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Postcommunist Parties and the Politics of Entitlements

by Jeffrey Sachs

In national elections this past March, Estonia's reform government was unceremoniously toppled from power by a new left-of-center government. This would seem a rather ungrateful act of the Estonian voters in light of the accomplishments of the former government. By the end of 1994 inflation was down to an annual rate of around 20 percent, the lowest among countries of the former Soviet Union (FSU). Economic growth was around 5 percent in 1994, the highest in the FSU, with forecasts of even higher growth in 1995.

Why then was the Estonian government toppled? Why, indeed, have left-wing parties, descendants of the former communist parties of the region, succeeded in winning elections in nearly every country of Central and Eastern Europe (with notable recent electoral triumphs in Bulgaria, Estonia, Hungary, Poland, Slovakia, and Slovenia)? The simple answer given by many critics of market reforms is that the reforms have been too cruel, or that the public yearns for the certainties of the past.

These explanations largely miss the point.

- Opinion surveys in Central and Eastern Europe repeatedly show that the public does not want to go back to the old regime, nor does it view the left-wing parties as instruments to undo the new market economy.
- The living standards of the population did not really drop, if one examines actual household consumption behavior (rather than changes in crude indexes of real wages, which do not give a picture

of the shortages prevalent in the old regime). Indeed, in many countries including Estonia, the public is in the midst of a startling buildup of consumer durables—cars, refrigerators, videocassette recorders, and the like—that were long unavailable under the old regime.

In most countries of Eastern Europe, social spending has not only remained an unusually high proportion of GNP, it has actually soared. The postcommunist

What's inside...

Privatizing Profits of Bulgaria's State Enterprises In Bulgaria, private wealth has been created via syphoning off profits from state enterprises, rather than privatizing the state enterprise assets themselves, authors, Zeljko Bogetic and Arye L. Hillman claim. (page 4)

Fiscal Decentralization in Transition Economies Acquiescing to limited spending discretion, choosing the wrong revenue sources, wasting social assets of privatized state enterprises—these are some of the traps local governments in postsocialist states could fall into, warn authors R. M. Bird, R. D. Ebel, and C. I. Wallich. (page 7)

Fidel Castro Tries Survival Strategy Piecemeal liberalization has resulted in

some improvements in the Cuban economy, but a significant turnaround would require broad political and economic reforms, suggests J.F. Perez-Lopez. (page 11)

Quotation of the Month: "Siphon Off the Money" A Hungarian daily blasts shadow economy operators. (page 15)

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countries in Eastern Europe have among the most generous social welfare budgets in the world when measured as a percentage of GNP, especially when considering the level of development as measured by per capita income adjusted for purchasing power parity. Social spending budgets tend to be between 15 and 30 percent of GDP, in comparison with the outlays of East Asian countries at similar income levels, which average between 5 and 10 percent of GDP for similar social programs.

Escalating Social Spending

Ironically, it is the high and escalating social spending, not the alleged cuts, that offers us the real insight into the political dynamics of the region. Rather than seeing the Eastern European elections as great referenda on the market system, or on capitalism versus communism, or even as protest votes against harsh reforms, one can see that the elections in Eastern Europe have become almost exactly like elections in Western Europe and the United States: dominated by interest group politics.

Left-wing parties are winning the elections in Eastern Europe in part because they are seen by the organized recipients of state largesse as the parties most likely to maintain or increase the entitlements of the social welfare state. The former Estonian government may have been too severe in its pension policy, but at the same time, parties advocating moderate benefit levels have been defeated by parties willing to raise the stakes in populist campaigns for the pensioner vote. Generally speaking, most East Europeans want both a market economy and the security of an extensive social safety net.

