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Round table on Russia

A new economic policy for Russia

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This is an edited and updated version of a joint statement of Russian and American economists that was originally published in Russian on July 1, 1996, in the Moscow newspaper, *Nezavisimaya Gazeta*, the leading intellectual newspaper of Russia. It was signed by five leading Russian economists: Leonid I. Abalkin, Director, Institute of Economics; Oleg T. Bogomolov, Director, Institute for International Economic and Political Studies; Valery L. Makarov, Director, Central Economic-Mathematical Institute; Stanislav S. Shatalin, Academy of Sciences, Department of Economics; Yuri V. Yaryomenko, Director, Institute for Economic Forecasting (now deceased) as well as the following American economists, who endorse this updated version of the joint statement for publication: Kenneth J. Arrow, Nobel Laureate and Joan Kenney Professor of Economics, Stanford University; Michael D. Intriligator, Professor of Economics, Political Science, and Policy Studies, University of California, Los Angeles; Lawrence R. Klein, Nobel Laureate and Benjamin Franklin Professor of Economics, University of Pennsylvania; Wassily W. Leontief, Nobel Laureate and Professor of Economics, New York University, Marshall Pomer, U. S. Coordinator, Economic Transition Group; Robert M. Solow, Nobel Laureate and Institute Professor of Economics, Massachusetts Institute of Technology; James Tobin, Nobel Laureate and Sterling Professor of Economics, Yale University. This version of the joint statement was submitted by Michael D. Intriligator.

We, Russian and American economists, would like to propose the basis for a new economic policy for Russia. We are submitting our proposals to President Boris Yeltsin in view of his statements that serious errors were made in the economic reform programme and his promises of a new approach to economic policy. What should this new approach be? We respectfully submit for consideration the following five-point agenda:

1. The Russian government must play a much more important role in the economy, as in such modern mixed economies as the United States, Sweden, and Germany. The government must play a central coordinating role in establishing the public and private institutions required for a market economy to function. The reaction against a centrally planned economy was predictably to minimize the state's role, but in the next stage a revitalized and reoriented activist government must take initiatives to foster a market economy and to combat depression, inflation, capital flight, and other structural defects in the Russian economy. The emphasis of the shock therapy approach to the transition, starting in 1992, was almost wholly on private sector development, but attention

must now be given to the state sector, with the Russian government expediting the restructuring of Russian industry and actively establishing market institutions. The government must establish property rights, a viable currency, a legal system with enforcement, regulations to deal with monopoly and the theft of assets by the managers of newly privatized enterprises, and a simplified and enforced tax code. It must assist in establishing commercial and investment banking, functions that are not now being performed by Russian banks. It should also assist in establishing accounting, insurance, and other needed market functions. Many of the current problems of the Russian economy stem directly or indirectly from the fact that the government has not assumed its proper role in a market economy.

2. Strong governmental actions are necessary to prevent the further criminalization of the economy. In the absence of government intervention, criminals have filled the vacuum. Criminalized institutions enforce contracts by threats against life and property, illegal courts, mafia control of major sectors of the Russian economy, and corrupt officials. Thus, to an unfortunately large degree, the transition has been not to a market economy subject to the rule of law but rather to a criminalized economy. The government must reverse and stop this cancer of criminalization and corruption in order to provide a stable business climate and thereby stimulate investment and production. This will take reform in the government itself and strong action in cracking down on crime and in establishing institutions to replace those that the criminal elements have been providing in the absence of an effective government.

3. Governmental action is necessary to recover from the major reductions in output, which are on the same scale as the reductions in the US during the Great Depression, 1929–1932. Macroeconomic policy must foster expansion and encourage non-inflationary growth. The Russian economy cannot stabilize itself and restore its severe losses by itself. The state must help channel investment away from non-productive luxury housing or speculative inventory accumulation into productive capital formation. It should also provide needed social overhead capital and restore health services, education, environmental protection, science, and other social investments. Government must protect Russia's two greatest assets, its human capital and its natural resources. It should ensure that rents from mineral wealth are converted into government revenues and public investments. It should use the international trade earnings from gas and oil exports to import not food and luxury consumer goods but rather capital goods for upgrading Russia's obsolete physical plant. Such an expansionary policy would require renegotiation with the IMF and World Bank, which have provided only relatively small levels of funding but have tied the hands of the government in combatting depression and capital flight. An activist monetary policy can fight inflation, with the help of enforcement of a new tax code.

4. A new social contract is necessary, including a social safety net. The social consequences of the current economic situation have been horrendous, including huge increases in the numbers in absolute poverty, the destruction of the middle class as a result of inflation and reductions in real wages, dire outcomes for health and longevity, and

other negative social outcomes. The state must take the initiative of requiring the payment of earned wages to workers, many of whom have not been paid for months.

5. Government policy must recognize that if there is a 'secret' of a market economy it is not private ownership *per se*, but rather competition. Government policy, whether at the national level or at the local level, must encourage the formation of new competing enterprises. Such enterprises could be the vanguard of a market economy and stimulate new initiatives for investment, production and employment. New enterprises should be bidding away the resources that the privatized state enterprises are not efficiently exploiting. Those enterprises retain all the problems of the past — excessive size, extreme vertical integration, obsolete technology, lack of initiative, incompetent management, *etc.* Worse yet, the newly privatized state enterprises exhibit new problems stemming from their privatization itself, including monopolistic price gouging by the new owner-managers and asset-stripping sales of raw materials and plant and equipment, with the proceeds going to private offshore accounts. New competing enterprises, whether domestically based, using returned flight capital, or joint ventures and foreign investments, can overcome these problems. Overall, the government should recognize that competition is what makes a market economy work. Following these recommendations would strengthen the Russian economy. In all of these new policy approaches, however, we would urge patience. Successfully moving an economy in a different direction takes time. That is one lesson of the last few years.

Agenda for Russian reforms

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1. The status of Russian reforms

Since President Yeltsin first took office in the fall of 1991, Russia has pursued some bold economic reforms. The government liberalized prices in early 1992, privatized most of the industry as well as small businesses between 1992 and 1994 and finally, achieved price stability in 1995 and 1996. During this time period, millions of small private businesses were created, financial markets and a private banking sector sprang up, the country experienced a tremendous export boom and enjoyed a large current account surplus. Many of the institutions of a private economy, such as a system of commercial laws and of security exchanges, began to emerge as well. In less than five years, Russia turned into a market economy.

In this period, Russia has scored a number of dramatic failures as well, especially as compared to other radical reformers in eastern Europe. Nearly two years after stabilization, Russia's economy has not yet begun to grow. The pace of small private business formation lags significantly behind that in Poland, the Czech Republic, or Hungary. While stabilization has been achieved, the government budget remains in precarious shape, and inflation has been kept down only through vast public borrowing. The government at both national and local levels remains corrupt, disorganized, and oblivious to the wishes of the public. Most unfortunately in this respect, the government fails to provide the public with basic order, allowing organized crime to become a substitute mechanism for protection of private property.

These two sides of the Russian transformation raise fundamental questions. Why has Russia, despite following many of the same economic policies as the countries of eastern Europe, failed to grow? Why does its economy exhibit pathologies such as corruption and organized crime to such an extreme extent? Can something be done to bring about growth and to eliminate the pathologies? What is the principal agenda of future reforms in Russia?

2. Picking losers

On July 1, 1996, a group of distinguished Soviet and American economists published a letter in a Russian newspaper condemning President Yeltsin's economic reforms. The letter was printed two days before the run-off in the presidential elections, and was widely interpreted as an endorsement of the communist presidential candidate Zyuganov, many of whose ideas the letter echoed. A revised version of this letter — which gets rid of some of the unfortunate proposals of the July 1 version, such as government-mandated wage and pension increases to restore purchasing power — is published in this issue of *Economics of Transition*.

The letter contains a diagnosis of Russia's economic problems, and a prescription for how to cure them. The diagnosis is that Russia has followed extreme *laissez-faire* policies and, therefore, has ended up with a state that is too small and too inactive. This small and inactive state is the principal source of Russia's malaise. The prescription, which follows from the diagnosis, is that Russia should have a larger and more activist state as the centrepiece of its economic policy. Without going into all the details, let me explain why the diagnosis is inaccurate, and why the prescription — if administered — will kill the patient.

By conventional statistics, Russian government spending is not low. While it is below that in Poland and the Czech Republic, it is comparable to that in Romania, Lithuania, and Latvia, all of which are growing. In many ways, however, the Russian state is much more pervasive in the economy than that of east European countries: it regulates more, tries to tax more heavily (though collects less), subsidizes some industries and agriculture, manages — and typically restricts — competition, and maintains an enormous and overreaching bureaucracy. All the surveys of Russian entrepreneurs point to taxation and regulation as the principal obstacles they face. When Polish businessmen talk about their problems, they focus on competition; when Russian businessmen do so, they talk about the over-powerful state. The trouble with the Russian state is not that it is small and inactive, but rather that it is far too active, and its activity is fundamentally predatory, disorganized, and hostile to growth. If it were to grow, such a state would turn Russia not into Sweden, but into Peron's Argentina at best and possibly Indira Ghandi's India or Nyerere's Tanzania. The objective of Russian reforms has been precisely to restrain this state and to prevent it from doing more damage.

The disaster that befalls a country when a predatory state becomes more activist, as the authors of the letter recommend, is well-understood from world-wide experience. In fact, the Russian government has recently become more activist in some areas, and offers depressing illustrations of the letter's prescription in action. Let me simply translate a regulation issued by the Russian government on January 7, 1997, concerning 'the measures of support of production of domestic television sets'. It is best appreciated when translated in its entirety:

'To pursue the development of the production of domestic television sets, to raise their competitiveness, and to create additional jobs, the government of the Russian Federation decrees:

1. The Defence Ministry of the Russian Federation must in 1997 develop models of competitive television sets using funds assigned to this ministry under the programme of 'Conversion of the Defence Industry.'

2. The Ministry of Finance of the Russian Federation must in 1997 allow the principal producers of television sets (names follow) to defer payment of the value added tax.

3. To recommend to the agencies of the executive branches of the subjects of the Russian Federation that they defer the contributions of the television producers to their budgets.

4. The Ministry of the Economy of the Russian Federation and the Ministry of Finance of the Russian Federation must provide priority funds for financing the investment projects of television producers to the amount of 160 billion roubles using the resources assigned for implementation of highly-effective commercial investment projects, supported on a competitive basis.

5. The Ministry of Finance of the Russian Federation and the Ministry of the Economy of the Russian Federation must provide on a priority basis 100 billion roubles to the producers of television sets on condition of repayment using the funds dedicated to financial rehabilitation and restructuring of loss-making and failing enterprises.

6. The Russian joint-stock company 'RAO EES' (the electricity monopoly), the Russian joint-stock company 'GAZPROM' (the gas monopoly) and other interested organizations, together with the agencies of the executive branch of the subjects of the Russian Federation, must examine the possibility of deferring the payments owed by television producers as of November 1, 1996 for heat, electrical energy, gas, water, and other services on the condition of resumption of timely payments for current use'.

Here it is: the activist Russian state trying hard to pick losers, supporting one of the country's most hopeless industries and wasting precious resources to this end. As the regulation amply illustrates, the Russian government can distort with the best of them when it becomes activist. Just imagine what that government would do if it did not face a relatively hard budget constraint prescribed by the 'orthodox' economists.

3. A better way

What Russia needs is not a larger and more activist government, but one that is less predatory and more responsive to public needs. Only such a government would pursue policies that support growth and protect the public. Getting a better government calls for massive public sector reforms that focus, most importantly, on changing the incentives of politicians and bureaucrats who today run Russia's predatory state. They include such measures as changes in the federal organization of the Russian state, tax reform, electoral reform, and legal reform. These reforms are today as central to turning Russia into a functioning market economy as the economic reforms were five years ago.

Perhaps the most essential of the public sector reforms today is the reorganization of Russia's federal system with the aim of devolving power to local governments. Today's system is characterized by a moderately powerful centre, extremely powerful regional governments, and pathetically weak local governments. Regional governors have enormous power: they have much control over the tax collection process and are able to withhold tax contributions to the centre; they manage to extract subsidies from the centre by threatening separatism and civil disobedience in their regions; they control the upper house of Parliament; and — perhaps most importantly — they have complete control over local governments, whose spending they determine. Governors use this power to destabilize the federal budget, to support declining industrial firms in their regions, and to pursue their own protectionist industrial policies. Given their powers, most governors have found it much easier to get resources by extracting them from the central government rather than by supporting regional growth.

Local governments, in turn, have no budgets, no spending authority independent of the regions, virtually no ability to raise their own revenues and, hence, virtually no capacity or interest to expand their own tax base. As a consequence, Russia lacks what the growing economies from China to Poland have relied on so heavily for small business formation: local governments which have an interest in expanding the tax base and promoting local growth. Deprived of any political or economic incentives to promote business growth, local bureaucrats simply prey on small business, and suffocate it with regulations and bribes. Local governments do not even have control over the provision of local public goods, such as education, healthcare and police protection. The control over these services remains with the central and regional governments, which have lost the communist party as a mechanism for enforcing performance, yet still lack any serious political incentives to make local services work. Again not surprisingly, the quality of these services has deteriorated tremendously because of the absence of local control and accountability. Russia's 'mafia' problem has a lot to do with the lack of effective control over police by the politicians.

The reform of the federal arrangements existing in Russia today requires several significant devolutionary measures. First, local governments must have independent budgets, including their own spending and taxing authority. They should not depend in a significant way on regional governments. In spending, they must take on responsibility for providing basic local services, such as health, education, and police. The best tax instrument for local governments to rely on are property taxes which would stimulate their interest in business growth. Second, regional governments should lose most of their control over local governments, but at the same time have a much more rules-rather-than-discretion based financial relationship with Moscow. The current arrangement, where regional governments expand their budgets by blackmailing Moscow, must end. When governors discover that the best way to get resources is not by bargaining with Moscow but by increasing the tax base, their interest in promoting growth might increase as well. Finally, the central government should lose its discretionary control over regional budgets and over essentially local services, such as health, education, and police protection. Decentralization of the provision of these services, and the elimination of discretion over financing them, is likely to improve the quality of public service provision, including public safety, dramatically.

Closely related to the reform of the federal system is the reform of the tax system. Russia's tax system today is characterized by a large number of taxes, many imposed independently by different levels of government on the same activities. An immediate consequence of the high marginal rates is an incredibly low compliance rate, especially for business taxes. In some estimates, because of the tax and regulatory stance of the government, nearly a third of the Russian economy today is unofficial and thus avoiding paying taxes altogether. This huge unofficial economy, of course, relies heavily on 'private' protection. Reducing the marginal rates and improving the quality of collection (which to a large extent means reining in the 'activist' tendencies of tax authorities) are, therefore, essential for raising revenues, fighting crime and, most importantly, promoting economic growth.

