactions on their own. Quantitative restrictions on foreign trade have been abolished, and tariffs have been reduced. Households may sell and buy foreign currency. The prices of foreign currency are unified and either freed (floating-rate regime), or fixed at a very low rate, which may be the previous black-market rate or be determined along various regimes (such as managed float, crawling peg, or crawling bands). In exceptional cases, a currency board has been established (in Estonia, Lithua-

nia, and Bulgaria in 1997). Convertibility for current account transactions has become the rule.

The instruments of stabilization have included restrictive monetary policy and the restoration of positive real interest rates. This strategy is considered to be the orthodox approach, where the interest rate is the main anchor of stabilization policy. Other times, governments have established incomes policy with controls on wage increases and weak indexation of wages on price rises; this is the heterodox approach (Bruno 1992). Taxes have been increased, usually with little effect because of tax evasion and lack of tax reform. Public expenditures have been cut even beyond the reduction of price subsidies. While the domestic currency has been sharply devalued from the outset, stabilization policy should avoid further devaluation (an extreme solution is to adopt a currency board regime) as well as an appreciation of the real exchange rate.

There are many early measures of structural reform, implemented in different order and at diverse speeds by the various countries. Privatization, a major task of transition, has often been undertaken in two stages: the immediate beginning of "small privatization" (selling small public property), and preparing and launching large-scale privatization, which takes several years. One country (the Czech Republic) proceeded quickly to mass privatization on the basis of "voucher" distribution of state-owned assets, and in most countries (except Hungary), mass privatization has been a component of the large privatization strategy.

Financial markets are another major focus of structural transformation. Reform of the banking sector requires the introduction of a two-tier banking system (if it did not exist already), turning the state commercial banks into private banks or incorporating them, changing banking operations, beginning the financial restructuring of banks (through consolidating bad loans or other methods), and implementing bankruptcy laws. Countries have also set up stock exchanges and developed domestic securities (often in relation to privatization).

Finally, there are several measures involved in the structural reformation of the state. Governments have begun to create modern tax regimes, generalize income taxes, set up a value-added tax, and improve tax collection. They must also replace what was an all-embracing social security system basically managed by the SOEs with

a modern system combining state allowances and private insurance schemes. The reform here is very difficult because of lack of means and of institutions and because strong political and social opposition usually exists (Lavigne 1995).

THE OUTCOMES

The outcomes of transition thus far should be assessed by looking at real and at monetary-financial economic indicators, which are presented in Tables 1, 2, and 3. There are many similarities among the countries. There has been a global deterioration in the "human development" situation, as measured by the set of criteria used by the United Nations Development Program (UNDP) (Table 1, p. 30). The Human Development Index improved only in Poland. There was a large drop in output for all the transition countries in the 1990s (Table 2), followed by recoveries of varying strengths in Central and Eastern Europe, but not yet in the former Soviet Union. There was a still deeper drop in investment in most cases, with a protracted recovery. Unemployment rates in Central and Eastern Europe have stabilized at relatively high levels (with the exception of the Czech Republic) as compared with Western European rates. Real incomes fell, followed by a modest increase, especially when incomes are measured in dollars, which points to an appreciation of the real interest rate.

Most countries had similar outbursts of inflation, followed by a stabilization of the inflation rate at moderate to high levels. Even in the most successful countries, the inflation rate is still well above the Western European average. Many have had great difficulties in maintaining budgetary deficits at "acceptable" levels (as defined in IMF packages), although some have succeeded, such as the Czech Republic, Slovakia, and Slovenia. Exchange rate stabilization has been successful, with exceptions. However, there has been sharp deterioration of foreign trade and current account balances and emerging problems with short-term capital inflows (Table 3).

Structural transformation in terms of the management and governance of enterprises has lagged, even though privatization is supposed

to have been largely achieved. Banking and financial reforms and the modernization of social security systems have also been slow.