Social spending has increased significantly as a percentage of GDP in selected countries of Eastern Europe (table 1). In Poland, whose supposedly

"cold turkey" reforms have been alternately admired and reviled—but almost always believed to be harsh—social spending soared a remarkable 11 percentage points of GDP between 1989 and 1993. Sharp increases in social spending are also recorded in Bulgaria, Hungary, and Slovakia. In most countries the cuts in subsidies that accompanied price liberalization at the start of reforms were offset in part, or even in full, by increased social spending, rather than deficit reduction.

Social spending in Eastern Europe ranks high when seen in an international comparative perspective (table 2). The most recent comparative data are for 1985-90, taken from the United Nations *World Development Handbook, 1994*. Data for more recent years would likely show an even larger discrepancy between Eastern Europe's generous social spending and the much lower social spending in other parts of the developing world. The counterpart of Eastern Europe's heavy social spending is extremely high tax rates, particularly on labor, which distort the economies, reduce capital inflows, and raise unemployment rates, partly because of work shifting to the untaxed grey economy.

In addition to the politics of entitlements, the left-wing parties have also reaped the advantages of a fifty-year "head start" in organization, fund-raising, recruitment of activists, presence in the factories, trade unions, and bureaucracy, and other nuts and bolts of party organization. In most countries the communist parties were able to bequeath these assets to the political successor parties. An apparent exception is the Czech Republic, where the process of lustration (disqualification for state posts as a consequence of previous senior membership in the communist party or secret police) dramatically weakened the communist party organization.

Table 1 Changing patterns of social expenditures and subsidies, selected transition economies, 1989 (prereform)—1993 (postreform)
(percentage of GDP)

Country	Social			
	expenditures		Subsidies	
	1989	1993	1989	1993
Bulgaria	10.4	12.9	15.5	3.9
Czech Republic	13.2 ^a	14.6	16.6	—
Estonia	10.4 ^b	8.8	2.5 ^b	1.3
Hungary	15.8	22.5	10.7	3.1
Poland	10.0	21.0	12.9	3.3
Slovakia	13.2 ^a	17.0	16.6	4.8
Slovenia	25.9 ^b	30.5	4.2 ^b	4.1

— Not available.

a. The 1989 data for the Czech Republic and Slovakia are the 1989 figures for Czechoslovakia.

b. Data are for 1991.

Source: European Bank for Reconstruction and Development, *Transition Report, 1994*; and national data.

Pensioners' Power

There are three special reasons for the enormous electoral power of the pensioners and other recipients of state aid in the postcommunist states of Eastern Europe and the former Soviet Union.

- First, the communist regimes were characterized by universal and extensive entitlements, partly as the result of socialist ideology, and partly as the result of political competition with the West. The Soviet Union and its dependent states in Central and Eastern Europe made lavish commitments of lifetime job tenure, universal pensions, generous (and widely abused) disability systems, guaranteed education, vacations, health, housing, and the like. Of course, these promises could not be fulfilled, and governments throughout the region went bankrupt as a result of these excessive commitments. Nonetheless, as we know from Western politics in countries as diverse as the United States, Sweden, Greece, Italy, and elsewhere, entitlements are almost impossible to reverse

Table 2 Average annual social expenditure, selected regions, 1985-90

Region	Per capita GDP (in dollars)	Social expenditure (percentage of GDP)			
		welfare	Education	Health	Total
South Asia	1,260	0.7	3.4	1.4	5.5
East Asia	3,210	3.4	2.8	2.2	8.4
Latin America	5,360	3.4	4.2	2.4	10.0
Eastern Europe	5,210	14.9	4.8	5.2	24.9
OECD Countries	19,000	16.3	4.9	5.9	27.1

OECD: Organization for Economic Cooperation and Development.

Note: All variables are averages for 1985-90.

a. Per capita GDP is measured in purchasing power parity terms, in 1991 dollars.

Source: United Nations, *World Development Handbook*, 1994.

even in the face of extreme budgetary pressures.

- Second, because of low population growth rates, the East European populations are relatively old, with high dependency ratios compared with populations in most developing countries at similar income levels. This adds an extra burden on state pension costs.