The reforms of the federal and tax systems are likely to be most fruitful when combined with frequent electoral oversight of politicians. When politicians at all levels have clear budgets, clear domains of responsibility, and clear sources of tax revenue, voters would be better able to assess these politicians' performance. Only when this oversight begins to function effectively will Russia get governments whose activism is worth considering.

A final set of essential reforms concerns improvements in the legal system, including both the production and enforcement of commercial laws. The consequences of an ineffective legal system are not as severe as those of predatory tax and regulatory regimes. Most businessmen in Russia get into trouble because of fights with the government, not fights with each other. Russia has already made considerable progress in the legal area in the last few years, but many countries have bad laws and even worse enforcement. Private enforcement of both public and private rules often substitutes for government enforcement effectively. Still, pushing these changes along is a key part of the reform agenda of the public sector.

There is an extensive reform agenda, and I have not produced a full list of wishes. It is doubtful whether all these reforms can be completed during Yeltsin's second term. Yet these reforms are essential for giving Russia a decent government. Perhaps when Russia gets such a government, the discussion of making it larger or more activist might begin to make sense, as it does in the United States or Sweden. Today, however, the pro-growth agenda is the agenda of *reforming* the state, not allowing the one that is there to grow. Ironically, the very same people who achieved the fundamental economic reforms are now the principal advocates of public sector reforms. And the very same people who opposed transforming Russia into a market economy are now pushing for the growth of the existing state. While their dreams about Sweden are understandable, they are hardly a basis for sound economic policy.

Endnote

1. More detailed versions of the arguments presented here are contained in Timothy Frye and Andrei Shleifer, 'The invisible hand and the grabbing hand', forthcoming in the *American Economic Review Papers and Proceedings*, 1997, and Andrei Shleifer, 'Schumpeter Lecture: Government in Transition', forthcoming in the *European Economic Review*, 1997.

The legacy of a superpower

John Lloyd
New Statesman

Russia is free, as freedom is now reckoned in the world.

It has all the appurtenances of a democratic state, from a constitution to local council elections. For the first sustained period in its history, it has no over-arching ideology which sustains its rulers in office without reference to the popular will, periodically expressed in elections. For the past five years, it has been what its reformers' ambitions were to make it: a 'normal' country. Or at any rate, it has been struggling to become so.

It is worth beginning with such statements of fact, for they have been rendered — at times — apparently meaningless or hollow by the shocks from which the society still suffers. Russians have been forced, again and again in the nineties, the decade of their freedom, to count its price. They continue to cleave to it, and to vote for its continuation — if often ambiguously.

Becoming 'normal' was conceived as constructing a civil society — by which was meant both introducing the institutions of a democratic order, and allowing citizens to come to their own settlements and decisions on their lives, under a rule of more or less objective law. The long decades of the effort to declare a fully socialist society continuously overrode what might have been peoples' plans for their own lives: Freedom from communism was conceived as an end to such a project, and the beginning of true private lives lived within a society where relations were uncoerced.

But the freedom which Russians — and others — received when the Soviet Union and the Communist party collapsed at the end of 1991 was only a necessary, and not a sufficient condition for the realization of the reformers' ideal. Liberation from communism had to be followed by a series of parallel and terribly hard processes of constructing the elements of a functioning and free state.

This is what should have happened in the first years of Russia, which were presided over by Boris Yeltsin, Russia's first elected president. Some of it *did* happen. But much which could have been achieved, or at least attempted, was not. It has not been a wasted period: but it has been a period in which the dangers within Russia, and the dangers Russia poses to the world, have not been cancelled. It continues to be a turbulent area of great uncertainty, where decisions are often made arbitrarily and mysteriously or not made at all; where corruption explains as much as the workings of democratic rule; where the decay of the Soviet era institutions still pollutes the atmosphere, hanging like a sickly vapour over the task of construction.

It was, at the end of the Yeltsin period, a country still in waiting — for itself. Its first new elites attempted to refound Russia on a transformed basis — efforts which were often herculean and courageous, but which did not and could not succeed in the time limits they set themselves. The transformations set in train were at times halted, always disputed, sometimes partially reversed.

The restructuring of the former communist central European economies of the Czech Republic, Hungary and Poland was, by the mid-1990s, clearly a success: growth rates were rising strongly, and all the main political forces had broadly agreed that markets and democracy were the cornerstones of the state. Russia was not like that: the constituencies in society for whom radical change was an outrage were too strong to allow reform to be driven through, and attain its own, self-sustaining dynamic. A stasis had settled over the political arena: reaction could not win, reform could not continue. Thus policy zig-zagged this way and that: a reform to make more liberal the workings of the financial markets, for example, would be followed by a thunderous denunciation of the West and a threat to re-arm.

The institutions of a democratic polity were, with difficulty and through bloodshed, erected. There is a constitution: a parliament with an upper and lower house: regional and local assemblies; an independent judiciary with a hierarchy of courts; a media with freedom constitutionally guaranteed. But they are afflicted with two problems.

First, the constitution is strongly presidential. In purely formal terms, it is not so much more so than either the US or the French systems (it was modelled on the latter in particular) — but the hyper-centralist traditions of the country, and the historical irrelevance and very brief existence of elected assemblies, mean that the centuries-old power of the centre has been reaffirmed, and countervailing powers given narrow bases from which to develop their authority.

Second, the informal networks of politics — the way the political system actually works — remain highly personalized and opaque. In any system, the formal rules are filled out, and to a degree circumvented, by a thick web of informal behaviour: but when the informal behaviour goes further than common sense circumvention and continually subverts the formal rules by consistently unconstitutional, illegal and corrupt acts, these rules become emptied of authority for all.

This is what is happening in Russia. The last year and a half of Boris Yeltsin's rule was a period in which the ailing president was sustained by a constant and transparent deceit that he was fully able to govern — while the mechanisms which could replace him constitutionally by an elected figure who could govern were blocked. In these circumstances, cabal politics prevail — especially after Yeltsin contested and won the 1996 presidential election. The strategic reforms which the country required, especially in its internal political arrangements, in the restructuring of industry and in the direction of its foreign policy, were not taken. The sustaining of a power which had no vitality meant constant backstairs dealing with the powerful figures in finance and the regions: the privileges and concessions they received then came to constitute the real, but hidden, constitution of the country, one in which the ordinary citizen has little share.

The very large achievement in economic terms has been the maintenance of a relatively tight monetary policy from 1994 onwards — policy which brought inflation down from over 30 *per cent* a month to as low as one *per cent* in some months in 1996–1997. The International Monetary Fund signed a three-year agreement with Russia worth $10.3 bn in March 1996 — thoughtfully placed a little before the Presidential elections — and claimed that the observance of the basic monetary parameters by the Central Bank and the Finance Ministry was good.

But it was at a huge price, which is increasingly visible and increasingly worrisome to the IMF and the main Western — Group of Seven — governments which seek to guide

Russia's transition. Since tax collection consistently falls below targets — by as much as twenty *per cent* — deep cuts in the already exiguous budgets must be made to maintain monetary discipline. The most obvious manifestation of this is unpaid salaries, the backlog of which grew rapidly in 1996–97; less obvious, but more serious in the long run, is the slashing of investment in education, health, transport and other infrastructure. With the partial exceptions of Moscow and St. Petersburg, the services and health and supply systems of the cities and towns of Russia are becoming dangerously overstretched. Like any systems, these require maintenance: and it is maintenance budgets which are being slashed. Sooner or later, major accidents or epidemics will happen: already, all but forgotten diseases have reappeared.

While public infrastructure is not being renewed, private enterprise is not being restructured. The placing of the major part of Russian industry and services in private hands, effected at breakneck speed from 1992 onwards, has been represented as a triumph of reform: and indeed, there was no available alternative but to do so, since the state could not support the largely loss-making enterprises which emerged from the Soviet period. But the banks and finance houses which were the major beneficiaries of privatization — especially of the most valuable assets — have barely begun the colossal job of restructuring. They have become accustomed to making short-term profits from small loans on minor — often trading — projects: their shares in the large enterprises, even where these shares are themselves large, are largely dormant, as the new owners balk at the height of the obstacles they would have to overcome to turn the companies into profit-making, competitive, modern enterprises.

The enterprises are not only — too often — monstrously inefficient: they are also deeply hostile to the financial yardsticks which the banks seek to apply. Their managers, usually co-owners, have been trained to produce — not to make a return to shareholders, or to win customers, or to compete, or to sack workers. The local and regional authorities tend to make common cause with the managers against the representatives of Moscow capital — as do workers who cling to companies which provide flats, health care, social services and holidays as well as wages (which they frequently do *not* provide). Restructuring a Russian company has no model in the business school textbooks. The methods must be invented: the would-be inventors, understandably, quail before a job which would be seen as a declaration of war on communities.

Many, Russians and foreigners, who have dedicated large energies to the economic transformation of Russia in its first years, argue that it will be the miracle growth economy of the last years of the millennium, or at the latest the first years of the next. It should be. It has a large and relatively well educated population, avid to consume more; an unparalleled wealth of natural resources; an unfunded, basic but *still* very extensive transport infrastructure; and an exceptionally tough and often creative entrepreneurial class, now growing in sophistication and technical skill very rapidly. These elements should and very possibly will combine to force the 'breakthrough' to an economic surge which will run through the enormous country and begin to bring to large numbers of its citizens the wealth they have glimpsed, but not yet tasted.

But there is nothing inevitable about it. The lessons of Russia's first years include the harsh realization that the absence of communist economics is not enough: that capitalist economics requires institution-building and institutional networks which, when lacking, enmeshes development in uncompleted transformation. In this state, the market is anathematized for present failure while socialism is idealized for past security. This in turn freezes the political forces into immobility.

The successful resistance to grand-scale restructuring might have pointed to a society which has produced autonomous citizens' and workers' groups which, even if obstructing necessary change, still testify to a developing civil sense, and a working and a professional class with traditions and vigour. But it does not. The resistance to change, even if popular, is generally mounted not by self-created and self-led trade unions or citizens groups, but by 'masses' led by, or allegedly represented by, enterprise directors and politicians opposed to reform because they would suffer from it.

Organizations and societies had been created for the Soviet people, not by them: the lack of civil expertise and confidence was a deep one of long duration, and the first years of Russia actually saw a drop in the levels of public participation which marked the later Gorbachev years. Then, institutions like Memorial were started to exhume the buried histories of, and pay belated honour to, the victims of the camps and the purges: hundreds of democratic political clubs were begun: new organizations of artists of various kinds were formed. Many of these have since withered: while the pastimes organized by the state or more often by the enterprises for sporting and leisure pursuits, which millions enjoyed, have suffered widespread closures for lack of funds or custom. Foreign travel has risen hugely, and Russian joined the babel of foreign tongues in the tourist centres of the world: but much of that travel was for the new rich.

The largest change which affected Russian society through the nineties was an adaptation to new ways of getting by. Bit by bit, it was borne in to people that the state or the enterprise could not provide for a decent living standard — but that their own efforts could supplement the miserable wages they received. This was patchy and, like so much in the new Russia, owners turned their cars into taxis; people with flats in Moscow, Petersburg or other desirable centres rented them, and squeezed in with relatives; millions obtained private plots of land, and grew vegetables and potatoes; thousands flew to and from such low-cost markets as Turkey or India with goods for resale on the streets and markets of the cities. Workers who were paid in kind by their enterprises became, perforce, merchants for the products they made. Military officers turned their hands to freelance car mechanics.

The secure indolence of much of Soviet life gave way — for those who had the opportunities and the energy — to a fragmented work life made up of what they could get. Many in previously high status jobs felt the keen humiliation of doing a service job which they would previously have scorned: but the process was one of very rough sorting out of what was, and what was not, marketable — a process the rougher for being centuries overdue. The insecurity and pressure it caused was said to be a major factor in the disastrously low average life expectancy for men — 57–58 in the mid-nineties; the women, the drudges of Soviet society, seemed to bear it better, and lasted, on average, till their mid-seventies.

For all Soviet citizens, the experience of the nineties has been one of national humiliation. At the global level, Russia shrunk from being the core of a Soviet empire and hegemon in east-central Europe with dependencies throughout the world, to being at best a regional power whose authority was constantly an issue with its neighbours and decisively rejected by many — as the former Soviet Baltic states, and to a less emphatic degree, Ukraine. The Soviet Union's pretensions may have been mocked by its more internationally aware citizens in the past: but its power, its claimed (and conceded) co-equality with the US, its global reach, the nervous respect it commanded and the awesomeness of the military force it could deploy really were the source of pride for all but the most dissident or cynical.

All of this is gone (though not forgotten). Russia plays only relatively minor roles in any theatre of international diplomacy outside of the Commonwealth of Independent States which is what the Soviet states, minus the Baltics, have become — and none at all in many where it had been active or even decisive before. It has very largely withdrawn from Latin America, Africa and South East Asia. It retains some influence in the Middle East — but it is as an arms or nuclear energy supplier to those states which cannot get either from the west, activities which earn it the suspicion of those western countries on whose financial and other aid it relies. It plays a part — through the provision of troops — in the Bosnian peace-keeping operations, but under US command: its diplomacy was not decisive.

The early years of independence were marked by an exaggeratedly pro-Western — especially pro American — posture which brought it severe disappointment. Though some of its inflated expectations were encouraged irresponsibly by Western politicians bidding for the mantle of the saviour of Russia, the inflation was largely done by Russian politicians and the lack of reality was certainly a Russian phenomenon. The disappointment and bitterness were as exaggerated as the early idealism: by the latter half of the nineties, the plans of NATO to expand to take in the central European, former communist, states were being represented by centrist and former liberal officials and policy-makers as tantamount to a re-declaration of the Cold War.

But NATO expansion — unwise though the project was in itself — was a proxy for an unresolved debate within Russia. The communist and nationalist forces, who dominated the legislature from the mid-nineties, saw NATO simply as a hostile force which had won the Cold War, and was taking advantage of Russian weakness to move closer to its frontiers. They thus saw only one possible reaction: to re-form what kind of opposing alliance Russia could muster. They were not so foolish as to believe it could restore the Warsaw Pact: but they did think it could draw the CIS states about it, supplemented by the radical Arab countries of Iraq, Libya and Syria, with former allies such as Cuba and those African, Latin American and South-East Asian countries doing badly out of globalization. The communist-nationalists were also often 'Eurasians': that is, they believed that Russia was only partly a European power, but that what made it distinctively a separate civilization was its vast bulk hunched over central Asia and out into the Far East.