The bottom line is that recovery, even when underway, is impaired by factors on the supply side, such as the impact of the initial cuts in investment, and by both domestic and foreign factors on the demand side. Also, macroeconomic stabilization is still fragile. The question to be asked is whether the strategies themselves explain these results, or if they are due to the quality of the implementation, or to the initial situation of each country. A debated topic is the link between liberalization, on the one hand, and growth and inflation, on the other hand. The World Bank *World Development Report 1996*, devoted to the countries in transition, raised the issue, which has been elaborated upon in de Melo and Gelb (1996) and in Fisher, Sahay, and Vegh (1997). The conclusion is that growth and the control of inflation go together and that both are positively related to liberalization. This analysis leaves aside the slow progress in structural reform, which itself may affect growth and stabilization. The slackening of growth in 1996 and the wave of crises in 1996–1997 that hit not only "lagging reformers" such as Albania, Bulgaria, and Romania, but also the Czech Republic, exemplify this impact.

THE NEW MARKET ECONOMIES IN TRANSITION COUNTRIES

What remains to be done to complete the transition process? For the countries that have applied for membership in the EU, the most immediate objective is to meet the conditions imposed by the EU. Does this mean that once the conditions are met (and the countries are accepted in the EU, with a new "transition" period ahead), the systemic transition is over? First, the EU conditions do not address the question of a sustainable growth strategy. Second, the accession here deals with countries that have not yet created a market economy in the Western sense. In the case of the countries belonging to the former Soviet Union, the prospects are still more remote. Table 4 offers an assessment of the structural achievements of a sample of countries. Before considering the EU conditions further, I will list several frequently

mentioned obstacles still faced in the building of standard market economies.

An obstacle on which many observers focus, especially in the case of Russia, is the development of organized crime and corruption on an unusually high level. The combination of the experience of the clandestine mafias of the past and the high technology and financial means available to the modern Western criminal groups, which have quickly established links with the ex-Soviet and Eastern European mafias, can be extremely detrimental. Related to the development of economic crime, an egalitarian society has been replaced by an unequal society (see the evolution of the Gini coefficients in Table 1) with an uneven distribution of income and wealth. Such a pattern is not uncommon in developing nations, but the countries in transition offer a wide variety of "niches" to exploit in the black and gray economic sectors, allowing quick and large gains (for example, the "give-away" forms of privatization, the opportunities of the emergent capital markets, and the use of domestic or foreign trade networks). These niches mean that large and influential circles of economic actors are opposed to the establishment of a transparent market economy.

Efficient market institutions are still lacking, such as working bankruptcy procedures, clear corporate governance rules, prudential rules for the banking system, regulation of the capital markets, effective tax collection, and a flexible labor market. Also needed is efficient state administration, which would be able to implement laws without discrimination and without excessive red tape in order to ensure adequate protection for investors (foreign and domestic) and for partners in business contracts, consumers, and other economic agents. A new, positive vision of the character of the state (neither totalitarian nor paternalistic) is required, instead of an excessive confidence in the market mechanism. The *World Development Report 1997*, devoted to the role of the state in a market economy, discusses what should be done in transition countries, as well as in other developing countries (World Bank 1997b, pp. 164–165).

Next in this list of obstacles is the lack of appropriate social policies. In the countries in transition, one has witnessed a deterioration in the situation of pensioners, who are often below the poverty line, and, at the same time, a growing strain on the budget due to the increasing number of pensioners. This is especially true as the new regimes have

usually kept the rather generous age conditions for being eligible for a pension. Less and less are health and education services provided free of charge, especially at high-quality levels (e.g., specialized medical care, university and professional education), while standard services are quickly deteriorating.

More generally speaking, these countries—even those that seem the most mature and ready to integrate in the European economy as members of the EU—do not yet display sound relations between the state and civil society. Despite privatization and the reduction in government social expenditures, people still count on the state for their well-being or at least for the alleviation of their hardships, and rightly so: in some instances, the authorities still behave as did the old "paternalistic" state, especially when this behavior does not entail direct budgetary expenditures. A good case is the low level of unemployment in the Czech Republic. Did the government willingly sustain employment? It could not be so, especially when, at the same time, the authorities complained about low productivity in the state-owned sector. However, bankruptcy proceedings were not initiated against insolvent enterprises, and declining industries were still supported by the state, often on the grounds that they provided exports. In addition, managers in the state-owned sector often considered their first task to be the preservation of employment.

In turn, the survival of past attitudes toward the state has many consequences. One is the vulnerability of the people to populist pledges from leaders or would-be leaders. Candidates in elections are readily believed when they promise their constituencies "catching up" in terms of welfare or in the improvement of their living standards. What makes it easy is the existence of ready-made scapegoats such as the IMF or the EU. Another consequence of old attitudes is the weakness of societal organizations, because people are used to turning to the state, which previously was tantamount to the party. There were no responsible trade unions able to negotiate with employers and representatives of the government, and no consumer and other associations and foundations. Where these institutions have appeared, they are only beginning to get adjusted to their new functions.