- And third, among all of the age groups in the postcommunist societies, the adult populations over the age of 45 have had the hardest time adjusting to the new market conditions. For older workers, mobility costs tend to be very high, retraining tends to be difficult, and the time horizon for market returns to retraining tends to be short. Therefore, politicians and reformers have opted to "buy out" this age cohort through generous arrangements for early retirement, often starting at ages 45 to 50, and through lax standards for disability pensions.

The result is an extraordinarily large proportion of the adult population covered by pensions, as illustrated in table 3 for Poland. Roughly one-third (32 percent) of the entire Polish adult population is covered by pensions (with an astounding 9 percent of the adult population on disability pensions), compared with pensioners accounting for roughly

one-fifth of the U.S. adult population (21 percent). The number of Polish pensioners increased by some 28 percent in just four years, from 1989 to 1993, while the overall population increase was just 1.5 percent.

In several countries, farmers are probably the second most vocal political pressure

group besides pensioners. Agrarian parties have formed coalitions in many of the postcommunist countries. At the outset of market reforms, the agrarian interests suffered relative income declines as various agricultural subsidies were slashed. Later on, some or all of these losses were recouped through successful agrarian lobbying for farm subsidies and controls on food imports. The protectionist lobbying of West European farmers provided ideal role models for the rent-seeking and protectionist agrarian parties in the East.

As a result, extraordinarily high payroll taxes and import tariffs have been imposed on the working populations in the postcommunist countries. The payroll tax rates are among the highest in the world, and seriously threaten the dynamism of the emerging market economies in the region. There are hardly any countries in the world with incomes of less than \$5,000 per capita in which government revenues exceed 40 percent of GDP. Government revenues in the Czech Republic, Hungary, Poland, Slovakia, and Slovenia all exceed that level.

These transfers might be justified as a onetime historical bargain, in which the burdens are shared by younger workers and future generations. So far, however,

governments in the region have not designed the pension and farm benefits as onetime transfers, in a specific historical context. Rather, the entire fiscal structure has been distorted on an open-ended basis. The generous retirement benefits and protectionist measures have been implemented as permanent policy measures. Of course, these generous measures could be reversed later on, but probably only in an intense fiscal crisis. Almost no country in the world has yet been able to roll back long-established entitlements benefits.

Undo a Fiscal Legacy

In the next few years, the most important fiscal task in Central and Eastern Europe will be to reduce the size of social spending to more reasonable proportions of GDP. Political elites, Western governments, and the international financial institutions, including the IMF and the World Bank, will have to focus public attention in Eastern Europe on the looming fiscal crisis. The public should understand the crucial difference be-

Table 3 Pensioners in Poland and the United States, June 1993

Country/ group	Pensioners as a percentage of		
	Total population	Adult population	Labor force
<i>Poland^a</i>			
All pensioners	22	32	18
Retired	16	23	34
Disabled	6	9	14
<i>United States^b</i>			
All pensioners	16	21	32
Retired	14	18	28
Disabled	2	3	4

Source: Author.

a. In Poland, out of a total population of 38.9 million, an adult population of 27 million, and a labor force of 18 million, there are 8.7 million pensioners (of which 2.5 million are disabled).

b. In the United States, out of a total population of 250 million, an adult population of 190 million, and a labor force of 120 million, there are 38.9 million pensioners (of which 4.9 million are disabled, including 1.5 million disabled children).

tween a onetime intergenerational transfer to older workers at the start of market reforms, and a long-run pension policy. In any viable long-term arrangement, the level of benefits relative to wages should be reduced; retirement ages should be raised to international norms; and eligibility for special pension benefits (e.g. disability) should be tightened to cover only those truly in need.