This strategy, so disastrous for Russia's long term interest, nevertheless commanded substantial support in the foreign policy community and in the political class — if only because they thought, or told the West they thought, that they would be forced to bow to communist-nationalist pressure. Victor Chernomyrdin, the Russian Prime Minister, said in February 1997 that

NATO expansion would, all but automatically, cause a re-arming of Russia. 'The military production facilities are there, in mint condition, ready, waiting. This is how the unemployment problem will be solved. The tanks and the planes will roll out again. Do we need this?'

Clearly not: it would further reduce a largely bankrupt country. Russia's future, on any rational calculation, lies in a close relationship with Europe, not in a recoil from it. But the habit of greatness, and the intolerability of a further slight to greatness, was too deeply ingrained to be challenged — even by a politician like Chernomyrdin, who had bought in to much of the Western agenda. The country, he claimed, was at the limit of the compromises it could make with an expansionist West. Not only had it failed to find a role: it had failed to find a place large enough for its self-image (while being modest enough for its resources). The Soviet legacy was nowhere as lasting and as tenacious as here.

Book reviews

Hardy, Jane and Al Rainnie, *Restructuring Krakow: Desperately Seeking Capitalism*, London and New York: Mansell Publishing Limited, 1996.
ISBN 0-7201-2231-7

This is an interesting and to some extent refreshing attempt to reinterpret developments in eastern Europe, particularly Poland, in Marxist terms. The authors begin by correctly arguing that the importance of class conflict has been downplayed by most analysts of the post-communist transition. They are also exactly right in thinking that a form of this conflict lies behind much of the political struggle and many of the economic decisions in the transition. Their detailed studies of enterprise restructuring in Krakow are quite enlightening on firm-level political issues and definitely contribute to our understanding. Unfortunately, they apply western categories of classes too rigidly and this leads to several serious misunderstandings about the nature of the transition.

The most attractive feature of the book is its emphasis on thinking about classes and class conflict in the demise of the communist system and subsequent reforms. Strangely, however, there is no mention of Djilas, and very little discussion directly about the role of the *nomenklatura* under the old system. It is this failure to fully understand 'productive relations' under communism which leads the authors to misinterpret both reform in general and the role of Solidarity in particular. The authors do recognize there was a ruling elite: the communist party. That this elite was corrupt and incompetent is alluded to in some of the case studies, particularly in Section III, but is not properly addressed in the theoretical Section I or the historical Section II. Most importantly, the fact that Solidarity was first and foremost a popular movement against the old rent-seeking elite is almost completely ignored. As a result, the authors do not understand that successful political transition required the breaking of the old elite. They also do not understand that this break was the primary goal and achievement of Balcerowicz's radical economic reforms. Seen in this way, there was no betrayal of Solidarity. On the contrary, the successful achievement of the initial anti-*nomenklatura* goal meant that from 1990 Solidarity could move on to become something closer to a western European-style union. Given its track record and established structure, it was natural that Solidarity's name continued even while membership dropped and its aims were completely transformed. Even now, however, the parallels with Western Europe should not be overemphasized. Poland has become a success story of the post-communist world and — as the authors point out, for example in their analysis of ZPT Krakow — in part this is because many Solidarity members continue to push for more effective enterprise-level restructuring.

The authors are clearly surprised by the positive role played by Solidarity in the transformation of firms. With a western socialist background, they are suspicious that working-class organizations should support capitalist development, particularly foreign investment. However, the authors' own cases (although not their theoretical discussion) make it clear that post-communist enterprise restructuring requires a thorough reorganization of work, yet many Polish managers are unwilling to push through the necessary changes. As a result, smart local union organizers see the need to push management and lead their members towards faster and more effective reorganization. This reorganization is costly, and some groups lose more than others. The authors correctly point out that women have suffered disproportionately in many sectors. However, the choice facing these firms is simple: reorganize or die. Many parts of Solidarity recognize this reality more clearly than do existing managers. Seen in this light, the authors provide a fascinating discussion of conflicts between union groups, for example in the ex-Lenin steelworks.

Their discussion of foreign direct investment is also interesting, but fails to comprehend that this kind of investment follows rather than leads the transition process. Unfortunately, the authors focus too much on large foreign investments and miss altogether the essential role of the dynamic private sector, particularly the importance of small amounts of foreign capital and local learning of foreign management practices.

The book is weak on political events, particularly the critical developments in mid-1989, as well as the precise nature of the supposed anti-reform backlash. A much more detailed analysis is necessary to explain how the country could 'swing to the left' at the same time as successive governments continue and even deepen reform. The authors simply repeat the standard 'reaction against reform' story which does not really fit with their much richer analysis of what is happening in Krakow.

The authors should definitely be commended for their detailed accounts of actual firm-level restructuring in Krakow. The discussion of what workers get and do not get in companies such as ZPT Krakow and Wawel is very useful and not readily available from other sources. Some of the material on inter-union dynamics suggests more general issues for empirical and analytical investigation.

In the end this book is useful on issues which fit within a standard western socialist theoretical view, and it is certainly a serious and worthwhile attempt to make standard categories useful for understanding the transition. The assessment of group conflict arising from privatization and foreign investment is particularly good. However, the book is not convincing on issues which are harder to understand by directly applying western socialist concepts: the role of Solidarity, small business as a dynamic force, and the importance of destroying the political and social power of the *nomenklatura*. Unfortunately, the latter set of issues is critical to understanding both the Polish transition and why other countries still struggle to rid themselves fully of communism.

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Centre for Co-operation with the Economies in Transition (CCET), *Regional Problems and Policies in the Czech Republic and the Slovak Republic*, OECD, 1996.
ISBN 92-64-14828-0 £20.00

This report presents a welcome analysis of the evolution of regional problems and regional policy in the Czech and the Slovak Republics, since 1990. As one would expect from a report associated with the CCET series, it is well researched, comprehensive and accessible. The data and maps are well presented and are easily consulted.

This report is successful not only in bringing some semblance of structure to the diverse and intriguing range of regional problems which have emerged in the Republics since 1990, but also in identifying and evaluating the quite different approaches to regional policy which have been adopted by the Republics since the break-up of the Federation.

There are two points regarding the general structure and content of this report which are particularly noteworthy. First, the analysis of the two Republics in separate, uniform, chapters is extremely helpful as it allows easy comparisons to be drawn between the regional problems currently being experienced by the Republics. It also makes explicit the similarities and differences in the approach adopted by each Republic in developing and implementing regional policy. The main similarities between the Republics are that neither yet has a clearly defined regional policy framework, and the regional initiatives which have been adopted have been rather narrow in scope, concerned only with minimizing the regional unemployment effects associated with economic transition. The differences relate to the different ways in which the two Republics have sought to mitigate regional unemployment. Second, the level of detail and insight provided by the case studies of 'problem' regions in each Republic is impressive and adds considerably to the report.

However, the reader should be aware that the research for this report was undertaken between 1991 and 1994, and since then, the Republics have begun to take steps, which are not acknowledged in this report, to solve some regional problems. For example, when identifying the five types of 'problem' regions in the Czech Republic (of which regions with environmental problems are one type), the report states that there has been no 'assessment of the extent to which market forces could overcome such problems' (p.95). In fact, a considerable amount of research is currently being conducted on behalf of the Czech Government to assess the extent to which market mechanisms could be used to control air and water pollution in regions with severe environmental problems, particularly the North Bohemian Region.

Further, although this report does offer some guidance on future policy design and offers possible solutions to some problems, it by no means provides a comprehensive set of solutions to the numerous regional problems currently being experienced by the Republics. This is not necessarily a criticism; indeed, the view one gets from the report is that the Republics are not yet in a position to identify the most appropriate solutions to their present problems. First, there is a need for both governments to define 'problem' regions, identify problems, rank these problems and then decide on how best to set up regional policies.

This kind of regional policy formulation clearly requires an open discussion of the problems and possible solutions by the governments of the Czech and Slovak Republics. This report has provided a generous overview of the former and guidance on how the latter can best be attained. This report, therefore, is a valuable reference for policy-makers in the Czech and Slovak Republics; to those interested in understanding regional policy for the transition economies; and, indeed, to anyone following this area of eastern Europe.

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Newbery, David M. G., *Tax and Benefit Reform in Central and Eastern Europe*, CEPR, 1995.
ISBN 1-898128-19-7 Pb. £16.95

It is fair to state that taxation and benefit reform in central and eastern Europe is one of the least known aspects of the transition. David Newbery has brought together an excellent team of researchers who, in some seven chapters covering less than three hundred pages, make a strong, positive contribution to this area. Newbery himself provides us with an excellent introduction, paying particular attention to the role of government in this process and gives an overall assessment of the complications and difficulties surrounding change in this area. Christopher Heady and Stephen Smith follow this with a chapter on the Czech and Slovak Republics, focusing particularly on the 1993 tax reforms, including the introduction of VAT, and examine the process by which the benefit system sought to target particular groups in society. This is followed by an equally well written chapter by Sarah Jarvis and Stephen Pudney on redistributive policy in Hungary focusing on the variants of progressive personal income tax introduced since 1991. Within this there is considerable emphasis on unemployment and regional patterns. The data here are based on the 1991 household budget survey. Marciej Gabowski and Stephen Smith tackle the thorny subject of the taxation of entrepreneurial income in Poland. They conclude that the system itself is flawed in that there is widespread tax evasion which they see as inhibiting the growth of larger enterprises.

In chapter five Mark Schaffer examines the controversial area of government subsidies to several hundred enterprises and the related budgetary and tax issues in the region as a whole. Schaffer concludes that while budgetary subsidies, at 3–5 *per cent* of GDP in the Visegrad countries, are similar to the West European norm, they are more concentrated in specific sectors, especially in relation to the maintenance of price regulations, and are not notable in the manufacturing sector as is popularly thought. However the issue of tax arrears which are not likely to be paid means that there is to some extent a re-emergence of the soft budget constraint. The author suggests that state aid should include writing off some of the tax arrears while avoiding formal tax forgiveness schemes.

Chapters 6 and 7 deal with the thorny question of unemployment insurance and incentives in Hungary and the impact of active labour market policies in the Czech and Slovak republics. In the former, John

Micklewright and Gyula Nagy present a finely detailed picture of unemployment insurance by examining the records of some 100,000 workers between December 1992 and January 1993, concluding that in actual fact 'changes in benefit rules have little impact on the behaviour of the unemployed'. This is reinforced by persistent high unemployment, and as the authors acknowledge, by the fact that many are engaged in work in the informal economy — which has a long history in Hungary. In chapter 7 Michael Burda and Martina Lubyova pick up on this theme, noting that some 450,000 Czechs who left state employment cannot be accounted for elsewhere. Actual active labour market policies alone, the authors point out, do not explain the divergence of performance in this area between the two republics.

The presentation of data, charts and maps throughout this work means that the reader has a very clear picture of the findings of the authors, which when combined with well-written texts makes this book highly commendable. The authors fully acknowledge the difficulties involved in gathering information and reliable statistics, which does make some of the conclusions tentative, but this is the nature of transition research in general and not a flaw of the text. In addressing the tax and benefit problems this book provides important commentary on a hitherto little explored area. As Newbery notes in the introduction, this work is the result of co-operation through the EU sponsored ACE programme and that additional research in this area is required. I look forward to the next volume.

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Anderson, Ronald W.; Berglöf, Erik; Mizsei, Kálmán, *Banking sector development in Central and Eastern Europe: Forum Report of the Economic Policy Initiative*, London: Centre for Economic Policy Research, 1996, 109 pages.
ISBN 1-898128-24-3 £10.00/$14.95

The rehabilitation of problem banks and financial sector reform are important policy issues in most countries in central and eastern Europe because of the threat posed by high levels of non-performing loans and the potential cost of bank failures. But the importance attached to these issues also reflects the concern that an inefficient financial system may impair growth. This is the key message of *Banking Sector Developments in Central and Eastern Europe* — the first report of the Economic Policy Initiative, a research programme jointly sponsored by the Centre for Economic Policy Research and the Institute for East-West Studies to study and strengthen public policy in former centrally planned economies.

The report reviews the challenges to financial sector reform in these countries and outlines the various policy options. The discussion focuses on the importance of the financial system in gathering and processing information, imposing financial discipline, and enforcing corporate governance. Implicit in the report is the view that resources must not only be mobilized, they must also be used effectively. The financial system has a key role to play in this regard.

The relevance of this point is illustrated by the fact that, under central planning, the banking system was relegated to the financial validation of the underlying real resource flows specified by the plan. Loans were extended with little regard to either the expected returns of the project or the capacity of the borrower to repay the loan. And because loan losses were typically covered through budgetary transfers or monetary expansion, banks did not bear the costs of poor credit decisions and had little incentive to assess credit risks. Ironically, the situation may have deteriorated following the collapse of central planning. Many banks were appropriated by former state enterprises, while some firms, taking advantage of lax licensing requirements, created bank subsidiaries. Since prudential regulations were superfluous under central planning, supervisory agencies were initially ineffective and banks were used to provide funds to connected firms on preferential terms. Moreover, there was ample opportunity for controlling enterprises to misappropriate funds, and defalcation of bank assets was undoubtedly common.

Enterprise restructuring has been set back because of these factors, as inefficient enterprises that should be closed continue to secure financing. This is explained by the concern that enforcing loan agreements might erode capital, as bad loans are written down, or by the underlying weakness in the legal framework, which prevents banks from taking action against recalcitrant borrowers, or simply the reluctance of banks to take action against connected enterprises. Regardless of the underlying explanation, the cost of an inefficient financial sector is measured in terms of investment projects in the nascent private sector offering potentially high private and social returns that go unfunded, with possibly serious consequences for economic development.

The development of a financial system that mobilizes and effectively utilizes resources is clearly important. Among other things, this requires that the bad loans problem be resolved in a way that ensures that banks have an incentive to enforce financial discipline, but which precludes the expectation of future bail-outs. (Related to this is the question of how to deal with demands for compensation from depositors in failed banks in a manner that is fiscally responsible, while addressing equity concerns and safeguarding the payments system.) To avoid a recurrence of the bad loans problem, banks must be subject to commercialization, preferably through privatization, in conjunction with bank recapitalization or the use of debt/equity swaps. This is not possible if financial institutions fail to evaluate expected returns on competing projects and subsequently monitor projects to mitigate potential principal-agent problems. These functions are familiar from the theoretical work on intermediation (see Douglas Diamond, 'Financial Intermediation and Delegated Monitoring', *Review of Economic Studies*, Vol.51, pp.393–414, 1984). But former centrally planned economies confront the daunting challenge of fostering efficient financial systems. And on this question there is little to guide policy. That is what makes the present volume such a useful contribution.