We may thus conclude that, for some time, these new market economies will be mixed economies in two senses. First, they will remain strongly influenced by state policies, both as a residual of the past

(even if it is not acknowledged by their governments) and as a necessity in the context of institution-building and growth-promoting action. Second, they will lag behind the advanced market economies in development levels and in fullness of markets, and even behind the most successful emergent economies of Asia or Latin America in the context of a global economy.

The outside world can and does contribute (in terms of assistance, foreign investment, and access to markets). However, this help, be it multilateral or bilateral, public or private, is always dictated by the general interests of the donors, investors, or partners. Multilateral assistance is never so considerable as when the issue invokes a global crisis (Mexico in 1994, Thailand in 1997). The initial aim of foreign investment is not the promoting of structural transformation and managerial skills: investors want profits and markets first. This means that the recipient countries must themselves absorb assistance and investments efficiently, and such an absorption is not automatically generated by the market.

Do the EU conditions for membership imposed on the Central and Eastern European countries constitute useful criteria that enable us to say, once they are met, that transition is over? It is likely that they do not. In fact, the implementation of these conditions may be hindered by problems with definitions, and, in many cases, these stipulations are stricter than those placed on current member countries.

One condition of the EU pre-accession strategy (first defined in the "Copenhagen Principles" stated in 1993) is that the country must be a stable, pluralist democracy committed to the rule of law, respect for human rights, and protection of minorities. Many transition countries do still have problems in these areas, including discrimination against minorities, lack of freedom of the press, and corruption in judiciary systems. These requirements, however, were not imposed on previous candidates to the EU. Clearly, issues such as freedom of the press are more obvious in the formerly communist countries, but the Western European countries are certainly not immune to problems of corruption and discrimination.

A second condition of the strategy is that the candidate be an established market economy. What is "an established market economy"? No explanation is given, and the implication seems to be that you know a market economy when you see one. Many will consider the Central

and Eastern European countries to be established market economies only when they become EU members: the condition is the outcome.

A third condition is that the economy be able to cope with competitive forces and market pressures within the EU. Again, no explanation is provided. The stipulation implies that the economy be truly liberalized and not protectionist, that it abstain from subsidizing firms or sectors, and that current account deficits be covered by inflows of long-term capital foreign direct investment (FDI) rather than by growing short-term indebtedness. A fourth condition is that the applicant be able to assume the obligations of membership, in particular as far as the *acquis communautaire* is concerned.[5] These obligations include an enormous number of detailed requirements, which continue to evolve over time. The extent of compliance with all of them is largely a matter of political assessment.

An implicit condition of accession is that stabilization must be complete. Stabilization, as we saw above, entails controlling inflation, the ratio of the budget deficit to GDP, and the level of public debt, as well as controlling the current account deficit without resorting to devaluation. However, these conditions are essentially the Maastricht convergence criteria, which were not to be imposed on the applicant countries.

When is transition over? As alluded to by the parable at the beginning of my paper, that determination is clearly shaped by the biases of those who are judging. In sum, I think the question is unanswerable.

NOTES

1. These programs are tightly controlled by the state without any countervailing power from large private corporations, with which Western governments have to cope when they try to control privatization.
2. In the beginning of transition, many advisors entertained the illusion that it was enough to lift the controls and "let the cards fall" to get a fully fledged market. For instance, see Sachs (1993, p. xii): "Markets spring up as soon as central planning bureaucrats vacate the field."
3. See Williamson (1994). The Washington consensus sums up the standard package recommended by the World Bank and the IMF to the developing countries with balance of payments problems in the 1980s.
4. These two building blocks have sometimes been lumped together in a "stabilization-cum-liberalization" concept.

5. In EU parlance, *acquis communautaire* encompasses all the decisions and legal provisions of any kind implemented since the relevant treaties among the members have been ratified, as well as the national laws based on these decisions and provisions.