In institutional terms, long-term reform should aim for a shift to a pension system based on individual savings accounts, as in Chile, as opposed to the current state run, pay-as-you-go pension systems. The individualized savings schemes let each household choose its

own desired level of savings according to its particular intertemporal preferences and circumstances. The individualized system also eliminates the debilitating sense of universal entitlement that helped to bankrupt the old regimes and that still pervades the new ones. The privatization process can be linked to the pension reform, by earmarking privatization revenues or enterprise shares now held by the state to help finance the changeover to a private, individualized pension system.

Of course, the election results throughout the region demonstrate just how hard a task these needed reforms will be. Various governments have flirted

with pension reforms, but none has progressed far and still survived the electoral test. Reformers, politicians, and international advisers should focus on improved public understanding and on innovative transitional strategies for pension fund reform in order to undo the continuing adverse fiscal legacy of the ancien régime.

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Privatizing Profits of Bulgaria's State Enterprises

by Zeljko Bogetic and Arye L. Hillman

The relationship between private and state enterprises has a significant influence on the course of a country's transition. The relationship can breed resistance to market-oriented reforms and can, in particular, delay the privatization process and the implementation of tax reform. This article is based on experiences in Bulgaria, but the observations apply generally to transition economies in which privatization has been delayed.

The communist regime in Bulgaria fell in 1989, but substantive economic reforms did not begin until early 1991. Then, from 1992 on, the pace of reform slowed and privatization of state enterprises was delayed; introduction of a value added tax was deferred a number of times and was only introduced in 1994. Only a handful of state enterprises had been privatized by the beginning of 1995.

The private sector has at the same time grown substantially, contributing 22 percent of GDP in 1994, according to offi-

cial statistics. Recent World Bank estimates—which encompass illegal and quasi-legal activities, as well as legal activities outside of the government tax base—suggest, however, that the private sector contributes 50 percent of GDP. The Bank calculations also suggest that 90 percent or more of profits in the economy may accrue to the informal private sector. Although the private sector secures most of the accrued profits, its share in productive inputs is extremely low: some 5 percent of long-term assets, less than 10 percent of total credits, 22 to 26 percent of employment, and 10 to 12 percent of labor income. This suggests that private sector profits are somehow channeled from the state enterprise sector.

Intricate Links

The profits have not been used for investment; even according to the most optimistic estimates, private sector investment for 1993 did not exceed 12 percent of total investment. Investment in the state enterprise sector has been

insufficient to maintain the capital stock, let alone facilitate modernization and restructuring.

The relationship between private and state firms appears to offer an explanation for the discrepancies between private sector profits and the private sector's low resource use. Under socialism, economic activity was vertically integrated to include all stages of production, processing, distribution, and marketing, including foreign trade. There was no market, and no market prices. Following the 1991 reforms, state enterprise managers were given autonomy in decisionmaking. As a general rule, private firms took over distribution, marketing, and foreign trade functions, while the state enterprise sector remained specialized in physical production. The private sector thus filled the void left by the departure of the planners.

Private and state firms, although distinct legal business entities, often function as if vertically integrated. Transfer prices rather than market prices govern-

interfirm relationships. The transfer pricing opens the way for shifting profits from the state to private agents and facilitates tax evasion.

Relationships between state and private firms can be formally based on service contracts approved by the government and on open-tender leases of state en-

terprise facilities. Formal dealings appear, however, to be less prominent than informal activities. The following examples are illustrative.

- A private firm supplies a state firm with inputs. The state firm transforms the inputs and delivers the output to the private company. The state company has been isolated from the market.

- A state enterprise is authorized to lease land and equipment to a private firm through competitive tender. The successful bidder, however, is not the company that made the best offer, but the one with the closest tie to the managers. (In some cases, the owners of the winning private firm are themselves the state enterprise managers.)