The authors of *Banking Sector Developments in Central and Eastern Europe* note that financial systems can be classified as either 'control-oriented' or 'arms-length' finance. While both approaches attempt to assuage principal-agent problems in financial intermediation, they differ with respect to the legal framework that is required. This has important implications for bank reform in former centrally planned economies. For example, arms-length finance requires the enforcement of effective collateral and bankruptcy laws. In many countries, however, these laws are either weak or poorly enforced owing to political interference. In view of this problem, the report discusses the potential for universal banks to exercise effective control through improved corporate governance. Although this would internalize the enforcement problem resulting from a weak legal framework for arms-length finance, monitoring investment projects and the exercise of corporate governance provisions entails the expenditure of resources in the collection and analysis of information; banks must be adequately rewarded if they are to perform this role. Evidence suggests that in some former centrally planned economies banks are reluctant to exercise corporate governance because of the inadequate legal framework, such as protection for minority shareholders (see Peter Dittus, 'Why East European banks don't want equity', *European Economic Review*, Vol.40, 1996, pp.655–62.) The effectiveness of both arms-length and control-oriented finance may thus be constrained by weak legal foundations.

The report does not fully discuss the implications of this observation, however. In this regard, it might be argued that because the informational requirements of arms-length finance are less than those for control-oriented finance — since the bank need only assess expected returns on competing projects and monitor whether the contracted loan payment is made — emphasis should be placed on the implementation and enforcement of collateral and bankruptcy legislation. Or, alternatively, that the Coase theorem suggests that the likelihood of an efficient outcome may be greater where banks have a direct financial stake in the enterprises to which they lend. This would imply that efforts should be made to establish the legal framework for control-oriented finance, with the appropriate prudential safeguards. A discussion of these issues would be useful, as it would inform decision-making on related issues, such as the appropriate regime for prudential regulation. Notwithstanding this criticism, the report is an important guide to the problems and policy issues in financial sector reform in central and eastern Europe.

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Levitsky, Jacob, ed., *Small Business in Transition Economies: Promoting enterprise in Central and Eastern Europe and the former Soviet Union*, Intermediate Technology Publications, 1996.
ISBN:1 85339 343 6 PB: £9.95.

The development of the small business sector is increasingly being recognized as a key element of the process of economic transition in central and eastern Europe. Multilateral donor agencies such as the European Union PHARE and TACIS programmes, USAID, and bilateral agencies such as the UK Know How Fund and the German GTZ have established a large number of financial and technical assistance programmes to support the growing number of entrepreneurs in these countries. This book presents papers about these programmes from a conference organized by the Committee of Donor Agencies for Small Enterprise Development held in Budapest in August 1995. In all, there are 24 chapters, each giving an outline of particular experiences covering Poland, Russia, Hungary, Belarus, Slovakia, the Czech Republic, Kyrgystan, Uzbekistan and Romania. The first section covers general issues with an overview chapter by Allan Gibb. Two further sections focus on finance and technical assistance in the form of support agencies and training programmes.

Several of the chapters emphasize that most small businesses in transition economies face a lack of affordable credit from financial institutions. In most cases banks lack experience in dealing with the specific needs of small businesses. In establishing financial assistance programmes, donor agencies need to tackle a number of issues. One key issue concerns the form of financial assistance which should be provided. The main options include the provision of equity finance through venture capital funds, subsidized loan schemes and the provision of grant aid. Another key issue is whether to channel finance through the existing banking system or to set up new self-standing institutions such as revolving loan funds. The Russian Small Business Fund, described by Wallace, provides subsidized credits to small businesses in partnership with local banks with the aim of upgrading the skills of banks in their small business lending activity. Zeitinger, describing the same experience, emphasizes the difficulties in persuading banks to move away from collateralized loans, to loans based on the creditworthiness of the business proposals. Elsewhere, independent institutions have been established such as the Small Enterprise Assistance Funds set up in Poland, Bulgaria and Russia, described in the chapter by Gibson. Gibson argues that both minority equity investment and loan finance should be combined in an integrated package. This introduces an element of risk sharing and flexibility in repayment flows, while the principle of minority shareholding ensures the entrepreneur remains in control of his or her business.

Financial assistance alone is unlikely to be successful in the absence of technical assistance to make the best use of the funds available. Most donor agencies have established institutions to provide advice, information and training for small business owners. However, many donors adopt models derived from their own country experience. Gibb argues convincingly that there is a need for local adaptation and mutual learning and that there is a need for more vision and a willingness on the part of donor organizations to listen to and learn from local partners.

Overall this book provides a useful catalogue of the variety of experience of the donor agencies in their efforts to assist the development of the small business sector. However, there appears to be little consensus about the aims of such assistance programmes, about which groups to target, and about the forms of assistance which are most effective. On this latter point the book provides little in the way of evaluation of the different policy approaches adopted. This is probably not surprising due to the comparatively short experience of donor programmes in the field. Nevertheless, the book demonstrates that there is a growing pool of expertise and knowledge which, if widely shared and disseminated, will provide a useful resource for the evolution of appropriate policy instruments for small business development in the transition economies.

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World Bank, *World Development Report 1966: From Plan to Market*, Oxford University Press; USA: World Bank, 1996.
ISBN:0 19 521108 1 Hb. £35.00
ISBN: 0 19 521107 3 Pb. £17.99

This Report provides an immensely detailed survey of the transition from plan to market in the diverse range of affected states, ranging from the Czech Republic to Vietnam and China. The large team of authors and advisors headed by Alan Gelb have tried valiantly to avoid getting bogged down in the details, and wherever possible to draw general policy conclusions from the brief years of transition and relevant economic theory. The Report is essential reading for anyone interested in transition, and quite accessible to non-economists, but, perhaps inevitably in such a wide ranging survey, it also contains serious omissions and biases.

For example, though some attention is given to problems of poverty and distribution in Chapter 4, there is no discussion of minimum wages which are often below official subsistence levels, and yet are regularly undercut by employers in many transition economies (D. Vaughan-Whitehead, ed., *Reforming Wage Policy in Central and Eastern Europe*, European Commission and International Labour Office, Budapest, 1995). The urban poor thus often depend on relatives in the country for basic sustenance. The political problems generated by these developments are not adequately addressed in the Report.

The choice of corporate governance institutions for large former state-owned enterprises is a crucial policy question for transition. Problems of managerial entrenchment are noted, but the Report fails to recognize the potential benefits of employee involvement. As Margaret Blair has shown, firm-specific skills imply that workers lose future income or rents after job loss (*Ownership and Control*, Brookings Institution, 1996). This implicit equity stake should entitle employees to participate in residual control as well as conventional owners or investors. Maximizing value for the owners of physical capital only while neglecting risky human capital is thus both inefficient and inequitable. There is no discussion of German co-determination laws, widely credited (in Germany more than in the UK or US) with facilitating reconstruction and growth with cooperative labour relations, but neglected in the context of enterprise transition. The case for bank rather than stockmarket control also received little attention (Z. Acs and F. R. FitzRoy, 'A Constitution for Privatizing Large Eastern Enterprises', *Economics of Transition*, 1994). The crucial chapter 3 (Property Rights and Enterprise Reform) thus contains too many lacunae, though, unfortunately, it does accurately reflect the prevailing US-dominated advisory policy stance.

The Report's chapter 5 on legal institutions does consider the pervasive problems of corruption and organized crime in many transition countries, and mentions environmental degradation. However, declining life expectancy is mainly ascribed to poverty and lifestyle in chapter 8 ('Investing in People'). At least one prominent insider takes a much more serious view of these problems in Russia. Thus, Grigor Yavlinsky, leader of the liberal Yabloko party, has warned of 'loss of control over nuclear weapons', and 'a high probability of large scale environmental disaster'. He argues that the west's defences are misdirected against these new threats, and that a 'criminal state is emerging from the ruins of the Soviet Empire' (*Financial Times*, 31.1.1997). In a similar vein, the latest ILO report by Guy Standing, *Russian Unemployment and Enterprise Restructuring* (Geneva: ILO, 1997) finds more than a third of the industrial workforce to be in 'suppressed unemployment', and takes a much more pessimistic view of current poverty and inequality problems than is customary in the west.

The guarded optimism of the World Bank, the IMF and other western advisors can thus be disputed, as indeed can many of their policy recommendations, which critics, not least in the affected countries, blame for some of the current problems. Future developments will doubtless offer many (unpleasant?) surprises and few unambiguous lessons.

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von Beyme, Klaus, *Transition to Democracy in Eastern Europe*, Macmillan Press Ltd., Basingstoke, 1996.
ISBN: 0-333-65249-5 Hb. £35.00

Klaus von Beyme's book addresses transition in a comprehensive and holistic way: his account ranges over the former communist countries of eastern and central Europe and the former USSR. Ambitiously, the author compares the changes after 1989 (the fourth wave) to three other 'waves of democratization' — after 1918 in Germany, Austria and Finland, after 1945 in Germany and Japan and the processes of the 1970s in Latin America and southern Europe. With respect to the post-communist countries, chapters consider the process of interest group and party formation, the composition of elites, political culture, economic development and the attempts at building the institutions appropriate for civil society. It is concluded that the 'divergencies' between the post-communist states and the other transitions are too great to enable valid theoretical conclusions to be drawn.

For von Beyme, the former state socialist societies have left an imprint which none of the other regimes in transit to democracy did: unlike fascism, it was not criminal and its collapse signalled a crisis in a major world ideology (Marxism); transition has involved a concurrent economic and democratic shift; the movement for change lacked both a counter ideology and ascendant elite, and the value and culture of socialism (egalitarianism, statism and solidarity) continued into the transitionary period. These conditions, together with the economic backwardness of the former state socialist societies, make for a difficult transition to democracy.

Among the principal challenges of transition is that the newly-found legitimating ideology of civil society is limited in scope. In contrast to the development of civil society in the west, where it was linked to the rise of bourgeois market society, in the post-communist states, it has been limited to the political, to the rights of the *citoyens*. Hence the social support of the post-communist systems lacks interests with a capitalist market orientation. The economic collapse of state socialism and the consequent decline lead to the rise of nationalism legitimating statism. Following the developmental theorists of the 1970s, such as Lipset, it is considered that one of the major conditions for a successful democratic transition is economic prosperity. However, only in two societies, Hungary and the Czech Republic, are there good indications of growth. Hence the author concludes that 'prospects for successful [advance to] democracy are dim' (p.167).

The chapters on institutional change, dealing with privatization, parties, elites and the political culture, are less successful than the more conceptual parts of the book. The text is overburdened with comparative and often disjointed detail unrelated to any argument or hypothesis. There are detailed comparative tables which could have been discussed more adequately in the text. The writing is often cryptic, in lecture-note form. The book, therefore, is less appealing to students, who will find it dense. There is also a large number of typographical and spelling errors and the style in many places is poor; inappropriate words (*e.g.* agronoms) appear from time to time and there is a reference to a non-existent table (table 5.6). While the bibliography is good and will help the reader through the emerging literature, the index is inadequate. Clearly more and better editorial work would have improved accessibility.

In generalizing about the evolution of contemporary post-communist states, von Beyme considers that one group of seven states (including Serbia, Croatia and Central Asia) are authoritarian, only two (Hungary and the Czech Republic) are democratic, whereas the majority (9 states, including Poland and Russia) are 'anacracies' — societies having contradictory elements of anarchy and autonomy. While the book helps to clarify some of the contemporary issues in transition, the process of change is affected by so many factors, including exogenous ones, that future trends are difficult to predict. A clear message of the book, however, is that successful transitions to 'democracy' under post-communism are less likely than in the previous three waves.

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Fingleton, John, Eleanor Fox, Damien Neven and Paul Seabright, *Competition Policy and the Transformation of Central Europe*, London: CEPR, 1996, xvi, 253 pp.
ISBN: 1 898128 25 1 Pb £16.95

Is competition policy an important part of the legal and institutional framework for the transition from a socialist to a market economy, or a wasteful use of scarce transition government resources? If competition policy *can* be a productive and efficient part of the legal infrastructure of a transition economy, what is the evidence on whether it *does* play such a role?

As to the first question, the authors of this book argue that many of the market institutions, taken for granted in developed market economies, are weak or missing in emerging market economies — among them the market for corporate control, competition from imported products, labour markets (especially managerial), and capital markets — and that, consequently, the forces of competition, unaided by governmental competition policy, are likely to be weak. Furthermore, in countries burdened with poverty and large income disparities and expecting great things from the transition from socialism, the social and political need for the free market to produce good outcomes is undoubtedly greater than in the developed economies. For both of these sets of reasons, argue the authors, competition policy is likely to be more rather than less needed in transition economies than elsewhere.

The remainder of the book constitutes a detailed and highly useful look at the second question: an examination of the competition laws and enforcement experiences of Poland, Hungary, the Czech Republic, and Slovakia. The laws are described as originally enacted in the 1990–91 period and as revised within the past couple of years. (The current laws of all four countries are reprinted in an appendix.) The actions of the enforcement authorities in each country in each of the three principal areas of enforcement — abuse of dominance, agreements among enterprises, and mergers — are described and analysed in great detail. While some conclusions are not surprising — that the majority of the energies of each office have gone towards abuse of dominance cases, that these cases often address issues of fairness as much as issues of competition, that the authorities are not always careful to get the competitive analysis right before reaching the judgement that they seek — there are others that are less expected — that there has been some very sophisticated analysis of predation cases, that there have been very few cases in any office brought *ex officio* (as opposed to arising from a complaint).

The conclusion of this careful analysis is that, while mistakes have been made, competition law enforcement has been a productive component of economic policy in transition economies. In fact, the authors go a step further and urge the European Union not to be so intent upon competition law 'harmonization' that it requires extensive changes in the legal regimes currently in place in these countries. 'Given the nature of the problems faced by transition economies, further forced approximation of the detail of the law might not be beneficial, in terms of either moving the law and its application closer to that of the EU or in terms of the aims of approximation.' In Voltaire's simpler formulation, '*Le mieux est l'ennemi du bien*'.