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Table 1 Basic Demographic and Social Data on the Countries in Transition

Country	1995 Population (millions)	1985–1995 Pop. growth (%/year)	Life expectancy at birth (years)		Infant mortality rate per 1,000 live births		1994 Share of pop. age 15–64 (%)	Gini coeff.		HDI[b]	
			1990	1995	1991	1995		1993 (%)	Change since 1987–1988 (% pts.)	1990	1995
Group One											
Czech Rep.	10.33	0.0	71.3[c]	73	10	8	65	27	8	0.892	0.884
Hungary	10.23	–0.3	69	70	16	11	62	23	2	0.887	0.857
Poland	38.61	0.4	71.1	70	15	14	55	30	5	0.831	0.851
Slovakia	5.37	0.3	70.9[c]	72	12	11	60	20[c]		0.892	0.875
Slovenia	1.99	0.1	n.a.[d]	74	10	7	56	28	4	n.a.	0.887
Bulgaria	8.40	–0.6	73	71	17	15	66	34	11	0.854	0.789
Romania	22.69	0.0	71	70	27	n.a.	65	26[c]		0.709	0.696
Estonia	1.49	–0.3	69.3	70	14	14	39	39	16	0.872	0.758
Latvia	2.52	–0.4	69.1	69	16	16	60	27		0.868	0.704
Lithuania	3.72	0.5	70.4	69	14	14	55	34		0.881	0.750
Albania	3.26	1.0	72	73	28	30	60	n.a.		0.699	0.656
Group Two											
Russia	148.20	0.3	67.9[c]	65	20	18	65	48	14–24[e]	0.862	0.769
Belarus	10.34	0.4	69.8[c]	70	15	13	60	22		0.861	0.783
Ukraine	51.55	0.1	69.4[c]	69	18	15	60	26[c]		0.844	0.665
Moldova	4.34	0.4	67.6[c]	69	23	22	60	34[c]		0.758	0.610

Kazakhstan	16.61	0.5	69.6[c]	69	32	27	59	33[c]		0.802	0.695
Kyrgyzstan	4.52	1.2	69[c]	68	40	30	55	50	9–33[e]	0.689	0.633
Turkmenistan	19.17	3.3	65[c]	67	56	46	55	36		0.726	0.660
Uzbekistan	22.77	2.3	69.2[c]	70	44	30	55	n.a.		0.695	0.659

SOURCE: World Bank 1991 and 1997a; World Bank 1996; UNDP, 1993 and 1996.

[a] The Gini index measures the extent to which the actual distribution of income deviates from a perfectly equal distribution. A Gini index of 0 percent represents a perfect equality, whereas an index of 100 percent represents maximum inequality.

[b] The HDI (Human Development Index) as computed by the United Nations Development Program.

[c] 1992 data.

[d] n.a. = data not available.

[e] A range of values for the change is due to statistical inconsistencies.

Table 2 Basic Macroeconomic Data on the Countries in Transition

Country	1995 GDP per capita[a] (U.S.$)	1995 GDP per capita PPP[b] (U.S.$)	GDP growth index[c]		1995 Unemployment rate (% of labor force)	1995 Investment rate (% of GDP)	1995 Investment index[c]	Inflation rate[d]		1996 Average monthly wages (U.S.$)	1995 General government balance/GDP
			1993[e]	1996				Highest (1991–1996)	1996		
Group One											
Czech Rep.	3,870	9,770	65.4	69.8	2.9	31.0	65	57 (1991)	9	356	0.4
Hungary	4,120	6,410	81.9	86.0	10.4	19.3	62	35 (1991)	24	307	–6.5
Poland	2,790	5,400	82.2 (1991)	104.5	14.9	17.1	55	586 (1990)	20	350	–3.5
Slovakia	2,950	6,660	75.0 (1992)	89.8	13.1	29.2	60	61 (1991)	6	266	3.2
Slovenia	8,200	9,350	79.9 (1992)	88.2	14.5	21.2	56	549 (1990)	10	953	–0.0[f]
Bulgaria	1,330	4,480	73.3	68.5	11.1	14.2	66	338 (1991)	123	77	–5.7
Romania	1,480	4,360	75.0 (1992)	88.2	9.5	21.9	65	256 (1993)	39	138	–2.8
Estonia	2,860	4,220	63.2 (1992)	67.0	15.0	25.0	39	1,078 (1992)	23	n.a.	–0.8
Latvia	2,270	3,370	51.0	51.7	6.6	16.6	60	951 (1992)	18	n.a.	–3.3
Lithuania	1,900	4,120	37.2	40.1	7.3	21.4	55	1,020 (1992)	25	n.a.	–3.3