Oxford Analytica Reports on Red Conglomerates in Bulgaria

Business groups in Bulgaria, run by former officials of the old communist regime, wield enormous economic power, largely because of the continuing strength of patronage networks and other personal connections linking members of the old nomenklatura together. Several of these "red conglomerates" are descended from businesses established abroad as fronts for espionage work in the 1980s. Multigroup—which controls most of the security and protection firms in the country, staffed largely by former athletes and ex-state security officers—for example, has its roots in the old first, second, and sixth main directorates of the communist-era Committee for State Security. The Tron business grouping is largely based in the old scientific surveillance establishment. Until mid-1994, the most important of these groups were united in the so-called Group of 13 (seven now remain in the group).

The red conglomerates are not, as a rule, involved in real production. Rather, they engage primarily in trade, importing raw materials for sale (at high prices) to state-owned enterprises (SOEs) and buying SOE output on the cheap to sell it abroad at higher prices. In the process, the SOEs accumulate debts which are ultimately passed on to the state and the taxpayers. The conglomerates' ability to exploit the SOEs in this manner is often, though not always, linked to bribery and extortion.

This activity blossomed particularly during the two years of the Lyuben Berov government. Weak government and the slow pace of structural reform ensured that the red conglomerates' opportunities did not disappear. Reneta Indzhova, who led the caretaker government that took office in the autumn of 1994, called the Berov government a "government of Multigroup." It is thus not surprising that most of the nomenklatura businesses were

opposed to the calling of early elections last year.

During the December election campaign, Multigroup spent lavishly on its own election grouping, the Patriotic Union (PS), but failed to pass the 4 percent threshold needed to enter Parliament, polling only about 1 percent. Nevertheless, after the creation of the new government, several of the PS's representatives received top administrative posts. And ministers with widely known links to Multigroup have been held over from the former government.

In a signed article in the March 13 edition of the Bulgarian Socialist Party daily *Duma*, Multigroup President Iliya Pavlov suggested "an easier way" for the new government "to restrain organized crime." This would include the voluntary curtailment of illegal activities by the "structures" engaged in them—in Pavlov's words, "as a lizard cuts off his tail to save his life." In subsequent statements, Multigroup officials also proposed regular exchanges of information on organized crime between the government and the economic groupings, and conglomerate financial support for the cashed-strapped interior ministry.

Another danger for reform, is that real privatization and foreign investment will be blocked by the nomenklatura business' vested interests. The business groups have benefited tremendously over the past four years from the fact that Bulgaria lags behind all other East European states in both the pace of privatization and the attraction of foreign investment.

Bulgaria faces \$740 million in debt servicing in 1995 alone. Its international financial obligations and the influence of the international financial organizations that have hitherto provided financial relief to Bulgaria could to some extent counter-balance the power of the economic group-

ings, which call themselves "patriotic capitalists" and are keen to resist foreign competition, particularly in the form of foreign investment. (Though currently the foreign currency reserves of the Bulgarian National Bank stand at about \$1 billion, January and February witnessed a massive influx of foreign currency into Bulgaria, reflecting both confidence in the present government and the attractive margins to be made from converting lev term deposits back into foreign exchange. The lev, as a consequence, has risen against the dollar rapidly, despite interventions of Bulgaria's National Bank.)

The red conglomerates' future strategy will to some degree depend on the success of the government's plans for mass privatization which are to be presented to Parliament. Under the plan approved by the Cabinet on March 27, the first stage of mass privatization will run from November 1995 to October 1996; it is hoped that by the end of 1995, 20 percent of state property will pass into private hands. Some 50 percent of the value of the enterprises will be offered for cash, while the rest will be sold for Brady bonds, domestic bonds, and privatization coupons. Pensioners will probably get special discounts to buy coupons. If mass privatization is implemented as planned, the conglomerates will have to involve themselves in real production by participating in the scheme or go bust. Pavlov has put out discreet feelers to the government concerning the possibility of Multigroup voluntarily disowning and suppressing certain of its more dubious activities in return for the government's help in transforming Multigroup into a legitimate industrial conglomerate. The groups are certainly in a position to buy up many of the shares available for cash.