The book is not without errors and omissions. It is not the case that in Poland, the Czech Republic, and Slovakia, the staff investigator makes the first-round judgement of whether an enterprise is innocent or guilty of violating the competition law; this first judgement is made by the heads of the divisions or (in the Polish case) regional offices. The Czech and Slovak offices do not 'share a common origin'; the Slovak office pre-dated the Czechoslovak Federal Office by close to one year. An extensive discussion and critique of a Polish auto insurance exclusive dealing case would have been more complete had the authors noted that the exclusive dealing arrangement was commenced in response to a downstream cartel, and that the same Antimonopoly Court decision that condemned the exclusive dealing also condemned the cartel. The questionable contention that 'the fact that the Polish office must spend so much of its time on the regulation of natural monopolies has diverted its resources and led to a confusion between the roles of price control and the policing of competition, the protection of competition and the protection of competitors' is presented without evidence. And I must confess disappointment that a discussion of foreign technical assistance includes the EU's PHARE programme and programmes of DGIV, the OECD, and EU member states but not the extensive cooperation programmes of the US enforcement agencies.

But these are minor points. This book is well researched, well presented, and eminently readable. There is no other book or article that comes close to it as a full and reliable source of information concerning competition policy in the post-socialist countries. The combination of this superb book and the more country-specific articles in Ben Slay's excellent recent book, *Demonopolization and Competition Policy in Post-Communist Economies*, Oxford: Westview Press, 1996, should be the standard reference sources on this topic for years to come.

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Frydman, Roman, Cheryl W. Gray and Andrzej Rapaczynski, eds., *Corporate Governance in Central Europe and Russia*, Vol.1: 'Banks, Funds, and Foreign Investors'; Vol.2: 'Insiders and the State', OUP/CEUP 1996.
Vol.1: ISBN: 1 85866 034 3 £11.99
Vol.2: ISBN: 1 85866 036 X £11.99

The choice of 'corporate governance' as a topic of analysis indicates a maturity in the consideration of economic transition in CIS and central east European countries (CEECs). As is widely known, most analysis during the early transition years referred to the liberalization of prices and activities, to macroeconomic stabilization, to the advantages and disadvantages of shock therapy, to the foreign exchange rate, *etc.* Privatization (the shape, the method, the rhythm) was the second big issue of analysis during those first years. The proposals for economic policies coming from these analyses seemed to be based on an extremely shallow view of social and economic relationships.

A central issue relating to the behaviour of enterprises is the attainment of efficiency. This requirement must be considered in the transition period and also when transition has essentially been concluded. However, this issue brings us back immediately to the problems of management and control. How can we ensure that the right direction is taken during the restructuring of enterprises?

The postulate of expelling the state from enterprise ownership and releasing market forces is not enough. As the editors point out correctly, it is certain that this optimistic view seriously underestimated the complexity of the problems presented by the privatization postulate. This is the basic starting point for the examination of corporate governance offered by the editors. The work explores different kinds of ownership as well as the monitoring institutions and the role they can be expected to play in the development of a new structure of corporate governance. The questions underlying all these analyses do not simply relate to the assessment of each kind of corporate governance, but also to the possibility that these same ones could be applied to the CEECs.

The first volume is devoted to the presentation of the conventional patterns of corporate governance, those more suitable for the market economy. Dittus and Prowse, on one hand, and Baer and Gray on the other hand, analyse the role that the banks could play, as guarantors for the good performance of enterprises. The debate about this is widely known. The pertinent question is whether the banks of the eastern Countries could adopt to some extent the so-called 'German or Japanese model' of close involvement by sharing in the enterprise's capital ('Should banks own shares?', Dittus and Prowse), or else through the control and allocation of credits and the enforcement of discipline ('Debt as a control device in transitional economies', Baer and Gray).

Coffe's study about the Investment Privatization Funds (IPF) in the Czech Republic is highly interesting. On the one hand, it provides a detailed explanation of the Czech voucher privatization. On the other hand, it presents a discussion of the ability of these big intermediaries to monitor and control the management of privatized enterprises during the time of transition. Among the difficulties that the article outlines (only some are shared by western economies), it is worth pointing out the weakness of incentives and even the perversity of some circumstances that turn incentives into disincentives: the IPF are promoted by the banks, but these are neither the owners of the IPF nor of the firms that the IPF should promote. Despite the fact that the Czech experiment is still recent, it does not seem that the solutions adopted ensure correct management in the medium term. Even though in the Czech case the separation of ownership and control may be the cause, it does not seem that appropriation by the banks ensures good management if we look at the previous articles. Frydman, Pistor and Rapaczynski offer a study about the same subject with reference to Russia. Domestic resistance to reform compels us to examine the important role of insiders. From the authors' point of view, even if this eases the reform process, it substantially weakens the effectiveness of post-privatization corporate governance mechanisms.

Private pension funds are considered by Vittas and Michelitsch. They point out the limited perspective in which private pension funds can play a meaningful role as active shareholders (similarly to western economies, where private pension funds do not have an active role in the control of corporations either).

Foreign direct investment as a potential factor for the improvement of corporate governance is studied by Kogut through the analysis of the transfer of uncodified knowledge across borders. Nevertheless, the relative scarcity of the FDI that goes to the transition countries make his contribution just a marginal one.

The studies assembled in the second volume have a more realistic perspective. The starting point for the analysis is not the 'optimum', in abstract conditions with perfect economic stability, professional ability, competence and transparency of markets, but they try to analyse the 'second best' in the specific conditions of each enterprise or group of enterprises. From this perspective, Earle and Estrin analyse the effects of employee ownership on enterprise performance, and the costs and benefits of this pattern as a privatization strategy and as a way to restructure firms. Two articles by Shleifer and Vasiliev and Blasi and Shleifer study management ownership, taking Russia as a case study: it is interesting to observe the comparison between the managers in Russia and their western counterparts based on the evidence of their professional skills.

A real discussion of all these questions occurs in Stark, Sabel and Prokop: the singularity of the process of transition makes the concepts used for analysis (private ownership, public ownership, efficiency, control *etc.*) only partly useful. How can we classify the new pattern of ownership which is being constructed as an extremely complex web of cross-ownership, with elements of state ownership, private ownership and inter-enterprise links? From which perspective is the behaviour of the new financial institutions efficient? The critics go still further: the examination of the inadequacy of the concepts and the traditional institutions in the analysis of eastern Europe leads one to a similar consideration in the west: the new patterns of distribution and production make the old institutions obsolete. In the CEECs, the state will continue for quite a long time as the single largest owner of corporate property. Pistor and Turkewitz analyse the lack of coherent strategies for managing public assets and the consequences for the timing of transformation and for the behaviour of non-state owners. Finally, Black, Kraakman and Hay study which kind of regulation is the most appropriate under the conditions of transition to secure the rights of shareholders and the efficiency of corporate governance.

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Abrahams, Ray, ed., *After Socialism: Land Reform and Social Change in Eastern Europe*, Oxford: Berghahn Books, 1996.
ISBN 1-57181-910-X

Land restitution in central and eastern European countries (CEECs) is a central and ongoing process, dependent upon local political alliances and continuing debates about the strategy and implementation of the reform process in rural areas. This book provides interesting, almost 'fly-on-the-wall' insights to the underlying social, political and economic processes that both validate, codify and guide land reform, restitution and social change in the CEECs. The book successfully combines the main themes of land restitution, transformation and social change within a detailed case study and country-by-country analysis of these issues in a comprehensive though accessible way.

The book is the result of a 1993 workshop on the Privatization of Agriculture in eastern Europe held at the Møller Centre, Churchill College, Cambridge, UK, in 1993. The authors are mainly social anthropologists and this is reflected in the largely case-study and participant observation approaches adopted in the book. This however, is a strength of the book, as it successfully explores and teases out in a local and nationally comparative context the subtle differences and similarities between the CEECs in completing what is a complex process, whilst identifying the consequences of the different approaches to restitution and transformation adopted. The editors introduction and Swain's paper are particularly interesting in this regard, whilst the single country studies of Albania by DeWaal, of Bulgaria by Kaneff and of Hungary by Kovács adroitly demonstrate that much of the land reform and restitution legislation introduced is simply being ignored if it is perceived to be inadequately suited to the population's expectations (their requirements are often of secondary importance). These papers illustrate the fluid political and social dynamics underlying the process of land reform, the inadequate regulation of the process and the social tensions (many remain unresolved) which are represented by the numerous political debates between parties with diverse ideological positions and interests that land restitution and transformation policies arouse.

Although not a central theme of the book, discussion of the current political regime, high unemployment, land scarcity, immigration and notions of 'social justice' as important aspects of restitution and social change in the CEECs, is limited. However, DeWaal's paper on Albania does deal with the effects of high unemployment and land scarcity as part of the restitution process. The choice of restitution policy often affects the asset distribution between ethnic groups, which, unfortunately, as an aspect of land reform and social change, is not explored in the book. However, there is evidence of this in the Czech Republic (*e.g.* choosing as a reference date for restitution 1948 rather than 1945, which excluded Sudeten German claims), Estonia and Latvia (where ethnic Russians have been denied land ownership rights through discriminatory citizenship laws), where the choice of restitution policy depends on how important the concentration of agricultural asset ownership in a particular ethnic group's hands is for the ruling government; or on the political influence of ethnic minorities.

This book is particularly successful in highlighting that the pre-collectivization asset distribution, to some extent, determines the potential conflict between 'historical justice' and 'social equity'. DeWaal's paper is a case in point, since it illustrates the processes underlying this, as one of the most important factors which led to increased opposition from the rural population to restitution, where an unequal pre-reform distribution of assets existed. Albania is an example where restitution was not chosen because of post-collectivization ownership or ethnic factors, but instead led to a land distribution programme, based on an equal *per capita* basis (family size), without regard to former ownership.

This good book should prove useful to students of rural sociology and agricultural economics. It provides interesting observations and insights into the social, political and economic mechanisms underlying the process of land restitution.

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Slay, Ben, ed., *De-monopolization and Competition Policy in Post-Communist Economies* Westview Press, 1996.
ISBN: 0-8133-8864-3 Hb £37.00

This book contains a series of studies on the development of competitive markets and competition policy in four countries – Russia, Poland, Hungary and Mongolia. Judging from the references, most of the chapters seem to have been completed in 1994, using data up to 1992 or 1993. It thus provides a relatively up-to-date analysis of the legal and economic background.

After an introductory chapter, there are four studies of development in each of the four countries. These are followed by two chapters dealing with natural monopolies in general, by Ordover, Pittman and Clyde, and with telecommunications in Hungary and Russia by Witlock. The editor finally contributes a short chapter of conclusions and proposals for further research.

Slay's introduction focuses upon a number of general issues. He points out the awkward starting point for the economies because of their high inherited level of concentration, and notes that this obstacle to market competition applied even in relatively liberal socialist economies such as Hungary or Poland. He also usefully observes that concentration data traditionally collected by statistical authorities in the countries concerned are often difficult to interpret both because they focus upon similar production processes, rather than markets, and because industrial reorganizations often lead to confusing redefinitions of 'firms'. He also reviews the debate between 'demonopolize first' and 'private first' exponents.

The four country studies have many common elements, including a discussion both of policy towards potentially competitive sectors and natural monopolies. Many of them exhibit the rather breathless style which all of us tend to adopt in writing about current policy debates or current cases. The problem, of course, is to separate ephemeral developments from long-term trends. All of the country chapters are enriched by rather intriguing case studies and I was left wishing that more of these had been included.

A comparison of the conclusion of these chapters indicates a degree of cautious optimism. In Hungary, competition is becoming less and less distorted, even though the functioning of markets is not yet as smooth as in most developed market economies. In Russia, competition policy has been a dynamic evolutionary process, characterized in large measure by trial and error, experimentation, and learning by doing. Poland had witnessed significant progress in industrial demonopolization, although it is not entirely clear why. In Mongolia, where the practice is least developed, the authors of the study are themselves western economists consulting on the design of anti-trust, and they have useful things to say, in particular on the role of foreign experts and foreign exemplars. Sensibly, they emphasized the need to take account of local conditions.

The countries' experience of natural monopoly regulation is less promising than experience in potentially competitive industries. Here the conflict between maximizing government revenues at privatization and promoting long-term competition is most acute. Internal domestic lobbies, opposed to competition, are also powerful. In

Russia, the problem is exacerbated by conflicts between national and regional regulators. However, some progress is being made, as the discussion of Hungarian telecommunications demonstrates.

Overall, the papers in this volume give a useful progress report on competition policy in economies in transition. The general conclusion is that progress is being made, but in an uneven fashion. Further progress, as Slay indicated in his concluding paragraphs, will require better organization of internal pro-competitive forces, to augment external support. There is, at least, a fairly high degree of consensus about which direction to travel in, and this volume both indicates that direction and amply illustrates the problems encountered *en route*.

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Kaminski, Bartlomiej, ed., *The International Politics of Eurasia*, Vol.8: 'Economic Transition in Russia and the New States of Eurasia', New York: M.E. Sharpe, 1996, 430pp.
ISBN: 1-56324-367-9, Pb $26.95.

This book brings together 18 contributions on various aspects of transition in the former Soviet Union. It is impossible due to the restrictions on reviewers to look at every single contribution. Instead I will concentrate on four diverse and intriguing chapters which go some way towards summing up the character of the book.

The contributors are clearly experts in their field, and many have substantial publications in this area. Those who have concentrated on covering a specific nation are themselves nationals of that particular state and are, therefore, well versed in what they say. There are contributions on all the former Soviet Republics except the Baltic States. The wide range of works contained in the volume covers the path to reform in both a domestic and global context, ranging from the political and economic implications to the social impact of transition as highlighted by Milanovic's chapter on poverty and inequality.

Vladimir Gutsu gives an authoritative account of Moldova's experience with privatization. He begins by outlining some practical problems in getting the privatization programme started. After sketching the characteristics of privatization in Moldova, which is largely voucher-based, Gutsu goes further to acknowledge the struggle to control illegal privatization which has seen the use of state funds for illegal purposes; improper registering of economic agents; and the investment of large amounts of money in banks and insurance systems. However, he believes that the state has now acquired experience in the investigation of illegal activities. Gutsu's chapter highlights problems which have been indicative of privatization in transition economies, a process which in many states has been complex and highly bureaucratic.

In their chapter, Aline and George Quester are critical of what they see as ill-informed and short-sighted criticism of the achievements of transition so far. They emphasize that some of the reasons for an element of disillusionment with transition, and the tendency to be critical of the market system are due to: the unreliability of statistics which make things look much worse than they are; the age factor — one becomes set in one's ways with age, as in Russia which has an ageing population; cultural tradition — Russian cultural tradition is generally seen as against supporting individual entrepreneurship; the need for increased welfare and social security payments as a result of the effects of capitalism; and the emergence of corruption. However, they dismiss these arguments as not persuasive enough to warrant a return to a communist system. Neither do they believe that that is what the populations want. They staunchly defend the free market and democracy, and believe that in the long run it will be seen as the correct goal. The need for their defence outlines the emergence of discontent in transition economies as citizens display a lack of patience and expect better results in what has been a relatively short period of time.