Albania	670	n.a.	72.0	73.0	13.1	n.a.	60	193 (1992)	8	n.a.	–9.4
Group Two											
Russia	2,240	4,480	71.9	56.6	8.2	19.8	65	1,529 (1992)	48	156	–4.9
Belarus	2,070	4,220	78.2	63.4	2.7	25.1	60	2,220 (1994)	53	n.a.	–1.9
Ukraine	1,630	2,400	68.0	41.6	0.9	20.0	60	4,735 (1993)	24	75	–5.0
Moldova	920	n.a.	57.0	35.0	1.4	7.4	60	1,751 (1993)	24	n.a.	–5.5
Kazakhstan	1,330	3,010	49.0 (1995)	49.2	2.1	18.8	59	1,880 (1994)	39	n.a.	–2.3
Kyrgyzstan	700	1,800	53.2 (1995)	56.3	3.0	22.0	55	1,209 (1993)	30	n.a.	–12.5
Turkmenistan	920	n.a.	82.7	59.6	n.a.	n.a.	55	2,714 (1993)	500	n.a.	–1.6
Uzbekistan	970	2,370	80.5 (1995)	82.1	0.3	n.a.	55	550 (1994)	50	n.a.	–4.1

SOURCE: World Bank 1996; Podkaminer et al. 1998 (for monthly wages in $).

[a] Based on the 1995 exchange rate.

[b] PPP = purchasing power parity.

[c] 1989 = 100.

[d] Annual % change in CPI from preceding year.

[e] Or lowest point of the GDP index.

[f] Actual value –0.03.

[g] n.a. = data not available.

Table 3 Foreign Trade and Financial Data on the Countries in Transition

Country	1996 Foreign trade indicators: Import/GDP	1996 Foreign trade indicators: Export/GDP ratio	1996 Trade balance (% of GDP)	FDI, cumulated 1988–1996 (U.S.$, millions)	1996 FDI flow (% of GDP)	FDI cumulated 1988–1996 per capita (U.S.$)	1996 Gross debt (% of GDP)
Group One							
Czech Rep.	54.0	42.6	–11.5	7,371	2.7	712	36
Hungary	36.4	29.6	–6.9	13,377	4.5	1,307	62
Poland	28.2	18.6	–9.2	5.492	2.1	142	31
Slovakia	57.7	46.6	–11.1	789	0.3	147	33
Slovenia	50.8	44.9	–5.9	786	1.0	393	22
Bulgaria	43.3	45.3	2.0	399	0.9	48	103
Romania	28.1	21.6	–6.5	1,184	0.6	52	23
Estonia	75.3	48.9	–26.4	752	1.4	507	7
Latvia	45.4	28.3	–17.2	775	4.2	310	8
Lithuania	59.6	44.4	–15.2	261	1.5	70	16
Albania	34.8	8.1	–26.7	258	2.2	72	23
Group Two							
Russia	7.1	15.6	8.5	7,519	0.4	50	29
Belarus	17.6	13.6	–4.0	57	0.1	6	10
Ukraine	18.6	15.6	–3.0	1,245	0.9	24	20
Moldova	26.0	15.9	–10.1	167	5.7	38	41
Kazakhstan	6.2	13.9	7.7	2,591	5.0	150	n.a.

Kyrgyzstan	22.5	5.8	–16.7	n.a.	n.a.	n.a.	n.a.
Turkmenistan	30.6	17.7	–12.9	n.a.	n.a.	n.a.	n.a.
Uzbekistan	22.3	20.3	–2.1	n.a.	n.a.	n.a.	n.a.

SOURCE: EBRD 1996; ECE/UN 1997; World Bank 1991, 1996, and 1997a; Podkaminer et al. 1997.