Based on a recent report from Oxford Analytica, the Oxford (U.K.)-based research group.

• A private firm uses the production facilities of a state enterprise, on an "informal" basis. Payment is made to the state enterprise managers for use of the facilities and to compensate for the enterprise contracting out its unskilled workers. The private firm, nonetheless, uses its own skilled workers within the state enterprise plant. These relationships appear to have influenced both the pace of privatization of state enterprises and the pace of tax reform.

The Consequences

Privatization. The mutual financial benefit for private firms and state enterprise managers (and workers) from such informal arrangements would be disrupted by an open and competitive privatization process. In Bulgaria state enterprise managers (often in conjunction with workers) have been able to block privatization, as much as initiate it. But in mid-1994 the government announced an impending voucher-based mass-privatization program. And though enterprise managers and outside private parties had not previously expressed much interest in initiating privatization, the possibility of impending mass privatization changed this attitude. The Privatization Agency suddenly received 100 self-privatization proposals from enterprises and another 100 from outside private interests. Apparently, private and state firms involved in informal joint ventures sought to formalize their commercial relations to preempt disruption by outsiders.

Taxation. In 1992 and 1993 the private sector contributed about 15 percent of all profit tax payments. For indirect taxes the share amounted to 10.0 percent in 1992 and 16.2 percent in 1993. After the introduction of a value added tax in the second quarter of 1994, the private sector share in total indirect tax payments increased to 43.2 percent, which is in line with estimates of the private sector's share in GDP. The value added tax thus

substantially increased the private sector's tax payments.

The introduction of the value added tax to replace the turnover tax had been postponed several times since 1990. Under the system of informal arrangements between private and state enterprises, the turnover tax, which was levied only on sale for final consumption, could be readily avoided. State enterprises could rightly claim that sale of products or services to private firms was for further resale. The turnover tax was not well enforced in the private sector, allowing the tax to be evaded altogether. The value added tax, once finally implemented, substantially increased the private sector's tax payments, since the private sector was the repository of value added via the transfer prices.

Efficiency and social equity. The relationship between private and state firms affects efficiency and social equity. Efficiency is enhanced by complementarities due to specialization of state and private firms—if otherwise idle resources of state enterprises are productively employed. There is no guarantee, however, that resources will be efficiently used, because the business relations between the state and private sectors are not competitively determined. With state enterprises profits syphoned to the private (informal) sector, the "losses" of state enterprises have been significant (15.3 percent of GDP in 1992, 17.6 percent in 1993, and 5.6 percent in 1994). Under such circumstances social equity considerations can affect the willingness of the public to accept market-oriented reforms—"markets" in these cases appear unjust.

Because of the absence of private title to ownership, private agents have reason to fear that the state-owned enterprise will be privatized away from them, and hence are deterred from investing. This endangers the long-term viability

of the state enterprises. There are also clear indications that private sector agents dislike the prospect of a broadly based voucher scheme, which could threaten both their control over ventures and their continued profits. Direct sale of the firm to a "strategic" investor (themselves) would not do that.

To close the circle, the preprivatization valuation of the state enterprise depends on its profits. By "milking" the cow but not paying the market price for the milk, or by supplying the "feed" but overcharging for it, private individuals reduce the value of the state enterprise, if and when privatization by direct sale to a "strategic" investor proceeds.

These business relations are not open, and are, at best quasi-legal. Avoiding market transactions by state enterprises to increase private profit is a common practice in transition economies. In countries where spontaneous privatization occurred, private wealth was created by the transfer of state assets to private agents. In Hungary, for example, managers anticipated socialism's demise and were ready for spontaneous privatization; but in some countries things happened too fast, and state assets were not privatized spontaneously. In the Czech Republic state assets were transferred to the public in a broadly based, swiftly implemented privatization program based on voucher sales. In Bulgaria private wealth has been created through syphoning profits from state enterprises, rather than through privatization of the state enterprise assets themselves.