Friedman's chapter on Russia and the CIS in the emerging structure of the world economy concentrates on two things: the fall from superpower status of Russia, and the integration of the CIS into the western economic sphere. Friedman recognizes the geopolitical consequences of the break-up of the Soviet Union which saw the disappearance of the socialist camp, and the international bi-polar system. The former Soviet republics — including Russia — are seen as lagging behind the 'tiger' economies of East Asia such as Singapore and Taiwan.

In his chapter on what's wrong with the mafia anyway? Millar analyses one of the key problems which have afflicted the transition economies since the collapse of communism — the escalation of both organized and unorganized crime, according to Millar a product of the disappearance of many former central control systems, and the now virtually unlimited and unregulated access to retail markets. He gives the definition of crime a new dimension, encompassing not only street crime but also white-collar crime, and state and bureaucratic crime, providing a powerful insight into the emergence of crime and corruption in the former Soviet Union, concentrating on the Russian case. He quite rightly argues that the biggest threat posed by crime is not its short-run effect on individuals and society but rather its long-run danger of penetrating political parties and the government bureaucracy, as has been witnessed in Italy.

Overall, I would say that the book is slightly unbalanced because there is too much weight given to various aspects of Russia, which attracts a third of all contributions. But that aside, there is no doubt that this would be an invaluable addition to the constantly growing body of works on economic transition in central and eastern Europe, and a rich source of information for researchers and students. The diversity of its subject coverage definitely adds to its appeal.

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Statistical tables

Table 1. Growth in real GDP in eastern Europe, the Baltics and the CIS[1]

	Real GDP								
	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.	est. level of real GDP in 1996
Individual countries			(Percentage change)						**(1989=100)**
Albania	-10.0	-27.7	-7.2	9.6	10.3	9.5	8.5	**na**	**87**
Armenia	-7.4	-10.8	-52.4	-14.8	5.4	6.9	4.5	**7.0**	**39**
Azerbaijan	-11.7	-0.7	-22.6	-23.1	-21.2	-8.3	1.2	**5.0**	**38**
Belarus	-3.0	-1.2	-9.6	-10.6	-12.2	-10.2	2.6	**0.0**	**63**
Bulgaria	-9.1	-11.7	-7.3	-2.4	1.8	2.6	-10.0	**-4.0**	**68**
Croatia	-6.9	-20.0	-11.0	-0.8	0.6	1.7	4.5	**5.5**	**70**
Czech Republic	-0.4	-14.2	-6.4	-0.9	2.6	4.8	4.0	**4.0**	**89**
Estonia	-8.1	-7.9	-14.2	-8.5	-2.7	2.9	3.3	**4.0**	**69**
FYR Macedonia	-9.9	-12.1	-21.1	-8.4	-4.0	-1.5	3.0	**5.0**	**56**
Georgia	-12.4	-13.8	-44.8	-25.4	-11.4	2.4	10.5	**10.0**	**31**
Hungary	-3.5	-11.9	-3.1	-0.6	2.9	1.5	0.5	**2.5**	**86**
Kazakhstan	-0.4	-13.0	-14.0	-12.0	-25.0	-8.9	1.4	**2.8**	**45**
Kyrgyzstan	3.0	5.0	-19.0	-16.0	-26.5	1.3	5.4	**8.0**	**52**
Latvia	2.9	-8.3	-35.0	-16.0	0.6	-1.6	2.3	**4.0**	**52**
Lithuania	-5.0	-13.4	-37.7	-24.2	1.0	3.1	3.0	**4.0**	**42**
Moldova	-2.4	-17.5	-29.0	-1.0	-31.0	-3.0	-8.0	**5.0**	**35**
Poland	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	**5.5**	**104**
Romania	-5.6	-12.9	-8.8	1.3	3.9	6.9	4.3	**-2.5**	**88**
Russia	-4.0	-13.0	-14.5	-8.7	-12.6	-4.0	-6.0	**1.5**	**51**
Slovak Republic	-2.5	-14.6	-6.5	-3.7	4.9	7.4	6.8	**5.0**	**90**
Slovenia	-4.7	-8.1	-5.4	2.8	5.3	3.9	3.5	**4.0**	**96**
Tajikistan	-1.6	-7.1	-29.0	-11.1	-21.5	-12.5	-7.0	**-3.0**	**37**
Turkmenistan	2.0	-4.7	-5.3	-10.0	-20.0	-10.0	-4.0	**5.0**	**57**
Ukraine	-3.4	-9.0	-10.0	-14.0	-23.0	-11.8	-10.0	**-2.0**	**42**
Uzbekistan	1.6	-0.5	-11.1	-2.3	-4.2	-1.2	1.6	**1.0**	**84**
Eastern Europe, the Baltics and the CIS (GDP weighted average)	-5	-11.5	-9.4	-4.1	-4.1	1.2	0.6	**3.0**	**71**
Eastern Europe and the Baltics[2]	-6.8	-11.0	-4.3	0.7	3.9	5.3	4.3	**3.9**	**91**
The Commonwealth of Independent States[3]	-3.7	-12.0	-14.3	-9.3	-13.9	-4.8	-5.4	**1.4**	**51**

Table 2. Inflation in eastern Europe, the Baltics and the CIS[1]

	Retail/consumer prices (end-year)						
	1991	1992	1993	1994	1995	1996 est.	1997 proj.
	(Percentage change)						
Individual countries							
Albania	104	237	31	16	6	19	na
Armenia	25	1341	10896	1885	32	6	9
Azerbaijan	126	1395	1294	1788	50	7	12
Belarus	93	1558	1994	1957	244	39	102
Bulgaria	339	79	64	122	33	311	690
Croatia	249	937	1150	-3	4	3	5
Czech Republic	52	13	18	10	8	9	8
Estonia	304	954	36	42	29	16	12
FYR Macedonia	115	1935	230	55	9	1	3
Georgia	131	1176	7488	6473	57	15	9
Hungary	32	22	21	21	28	20	18
Kazakhstan	137	2984	2169	1160	60	40	29
Kyrgyzstan	170	1771	1366	87	32	35	23
Latvia	262	958	35	26	23	13	10
Lithuania	345	1161	189	45	36	13	13
Moldova	151	2198	837	116	24	15	11
Poland	60	44	38	29	22	19	15
Romania	223	199	296	62	28	57	100
Russia	144	2318	841	203	131	22	17
Slovak Republic	58	9	25	12	7	5	6
Slovenia	247	93	23	13	9	9	8
Tajikistan	204	1364	7344	5	1500	42	100
Turkmenistan	155	644	9750	1330	1262	446	130
Ukraine	161	2000	10155	401	182	40	30
Uzbekistan	169	910	885	1281	117	64	100
Eastern Europe, the Baltics and the CIS[2]	162	1052	2287	685	157	51	61
Eastern Europe and the Baltics[3]	184	511	166	35	19	38	74
The Commonwealth of Independent States[4]	139	1638	4585	1391	308	64	48

Table 3. Selected economic indicators for Bulgaria

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure			(Percentage change)					
GDP at constant prices	-9.1	-11.7	-7.3	-2.4	1.8	2.6	-10	-4
Industrial production	-16.0	-27.8	-15.0	-11.8	7.8	8.6	-4	na
Prices and wages								
Consumer prices (annual average)	26.3	333.5	82.0	73.0	96.3	62	123	1800
Consumer prices (end-year)	72.5	338.9	79.4	63.9	121.9	32.9	311	1000
Real net wages for the state sector	na	na	17.3	-8.7	-23.2	-4.5	-29.5*	na
Monetary sector								
Broad money (end-year)	16.6	122	43.5	52.9	78.6	39.6	111.4	na
Government Sector			In *per cent* of GDP					
General government balance (cash basis)[1]	na	na	-13.0	-10.9	-5.8	-5.7	-8	na
General government primary balance	na	3.2	0.9	-1.5	7.8	8.6	9	na
General government expenditure (cash basis)[1]	65.9	45.6	45.4	48.1	46.0	41.7	na	na
External data in convertible currencies			(In millions of US dollars)					
Current account (accrual basis)	-1180	-406	-801	-1386	-32	-43	-150	na
Trade balance	na	404	-212	-885	-17	132	-35	na
Merchandise exports (balance of payments data)	2534	2734	3956	3727	3935	5390	4340	na
Merchandise imports (balance of payments data)	3086	2330	4169	4612	3952	5258	4375	na
Gross official reserves, excluding gold (end-year)	na	331	935	655	1002	1236	518	na
Gross foreign currency debt (end-year)[3]	10000	11802	12548	12946	10714	9790	9600	na
Miscellaneous Items								
Population (in millions, end-year)	8.7	8.6	8.5	8.5	8.4	8.4	8.4	na
Employment (percentage change, end-year)	-6.1	-13.0	-8.2	-1.6	0.6	2.1	-10.0	na
Unemployment (in *per cent* of the labour force, end-year)	1.5	11.5	15.6	16.4	12.8	10.5	12.5	na
GDP (in billions of leva)	45	136	201	299	522	871	1981	na
GDP (in billions of US dollars)	11.64	7.50	8.59	10.79	9.65	12.97	10.41	na
GNP *per capita* (in US dollars) at PPP exchange rates[4]	na	na	na	na	4230	na	na	na
The share of agriculture and forestry in GDP (*per cent*)	18	15	12	10	11	13	na	na
The share of industry in GDP (*per cent*)[5]	43	47	45	39	33	31	na	na
Exchange rate (lev *per* US dollar, end-year)	7.0	21.8	24.5	32.7	66.0	70.7	495.7	na
Exchange rate (lev *per* US dollar, annual average)	3.9	18.1	23.4	27.7	54.1	67.2	190.3	na

Table 4. Selected economic indicators for the Czech Republic

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure			(Percentage change)					
GDP at constant prices	-0.4	-14.2	-6.4	-0.9	2.6	4.8	4.1	4.0
Private consumption at constant price	na	na	15.1	2.9	5.3	6.4	5.7	na
Gross fixed investment at constant price	na	na	8.9	-7.7	17.3	16.1	17.5	na
Industrial production	-3.5	-22.3	-7.9	-5.3	2.1	8.7	6.9	na
Prices and wages								
Consumer prices (annual average)	10.8	56.6	11.1	20.8	10.0	9.1	8.8	8.5
Consumer prices (end-year)	18.4	52.0	12.5	18.3	10.3	7.9	8.6	8.0
Producer prices (annual average)	4.4	70.3	10.0	9.2	6.5	7.6	4.8	na
Wages in industry (annual average)	4.5	16.7	19.6	23.8	15.7	17.0	18.4	na
Monetary sector								
Broad money (end-year)	0.5	26.8	22.8	20.3	20.8	19.4	13.5	na
Government sector			(In *per cent* of GDP)					
General government balance	0.1	-2.0	-3.3	1.4	0.5	-0.8	-0.5	na
General government expenditure	60.1	54.2	52.8	50	50.7	50.4	45.0	na
Foreign trade			(Percentage change in the US dollar value)					
Exports[1]	10.1	39.2	35.2	17.1	7.8	53.1	3.2	na
Imports[1]	35.0	29.6	46.2	9.9	12.0	68.6	12.3	na
			(In billions of US dollars)					
Current account balance[2]	-1.1	0.4	-0.3	0.1	-0.1	-1.4	-4.1	na
Trade balance[2]	-0.8	-0.4	-1.9	-0.3	0.9	-3.7	-6.1	na
Capital account, of which:	na	na	na	2.5	3.4	8.2	na	na
Gross foreign direct investment, cash	na	na	1.0	0.5	0.7	2.5	na	na
Portfolio investment	na	na	0	1.0	0.9	1.4	na	na
External debt, net of reserves of the banking system (end-year)	7.7	8.3	3.5	2.3	1.8	-0.9	1.2	na
			(In months of imports of goods and services)					
Gross international reserves of the central bank (end-year)	0.7	1.4	1.0	3.9	3.9	6.5	4.5	na
Miscellaneous items			(Denominations as indicated)					
Population (in millions, end-year)	10.3	10.3	10.3	10.3	10.3	10.3	10.3	na
Employment (change in *per cent*)	-0.9	-5.5	-2.6	-1.6	0.8	2.6	na	na
Unemployment rate (end of period)	0.8	4.1	2.6	3.5	3.2	2.9	3.5	na
GDP (in billions of crowns)	567	717	791	911	1038	1252	1410	na
The share of agriculture in GDP (in *per cent*)	8.4	6.0	5.7	6.2	5.6	5.0	na	na
The share of industry and construction in GDP (in *per cent*)	na	na	45.0	39.8	39.2	39.2	na	na
GNP *per capita* (in US dollars) at PPP exchange rates[3]	na	na	na	na	7910	na	na	na
Exchange rate (crowns *per* US dollar, end-year)	28.0	27.8	28.9	30.0	28.0	26.6	27.3	na
Exchange rate (crowns *per* US dollar, annual average)	18.0	29.5	28.3	29.2	28.8	26.6	27.1	na
Interest rate (average 3 month inter-bank PRIBOR deposit rate, *per cent*)	na	na	13.8	13.1	9.1	11.0	11.8	na