Table 4 Structural Data on the Countries in Transition

Country[a]	Column 1 Priv./GDP[b] (%)	2 L–S priv.[c]	3 Enterpr. restr.[d]	4 Price lib.[e]	5 Forex lib.[f]	6 Comp. pol.[g]	7 Bank reform[h]	8 Capital markets[i]	Overall rating[j] (cols. 2–8)
Group One[j]									
Czech Rep.	75	4	3	3	5	3	3	3	24
Hungary	70	4	3	3	5	3	3	3	24
Poland	60	3	3	3	5	3	3	3	23
Estonia	70	4	3	3	4	3	3	2	22
Slovenia	45	3	3	3	5	2	3	3	22
Slovakia	70	3	3	3	5	3	3	3	23
Romania	60	3	2	3	3	1	3	2	17
Bulgaria	45	2	2	2	4	2	2	2	16
Latvia	60	3	3	3	4	2	3	2	20
Lithuania	65	3	3	3	4	2	3	2	20
Albania	75	2	2	3	4	2	2	2	17
Group Two									
Russia	60	3	2	3	4	2	2	3	19
Belarus	15	1	2	3	2	2	1	2	13
Ukraine	40	2	2	3	3	2	2	2	16
Moldova	40	3	2	3	4	2	2	2	18
Kazakhstan	40	3	2	3	4	2	2	2	18

Kyrgyzstan	50	3	2	3	4	2	2	2	18
Turkmenistan	20	1	1	2	1	1	1	1	8
Uzbekistan	40	3	2	3	2	2	2	2	16

SOURCE: Adapted from EBRD 1996; data as of August 1996.

[a] Countries in Group 1 are listed in general order of consideration for EU admission.

[b] Priv./GDP = officially declared share of the private sector in the creation of GDP.

[c] L-S priv. = large-scale privatization.

5: Standards typical of advanced industrial economies, though the state of corporate governance may be unclear; more than 75% of state assets privatized
4: More than 50% of state assets privatized; apparently substantial insider ownership
3: More than 25% of state assets privatized; apparently substantial insider ownership
2: Beginning of implementation of comprehensive privatization schemes
1: Little private ownership

[d] Enterpr. rest. = enterprise restructuring.

3: Significant and sustained actions to harden budget constraints and to enforce bankruptcy legislation
2: Moderately tight credit, weak enforcement of bankruptcy legislation; de-monopolization is slow
1: Soft budget constraint (lax tax and credit policies); few efforts to promote corporate governance

[e] Price lib. = price liberalization.

3: Substantial progress on price liberalization; energy prices, utilities not completely freed
2: Substantial remaining price controls and state procurement

[f] Forex lib. = foreign exchange liberalization.

5: Completed, with only some restrictions for capital movements
4: Quasi-convertibility of the domestic currency for current account transactions
3: Remaining exchange controls and multiple exchange rates
2: Some liberalization of import and export controls; almost full current account convertibility, but the forex regime is not transparent and may have multiple rates
1: Widespread export/import and foreign exchange controls

[g] Comp. pol. = competition policy.
3: Some efforts to promote a competitive environment; reduction of entry restrictions; difficulties in breaking up of large monopolies
2: Competition policies and institutions beginning to be set up
1: No competitive legislation or policy

[h] Bank. reform = banking reform.
3: Fully established two-tier system; framework for prudential regulation; significant presence of private or foreign banks, though the banking sector remains state-owned in its majority; beginning of a lending policy, though banks remain risk-adverse and lack experience in assessing the solvency of the enterprises, thus restraining credit and contributing to inter-enterprise arrears.
2: Liberalization of interest rates and credit allocation; limited use of directed credit or interest rate ceilings
1: Two-tier system; no further reform

[i] Capital markets.
3: Creation of investment vehicles (investment funds, insurance, or pension funds); opening of stock exchanges; issuance of securities by private enterprises and by the government
2: Legislation for the setting up of stock exchanges; some trading in government bonds
1: Little progress in reforms

[j] Overall rating.

The overall rating is a "mechanical" addition of ratings obtained in Columns 2 though 8. It is obvious that the provisional choice of the European Commission in selecting the first group of countries to begin negotiations for EU accession (confirmed by the December 1997 Summit of the EU) rests upon logical assumptions. Estonia is doing best among the Baltic states and Slovenia among the South-east European ones (in addition, Slovenia has the highest GDP per capita of all the countries in transition [see Table 2], which would suggest less need for support). As to the "exclusion" of Slovakia, it has been motivated mainly by political reasons (the lack of respect for the rights of minorities, and what is felt in the West as the lasting influence of former Party and police cadres).

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Annette N. Brown
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300 S. Westnedge Avenue
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