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Fiscal Decentralization In Transition Economies: A Long Way to Go

By Richard M. Bird, Robert D. Ebel, and Christine I. Wallich

Decentralization is a key element of the transition from a command to a market economy. The literature on transition has tended to focus on "big picture" issues such as price reform, governance, and privatization. But how such "second generation" issues as intergovernmental finance are resolved has implications for all of these. The problems of fiscal decentralization in transition economies are *very different from those in market economies, and very similar to each other*. Not only must the structure of taxes, transfers, and expenditure responsibilities be realigned among levels of government, but what governments should *do* must change. While public sector activity must be dramatically reduced, subnational governments must also build new institutional capacities to provide services formerly provided by the central government or enterprises.

Delegating Which Responsibilities?

Which level of government provides a service is often determined as much by history and politics as by economic efficiency. On efficiency grounds, central authorities would provide services whose benefits spill over beyond the local area, such as defense, postal services, national highways, ports and civil aviation, environmental policies, and so on. Policies affecting macroeconomic stabilization and income distribution are also seen as central responsibilities. Subnational governments typically provide services that mainly benefit their local area, such as construction and maintenance of local roads, law enforcement, city maintenance, and such public utilities as water, sewerage, and various forms of energy distribution. (Altern-

tively, some of these services can be provided privately or contracted out to private providers)

Because of benefit spillovers, education and health are seen in some countries as national responsibilities. In others, they are provided subnationally—often to a standard set by the central government, and supported by grants that finance some or all of their provision, conditional on the level of the service. In most transition economies, however, practically no conditions have been attached to grants, and few standards have been set for the important responsibilities now increasingly being transferred to the subnational level.

How have the transition economies addressed expenditure assignment? Local governments have heavy spending responsibilities—accounting for some 30 percent of total public expenditure on average. Changing spending responsibilities, privatization, and the continued need for a robust social safety net suggest this share will likely rise further. Fiscal pressures have led many countries to shift important spending responsibilities to the subnational level, even where these are not appropriately "local responsibilities" by the above efficiency criteria.

In almost all transition economies, for example, social welfare spending has been shifted to the local level; major infrastructure projects, pensions and unemployment compensation, and some health and education spending have also been shifted (table 1). While local governments can sometimes administer such programs better (being "closer to the people") they cannot deliver them ef-

fectively if underfunded. Where adequate spending is critical to the transition, ensuring it is a *national* policy objective. The correct design of local revenues and transfers is thus crucial to achieving national social goals. There are also other problems:

•*Murky spending responsibilities.* In Bulgaria, Hungary and Poland, local governments have major, but vaguely defined, expenditure responsibilities in primary education, local transportation, and environment, as well as in housing and related services. The laws do not distinguish, for example, whether responsibility for primary education implies responsibility for capital spending on school buildings or just for spending on recurrent costs.

•*Emerging service differentials.* Russia and Ukraine have put the cart before the horse by explicitly assigning revenues to the subnational sector without formally assigning expenditures: subnational spending decisions are being driven by revenue availability instead of the other way around. This approach virtually guarantees the emergence of interregional differences in service provision, depending on whether the region has a rich—or poor—tax base. Indeed, such differentials are increasingly visible in both countries, especially in key social sectors such as health.