Table 5. Selected economic indicators for Hungary

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure			(Percentage change)					
National accounts at constant prices								
GDP	-3.5	-11.9	-3.1	-0.6	2.9	1.5	0.5	2.5
Private consumption[1]	-3.6	-5.6	0.0	1.9	-0.2	-4.5	3	na
Public consumption[1]	2.6	-2.7	4.9	27.5	-12.7	-6	6	na
Gross fixed investment	-7.1	-10.4	-2.6	2.0	12.5	1	4	na
Industrial gross output	-9.3	-18.4	-9.7	4.0	9.6	4.8	2	na
Prices and wages			*(Percentage change)*					
Consumer prices (annual average)	28.9	35.0	23.0	22.5	18.8	28.2	23.7	19
Consumer prices (end-year)	33.4	32.2	21.6	21.1	21.2	28.3	20	18
Producer prices (annual average)	21.8	32.7	10.7	11.0	11.3	28.9	21.8	19
Gross monthly earnings *per* employee in manufacturing	22.9	25.6	25.9	24.7	21.5	21.3	20.4	na
Monetary sector			(Percentage change)					
Broad money (end-year)	29.2	29.4	27.3	17.2	13.0	18.5	23	na
Government sector			(In *per cent* of GDP)					
General government balance[2]	0.4	-2.2	-5.5	-6.8	-8.2	-6.5	-3.5	-4
General government expenditure[3]	53.5	54.3	61.6	62.2	62.1	56.1	50.5	na
General government debt	na	75.4	79.4	90.2	87.7	85	78	na
External data in convertible currencies			(In billions of US dollars)					
Current account[4]	0.1	0.3	0.3	-3.5	-3.9	-2.5	-1.7	na
Trade balance[4]	0.3	0.2	0.0	-3.2	-3.6	-2.4	-2.7	na
External debt, net of reserves	20.2	18.7	17.1	17.9	21.8	19.6	17	na
FDI (balance of payments data)	0.3	1.5	1.5	2.3	1.1	4.5	1.9	na
		(Percentage change in the US dollar value)						
Exports (data from the balance of payments)[4]	-1.6	45.9	8.3	-19.3	-5.9	68.3	11.5	na
Imports (data from the balance of payments)[4]	1.5	51.2	11.1	12.5	-0.8	35.6	9.7	na
Exports (customs/survey statistics)[4]	na	na	7.4	-17.7	20.1	21.5	2.2	na
Imports (customs/survey statistics)[4]	na	na	-0.1	12.3	16.1	7.0	4.8	na
	(In months of current account expenditures, excluding transfers)							
Gross international reserves (end-year), excluding gold	1.3	3.8	3.6	5.2	5.1	7.0	5.3	na
Memorandum items			(Denominations as indicated)					
Population (in millions, end-year)	10.4	10.3	10.3	10.3	10.2	10.2	10.2	na
Employment (percentage change, end-year)	-3.1	-9.6	-9.3	-5.0	-2.2	-1.4	-5.6	na
Unemployment (in *per cent* of the labour force)	1.9	7.5	12.3	12.1	10.4	10.4	10.5	na
GDP (in billions of forints)	2089	2498	2943	3548	4365	5500	6807	na
GDP *per capita* (in US dollars)	3179	3242	3617	3748	4069	4290	4343	na
GNP *per capita* (in US dollars) at PPP exchange rates[5]	na	na	na	na	6310	na	na	na
The share of agriculture in GDP (*per cent*)	9.6	7.8	6.7	6.2	6.0	na	na	na
The share of manufacturing in GDP (*per cent*)	28.8	26.7	25.7	26.6	27.4	na	na	na
Exchange rate (forint *per* US dollar, end-year)	61.5	75.6	84.0	100.7	110.7	139.5	163.7	na
Exchange rate (forint *per* US dollar, annual average)	63.2	74.8	79.0	91.9	105.2	125.7	154	na
Interbank interest rate (14-30 days maturity, end-year)	na	35.4	15.4	21.8	31.3	30.4	22	na

Table 6. Selected economic indicators for Kazakhstan

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure				(Percentage change)				
GDP at constant prices	-0.4	-13	-14	-12	-25	-8.9	1.4	2.8
Industrial output	-1	-1	-14	-16	-28	-7.9	0.5	1.2
Agricultural output	16	-9	1	-10	-23	-21.3	0	1
Prices and wages								
Consumer prices (end-year)	104.6	136.8	2984.1	2169	1160	60.3	40.1	29
Consumer prices (annual average)	na	78.8	1381	1662.3	1892	176.3	51.1	35
Average wages (percentage change)	na	na	1494.5	1330	1004.9	70.5	23	na
Monetary sector								
Broad money (end-year)	na	211	391	692	716	116	70	na
Government sector				(In *per cent* of GDP)				
Central government balance	1.4	-7.9	-7.3	-1.2	-6.8	-2.3	-2.7	-3
Total expenditure	31.4	32.9	31.9	24.7	24	18.8	18	18
External data in convertible currencies				(In billions of US dollars)				
Total trade balance	-10.3	-3.2	-1.1	-0.4	-0.9	-0.2	-0.6	na
Exports	14.3	10.2	3.6	4.8	3.3	5.2	5.4	na
Imports	24.6	13.4	4.7	5.2	4.2	5.4	6	na
Total current account	na	-1.3	-1.9	-0.4	-0.9	-0.5	-1	na
Foreign direct investment (millions of US dollars)	na	na	na	473	635	723	860	na
Miscellaneous items				(Denominations as indicated)				
Population (in millions, end-year)	16.6	16.7	16.9	16.9	16.7	16.5	16.3	16.3
Unemployment rate (end-year)	0	0	0.5	0.6	1.6	2.4	3.5	na
Exchange rate (annual average, roubles *per* US dollar until 1993, tenge *per* US dollar thereafter)	0.59	117	222	930	36	61	67	na
GNP *per capita* (in US dollars) at PPP exchange rates[1]	4477.0	4081.0	3612	3214	2442	2271	na	na
The share of industry in GDP (*per cent*)	41.5	38	34.7	27.8	19.6	17.7	na	na
The share of agriculture in GDP (*per cent*)	28.1	29	30.4	31.4	28.7	na	na	na

Table 7. Selected economic indicators for Poland

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure	(Percentage change)							
GDP at constant prices	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	5.5
Private consumption at constant prices	-15.3	6.3	2.3	5.5	4.0	4.4	na	na
Public consumption at constant prices	0.5	10.2	6.4	4.0	2.5	2.9	na	na
Gross fixed investment at constant prices	-10.6	-4.4	2.3	2.9	9.2	18.5	na	na
Industrial production	na	-8.0	2.8	6.3	12.1	9.9	8.0	8.0
Agricultural production	na	-1.6	-12.7	6.8	-9.3	11.9	na	na
Prices and Wages								
Consumer prices (annual average)	585.8	70.3	43.0	35.3	33.2	27.8	20.0	17.0
Consumer prices (end-year)	249.0	60.4	44.3	37.6	29.4	21.6	18.0	15.0
Producer prices (annual average)[1]	622.4	50.3	27.7	31.9	25.3	25.4	13.0	na
Wages and salaries (annual average)	398.0	70.6	39.2	33.6	36.8	32.9	25.0	na
Monetary sector								
Broad money (end-year)[2]	160.1	37.0	57.5	36.0	38.2	35.0	29.0	na
Domestic credit (end-year)[2]	183.5	158.7	55.6	44.2	30.1	20.1	na	na
Government sector	(In *per cent* of GDP)							
General government balance[3]	3.1	-6.5	-6.6	-2.9	-2.0	-3.5	na	na
General government outlays[3]	39.8	48.0	50.7	50.5	47.5	na	na	na
State budget balance[4]	0.7	-7.0	-6.9	-3.4	-2.5	-2.8	-2.7	-2.8
State budget outlays[4]	32.7	32.7	33.7	32.8	31.9	32.0	30.3	30.0
External data in convertible currencies	(In billions of US dollars)							
Current account balance	0.6	-2.0	0.9	-1.3	0.8	5.5	-0.1	na
Trade balance[5]	2.2	0.1	0.5	-2.3	-0.8	-1.8	-7.2	na
Exports (data from the balance of payments)	10.9	12.8	14.0	13.6	17.0	22.9	24.6	na
Imports (data from the balance of payments)	8.6	12.7	13.5	15.9	17.8	24.7	31.8	na
Net unclassified transactions (associated with border trade)[6]	-0.1	-0.6	1.2	1.8	3.2	7.8	7.8	na
Portfolio investment	0.0	0.0	0.0	0.0	-0.6	1.2	2.2	na
FDI (balance of payments data)	0.0	0.1	0.3	0.6	0.5	1.1	na	na
External debt	48.9	48.3	48.2	48.7	40.9	39.4	na	na
	(In months of current account expenditures, excluding transfers)							
Gross international reserves (end-year), excluding gold	3.8	2.5	2.9	2.6	3.1	5.7	na	na
Miscellaneous items	(Denominations as indicated)							
Population (in millions)	38.2	38.3	38.4	38.5	38.6	38.6	na	na
Employment (Percentage change)	-4.2	-5.8	-4.2	-2.4	1.8	na	na	na
Unemployment (in *per cent* of the labour force, end-year)	6.1	11.8	13.6	15.7	16.0	14.9	na	na
Exchange rate (złoty *per* US dollar, end-year)	0.950	1.096	1.577	2.134	2.437	2.468	na	na
Exchange rate (złoty *per* US dollar, average)	0.950	1.058	1.363	1.812	2.272	2.425	na	na
Rediscount rate (end-year)	48.0	36.0	32.0	29.0	28.0	25.0	na	na
Interbank rate (one-month, end-year)	na	36.7	30.8	25.2	21.1	24.7	na	na
GDP (in billions of złoty)	59.15	82.53	114.9 4	155.78	214.70	292.60	na	na
GNP *per capita* (in US dollars) at PPP exchange rates[7]	na	na	na	na	5380.0	na	na	na
The share of agriculture in GDP (*per cent*)[8]	10.3	9.0	6.7	6.6	6.2	6.6	na	na
The share of industry in GDP (*per cent*)[8]	44.9	40.2	34.0	32.9	32.2	29.5	na	na

Table 8. Selected economic indicators for Romania

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure	(Percentage change)							
GDP at constant prices	-5.6	-12.9	-8.8	1.3	3.9	6.9	4.3	-2.5
Industrial output	-23.7	-22.8	-21.9	1.3	3.3	9.4	6.0	1.5
Prices and wages								
Consumer prices (annual average)	5.1	174.5	210.9	256.1	131.0	32.3	45	100
Consumer prices (end-year)	37.7	222.8	199.2	295.5	61.7	27.8	56.9	80
Wages (annual average)	10.5	121.3	170	202.1	129.5	54.1	57	na
Monetary sector								
Broad money (M2, end-year)	22	101.2	79.6	143.2	138.1	71	66.7	na
Government sector	(In *per cent* of GDP)							
Central government balance (national definition)	na	-1.7	-4.4	-2.7	-3.0	-4.1	-5.7	-5.5
General government balance[1]	1.2	0.6	-4.6	-0.1	-1.0	-2.8	-5.4	-5
External data in convertible currencies	(In billions of US dollars)							
Current account balance	-1.8	-1.3	-1.5	-1.2	-0.4	-1.3	-0.9	na
Trade balance	-1.8	-1.3	-1.5	-1.2	0.4	-1.2	-0.8	na
Gross external debt, net of reserves (end-year)	0.6	1.4	2.4	3.3	3.4	4.8	7	na
	(Percentage change in the US dollar value)							
Exports (data from the balance of payments)[2]	-44.0	-1.7	21.1	13.9	26	22.2	-5.8	na
Imports (data from the balance of payments)[2]	49.9	-10.2	11.3	10.7	9.1	33.4	-6.4	na
	(In months of current account expenditures, excluding transfers)							
Gross international reserves (end-year), excluding gold	0.8	1.0	1.3	1.6	3.4	2	1.7	na
Miscellaneous items	(Denominations as indicated)							
Population (in millions, mid-year)	23.2	23.2	22.8	22.8	22.7	22.6	22.6	22.5
Employment (percentage change, end-year)	-1.0	-0.5	-3.0	-3.8	-2.7	-2	-2	na
Unemployment rate (in *per cent* of the labour force, end-year)	na	3.0	8.1	10.2	11	8.9	6.1	na
GDP (in billions of lei)	858	2204	6029	20051	49795	72249	101910	na
GDP *per capita* (in US dollars) at current exchange rates	1649	1245	859	1157	1388	1570	1437	na
GDP *per capita* (in US dollars) at PPP exchange rates[3]	na	na	na	na	2920	na	na	na
Agriculture's share of GDP (*per cent*)[4]	21.8	18.9	19.0	21.0	20.1	20	20	na
Industry's share of GDP (*per cent*)[4]	40.6	37.9	38.3	32.4	32.3	31	30	na
Exchange rate (lei *per* US dollar, end-year)[5]	34.7	189.0	460.0	1276.0	1767	2578	4035	na
Exchange rate (lei *per* US dollar, average)[5]	22.4	76.3	308.0	760.1	1580	2036.6	3138	na
Bank lending rate (end-year)[6]	3.8	19.5	43.6	86.4	62.4	41.5	55	na

Table 9. Selected economic indicators for Russia

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure				(Percentage change)				
Real GDP	na	-13.0	-14.5	-8.7	-12.6	-4.0	-6	1.5
Investment at constant prices	0.1	-15.0	-40.0	-12.0	-26.0	-13.0	-18	na
Industrial production	-0.1	-8.0	-18.8	-16.2	-22.8	-4.7	-5	na
Prices and wages								
Consumer prices (annual average)	5.6	92.7	1354	896	302	190	48	20
Consumer prices (end-period)	na	143.9	2318	841	203	131	22	17
Wages (annual average)	15.2	80.1	994	879	273	124	na	na
Monetary sector								
Net domestic assets	na	na	na	770	360	70	81	na
Broad Money (end-period)[1]	17.6	126	643	409	200	126	34	na
Government sector				(In *per cent* of GDP)				
General government balance (cash basis)[2]	na	-31.0	-18.8	-7.6	-10.1	-4.9	-7.7	na
External data in convertible currencies				(In billions of US dollars)				
Current account balance *vis-à-vis* non-CIS countries[3]	na	3.5	-5.7	2.3	1.2	5.7	9	na
Trade balance *vis-à-vis* non-CIS countries[3]	na	8.1	4.4	11.9	14.3	18.1	19	na
Gross external debt in convertible currencies (of the Soviet Union/Russia, end of period)	61.1	67.0	78.2	83.7	93.6	103.8	108	na
				(Percentage change in the US dollar value)				
Exports to non-CIS countries[3]	-4.8	-28.4	-16.8	4.5	20.0	24.5	8.1	na
Imports from non-CIS countries[3]	4.8	-45.6	-16.9	-11.3	12.3	19.5	2.0	na
Miscellaneous items				(Denominations as indicated)				
Population (in millions, end-year)	148.3	148.9	148.6	148.3	148.2	148.1	147.5	na
Unemployment rate (in *per cent* of labour force, end-year)[4]	0.0	0.1	0.8	1.1	2.1	3.2	3.4	na
Open unemployment (in *per cent* of labour force, end-year)[5]	na	na	na	5.5	7.1	8.2	9.3	na
Exchange rate (roubles *per* US$, end-year)	1.7	169	415	1247	3550	4640	na	na
Exchange rate (roubles *per* US$, average)	1.7	67.1	222.1	933.2	2205	4565	5140	na
Refinancing rate (in *per cent*, end-year)[6]	na	6-9	80.0	210.0	180.0	160.0	48.0	na
Nominal GDP (in trillion roubles)	0.6	1.4	19.0	171.5	630.1	1888	na	na
GNP *per capita* (in US dollars) at PPP exchange rates[7]	na	na	na	na	5260.0	na	na	na

Table 10. Selected economic indicators for the Slovak Republic

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure	(Percentage change)							
GDP at constant prices	-2.5	-14.6	-6.5	-3.7	4.9	6.8	6.9	5.0
Industrial production[1]	-3.6	-17.6	-14.4	-10.2	6.4	8.3	2.5	na
Prices and wages								
Consumer prices (annual average)	10.8	61.2	10.1	23.2	13.4	9.9	5.8	6.0
Consumer prices (end-year)	18.4	58.3	9.1	25.1	11.7	7.2	5.4	5.8
Producer prices (annual average)	4.4	68.8	5.3	17.2	10.0	9.0	4.0	na
Average wages in industry	4.5	16.5	20.2	16.8	17.4	15.3	16.0	na
Monetary sector								
Broad money (end-year)	0.5	26.8	4.7	18.5	18.8	20.7	15.7	na
Net domestic assets (end-year)	5.2	21.9	7.2	19.0	12.4	3.0	na	na
Government sector	(In *per cent* of GDP)							
General government balance	0.1	-2	-11.9	-7.6	-1.3	0.1	-1.4	na
General government expenditure	60.1	54.2	57.9	51.2	47.7	46.7	46.0	na
External data in convertible currencies	(In billions of US dollars)							
Current account balance	-1.1	0.4	0.2	-0.6	0.7	0.6	-1.5	na
Trade balance	-0.8	-0.4	-0.7	-0.9	0.1	-0.2	-2.1	na
Exports[2]	na	na	na	5.4	6.7	8.6	8.8	na
Imports[2]	na	na	na	6.4	6.6	8.5	10.9	na
	(Percentage change in the US dollar value)							
Exports (data from the balance of payments)[2]	10.1	39.2	35.2	-16.9	23.0	27.7	3.0	na
Imports (data from the balance of payments)[2]	35.0	29.6	46.2	-12.5	4.1	28.5	24.8	na
	(In billions of US dollars)							
Official reserves (excl. gold)	na	na	na	0.4	1.7	3.4	3.5	na
External debt (net of official reserves)	na	na	na	3.2	2.6	2.4	2.8	na
	(In months of imports of goods and services)							
Official reserves	na	na	na	0.7	2.6	4.0	na	na
Miscellaneous items	(Denominations as indicated)							
Population (in millions, end-year)	5.3	5.3	5.3	5.3	5.3	5.3	5.3	na
Unemployment rate (in *per cent* of labour force, end-year)	1.5	11.8	10.3	14.4	14.8	13.1	12.8	na
GDP (in billions of crowns)	244	280	301	370	441	518	585	na
The share of agriculture in GDP (*per cent*)[3]	8.2	5.8	6.1	6.6	6.6	5.6	na	na
The share of Industry in GDP (*per cent*)[3]	61.6	63.9	38.0	35.9	33.3	33.2	na	na
GNP *per capita* (in US dollars) at PPP exchange rate[4]	na	na	na	na	6660	na	na	na
Exchange rate (crowns *per* US dollar, end-year)	28.0	27.8	28.9	33.2	31.3	29.6	31.2	na
Exchange rate (crowns *per* US dollar, annual average)	18.0	29.5	28.3	30.8	32.0	29.7	30.6	na
National Bank discount rate (end-year)	na	na	na	12.0	12.0	9.8	8.8	na

Table 11. Selected economic indicators for Ukraine

	1990	1991	1992	1993	1994	1995	1996 est.	1997 proj.
Output and expenditure				(Percentage change)				
GDP at constant prices	-3.4	-9.0	-10.0	-14.0	-23.0	-11.8	-10	-2
Industrial production	0	-5	-6	-9	-28	-13	-5	na
Agricultural production	-4	-13	-8	2	-16	-2	-9	na
Prices and wages								
Consumer prices (annual average)	4.2	91	1210	4700	891	376	80	40
Consumer prices (end-year)	na	161	2000	10155	401	182	40	30
Producer prices (annual average)	4.5	125	2384	2453	1040	488	17.0	na
Producer prices (end-year)	4.5	163	4129	9668	602	172	na	na
Average wages (Kbv/Hryvna *per* month)[1]	na	1237	6380	156256	-	81	138	na
Monetary sector								
Broad money (end-year)	na	na	859	1778	573	117	35	na
Net domestic assets of the banking system (end-year)	na	na	1639	1133	583	180	na	na
Government sector				(In *per cent* of GDP)				
General government balance[2]	na	-13.6	-23.2	-9.7	-8.2	-4.9	-4.5	na
State budget balance[2]	2.6	-14.1	-24.2	-11.7	-9.4	-6.6	-4.5	na
State budget expenditures[2]	31.4	41.0	58.4	54.5	53.8	44.6	42.1	na
State budget revenue[2]	na	na	34.2	42.7	44.4	38.0	37.5	na
External data in convertible currencies				(In billions of US dollars)				
Current account balance	na	-2.9	-0.6	-0.8	-1.4	-1.5	-1.3	na
vis-à-vis non-FSU countries	na	na	na	0.7	0.4	0.6	na	na
vis-à-vis FSU republics	na	na	na	-1.5	-1.8	-2.1	na	na
Merchandise trade balance total	-12.7	-3.4	-0.6	-2.54	-2.3	-2.3	-4.1	na
vis-à-vis non-FSU countries	-2.6	-2.7	0.5	0.5	0.3	0.5	0.7	na
vis-à-vis FSU republics	-10.1	-0.7	-1.1	-3.0	-2.7	-2.8	-4.8	na
Exports total	74.6	50.0	11.3	12.8	12.1	13.6	14.1	na
to non-FSU	13.2	7.3	6.0	5.2	4.6	5.7	6.5	na
to FSU republics	61.4	42.7	5.3	7.6	7.5	7.9	7.6	na
Imports total	87.3	53.4	11.9	15.3	14.5	16.0	18.2	na
from non-FSU	15.8	10.0	5.5	4.7	4.3	5.2	5.8	na
from FSU republics	71.5	43.4	6.4	10.6	10.1	10.8	12.4	na
Miscellaneous items				(Denominations as indicated)				
Population (in millions)	51.8	51.9	52.0	52.1	51.7	51.3	51.2	na
Employment (percentage change)	-3.5	-1.6	-4.0	-2.3	-5.3	na	na	na
Unemployment rate (in *per cent*, end-year)	0	0	0.3	0.4	0.4	0.6	1.2	na
GDP (in billions of roubles until 1991; in trillions to 1996)	165	295	5	148	1137	5140	80	na
GNP *per capita* (in US dollars) at PPP exchange rates[3]	na	na	na	na	3330	na	na	na
The share of agriculture and fisheries in GDP (*per cent*)	24.4	24.5	20.8	18.4	14.3	13.2	na	na
The share of industry and construction in GDP (*per cent*)	42.6	54.6	52.1	36.8	42.4	43.7	na	na
Exchange rate (roubles, karbovanets or hryvna *per* US dollar, annual average)[4]	0.59	1.74	253	8858	52225	158302	1.83	na

Table 1.

1. Data for 1990–96 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 are preliminary actuals, mostly official government estimates. Data for 1997 represent European Bank projections. No projections are given for Albania due to the considerable uncertainty surrounding developments in that country.
2. Estimates for real GDP represent weighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The weights used were European Bank estimates of nominal dollar-GDP for 1996. Average projected growth rates are based on earlier forecasts of 5–6 *per cent* growth in Albania.
3. Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates for real GDP represent weighted averages. The weights used were European Bank estimates of nominal dollar-GDP for 1996.

Table 2.

1. Data for 1991–96 represent the most recent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1996 are preliminary actuals, mostly official government estimates. Data for 1997 represent European Bank projections. No projections are given for Albania due to the considerable uncertainty surrounding developments in that country.
2. Unweighted average inflation ratio for all 25 countries.
3. Estimates for sub-regional inflation represent unweighted averages for Albania, Bulgaria, Croatia, the Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. The 1997 projected average inflation rate excludes Albania.
4. Here taken to include all countries of the former Soviet Union, except Estonia, Latvia and Lithuania. Estimates for CIS inflation represent unweighted averages.

Table 3.

Data for 1990–95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, the UN ECE, PlanEcon and the Institute of International Finance. These data are frequently revised and we strive to incorporate the latest revisions. Data for 1996 reflect European Bank evaluations, partly based on information from the aforementioned sources. 1997 projections are from the EBRD.

* January–September.

1. Excluding (from expenditures) unpaid due interest amounting to 4.1 billion Bulgarian lev in 1992, 14.5 billion lev in 1993 and 5.4 billion lev in 1994. General government includes the state, municipalities, social security and extra-budgetary funds.
2. Balance of payments data.
3. Data refer only to convertible currency debt until 1991. From 1992, they refer to total debt. In 1992, debt to CMEA institutions amounted to approximately US$ 562 million.
4. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

5. At current prices.

Table 4.

Figures in bold type pertain to the Czech Republic whereas figures in normal type pertain to the former CSFR. Data for 1990–95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.
1. Data from the balance of payments, collected on a settlement basis. The high rates of growth between 1990 and 1992 reflect the fact that as the CMEA's non-convertible trading arrangements collapsed, more trade began to be settled in hard currencies. The high growth rates in 1995 of both imports and exports partly reflect changes in the methodology of recording the trade data.
2. Data for 1990–92 exclude trade with Slovakia and incorporate only trade settled in convertible currency.
3. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* in local currency was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

Table 5.

Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.
1. Public consumption and imports for 1993 include deliveries of military aircraft from Russia as settlement of CMEA-related debts to Hungary. Excluding this item, public consumption grew by about 1.5% in each of the years 1993 and 1994, while imports grew 13% in 1993 and 22% in 1994.
2. General government includes the state, municipalities and extra-budgetary funds.
3. Including the state and extra-budgetary funds. Excluding privatization revenues (which amounted to Ft 19–22 bn in 1992–93, Ft 59 bn in 1994, Ft 452 bn in 1995 and around Ft 170 bn in 1996.
4. Balance of payments data are based on banking statistics and are presented on a settlement basis. Since 1993 trends in balance of payments data on exports and imports have deviated markedly from trends observed in partner country statistics, notably OECD trade statistics. Banking statistics have become less reliable over this period as statistical reporting requirements for banks have been loosened. Many observers now find the customs/survey-based series more reliable. Because of a break in the series, customs/survey-based data are quoted here only from 1992 onwards.
5. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* in local currency was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

Table 6.

Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.

1. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* in local currency was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

Table 7.

Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.

1. Beginning in 1993, according to the Polish version of the NACE-EKD classification system. 1993 index includes VAT; those from 1994 onwards exclude VAT.
2. Beginning December 1991, data are based on a new system of accounts and an improved reporting system.
3. General Government includes the state, municipalities and extrabudgetary funds. The data are compiled on a commitment basis, except for cash-based external interest payments.
4. For the period 1990 the 'state budget' includes central government accounts and accounts of local and regional authorities. The state budget for 1991 and subsequent years includes the central government accounts, the accounts of regional authorities and accounts of several previously extra-budgetary funds. Flows are compiled on a commitment basis, except for external interest payments, which are cash-based.
5. Official balance which excludes unrecorded border trade.
6. The net purchases of foreign currencies in foreign exchange bureaux are used as a proxy measure for unrecorded border trade and included in the current account as 'net unclassified transactions'.
7. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.
8. At current prices.

Table 8.

Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.

1. General government includes the state, local governments and extra-budgetary funds. Figures are on a cash basis.
2. Balance of payments data; payments settled plus accrued payments due.
3. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units

of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.
4. At current prices.
5. During most of the period covered in this table, the exchange rate facing individuals has differed from that facing enterprises. The rates quoted here are the officially quoted rates facing enterprises.
6. Commercial banks' average lending rates as reported by the National Bank.

Table 9.
Data for 1990–95 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, Russian Economic Trends, PlanEcon and the Economist Intelligence Unit. Data for 1996–97 reflect European Bank evaluations, partly based on information from the aforementioned sources.
1. Excluding foreign currency deposits.
2. Includes the federal and local governments, all extra-budgetary funds and unbudgeted import subsidies.
3. There are many difficult conceptual issues associated with Russian balance of payments statistics. For example, estimates from other sources for the current account balance for each of the years 1992–96 differ by up to US$4–6 billion. This is because both Russian and external sources, including the IFIs, make discretionary adjustments to official estimates, and different sources adjust to different extents for overdue (but unpaid) interest (both payment and receipts), under-recording of trade, barter operations and gold transactions. The main source for external data are the IMF and Russian Economic Trends. Estimates for 1996 are from the European Bank.
4. Officially registered unemployed.
5. Open unemployment data correspond to the ILO definition and are based on Goskomstat labour survey figures.
6. This is the refinancing rate that is quoted by the Central Bank of Russia (CBR). It does not truly reflect the compound annualized interest rate on refinancing. It is instead computed by multiplying by twelve the monthly rate charged by the CBR on refinancing loans.
7. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

Table 10.
Figures in bold type pertain to the Slovak Republic whereas figures in normal type pertain to the former CSFR. Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank, the OECD, PlanEcon and the Institute of International Finance. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.
1. Covers only state enterprises until 1991, but includes the private sector from 1992.
2. The values and the growth rates quoted take into account trade with the Czech Republic.
3. The share of NMP for 1990 and the share of GDP for subsequent years. NMP excludes depreciation and the value added from most of the service sector.

4. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

Table 11.

Data for 1990–96 represent official estimates of outturns as reflected in publications from the national authorities, the International Monetary Fund, the World Bank and PlanEcon. Data for 1997 reflect European Bank evaluations, partly based on information from the aforementioned sources.

1. The figure for 1994 is 1,375,105. The data for 1995 and 1996 are shown in hryvna which was introduced in September 1996 at a conversion rate of one hryvna *per* 100,000 karbovanets.

2. The general government sector includes the state, municipalities and extra-budgetary funds. The state budget includes direct credits. All balances are quoted on a cash basis. On the IMF definition of the budget deficit (foreign interest payments classified as below the line), the deficits as a share of GDP were -7.5 *per cent* in 1994, 5.0 *per cent* in 1995 and 3.1 *per cent* in 1996.

3. PPP stands for purchasing power parity. The estimate quoted here stems from the 'World Bank Atlas 1996'. In the computation of this estimate the country's nominal GNP *per capita* was divided by the 'purchasing power parity', defined as the number of units of the country's currency required to buy the same amount of goods and services in the domestic market as one dollar would buy in the United States.

4. Roubles *per* US dollar until 1991, karbovanetsi *per* US dollar, thereafter (auction exchange rate); hryvna *per* US dollar in 1996.