•*Limited spending discretion.* Bulgaria and Romania allow virtually no local expenditure autonomy, but they are not alone. In almost all transition countries, there are central mandates that define spending "norms" for schools and hospitals, require public services to be pro-

Table 1 Expenditure responsibilities between levels of government, selected transition economies, 1993–94

Country	Education Primary	Higher	Water and Housing sewer- age	Social ser- vices Health	Roads	Police	Public util- ities	Public amen- ities	Public enter- prises		
Albania ^a	C	C	C	S	C	SN	S	C	C	S	S
Bulgaria	SN	C	SN	C	SN	SN	S	C	S	S	S
Hungary	SN	C	SN	SN	SN	SN	C	SN	S	SN	S
Poland	SN ^b	C	S	SN	C	SN	S	SN	S	SN	S
Romania	C	C	SN	SN	S	S	S	C	SN	SN	S
Russia	SN	SN	SN	SN	SN	S	SN	SN	SN	SN	S
Ukraine	SN	SN	SN	SN	SN	S	C	SN	SN	SN	S

S—Shared responsibility; SN—Primary responsibility is with the subnational governments; C—Primary responsibility is with the central government.

Note: Many of the subnationally provided services are provided by locally owned enterprises.

a. Many of these services are being transferred to subnational governments.

b. Although full transfer to local governments was to be completed in 1993 only about one quarter of the gminy had negotiated agreements by then. The federal government is reconsidering the transfer.

Source: Authors.

vided with user charges set below costs, or centrally define wage and pension increases. In Bulgaria, the Ministry of Health mandates expenditures of municipal hospitals down to the inventory of medicine.

•*Divesting enterprises' social assets.* Enterprise privatization will likely imply major new spending responsibilities for local governments in the transition economies. Enterprises built schools and kindergartens, constructed housing, and sometimes built roads, sewer lines, commercial infrastructure and social facilities. These expenditures (few will be privatized with the enterprise) will likely become the responsibility of local government. Few transition countries have yet estimated the fiscal costs for local governments of this divestiture of social assets and infrastructure.

Charge for Services Whenever Possible

Despite the rhetoric of autonomy in the new local self-government laws, subnational governments enjoy only limited fiscal discretion. Local tax bases as well as rates continue to be determined

by the center, even for such minor levies as a dog tax. With few ways to raise revenues, hard-pressed local governments have run arrears, demanded increased transfers from the center, or attempted to borrow, potentially prejudicing stabilization. Some exploit the enterprises they own for revenue purposes, potentially thwarting privatization. Some have even become entrepreneurial (the Moscow city government contributed land as its equity stake in McDonald's).

User charges. Price policy was a distributional tool in the transition economies, although some would argue that it resulted in little equity, purchased at a high price in efficiency losses. Health services and education were free, as were transport, utilities, and many urban services. The "benefit approach" to local public finance suggests that whenever possible (i.e. where a beneficiary can be found), local services should be charged, and paid for, by those receiving the benefits. Not surprisingly, newly elected subnational governments in the transition economies find it difficult to increase user charges. Much greater use needs to be made of them, for finan-

cial and efficiency reasons; to avoid large and unpopular distributional shifts, some form of "social pricing" (lifeline pricing, vouchers, etc.), or coordination with other policies (e.g., social assistance, pensions), may be necessary.

Choosing Revenue Sources

Subnational taxes. Where user charges are impractical, services should be financed by local taxes. Local taxes are defined as those that fall on local residents and for which local authorities control the tax rate, define the tax base, and obtain the revenue. "Piggybacking" arrangements (local surcharges on central taxes) are effectively local taxes and can increase local revenues at a low administrative cost. Piggybacking also increases the efficiency of local spending, compared with the transition economies' "tax sharing" arrangements, which simply benefit local governments without them having any say, responsibility, or accountability for the tax levied.

Some taxes are less suited to subnational governments than others. In particular, to minimize distortions, a high degree of uniformity is desirable with respect to the corporate income tax and the VAT. Most taxes currently specifically assigned to subnational governments in transitional countries are *nuisance taxes* rather than robust own-revenue sources. In Russia, the revenue yield from twenty-one local taxes (including taxes on the resale of used computers, horse racing, the use of logos in advertising, and dog owners) is likely less than 0.5 percent of GDP, or 2 percent of subnational expenditures. In Hungary, where local taxes include the property tax, poll tax, a local business tax, and a bed tax in tourist areas, the situation is only slightly better. In addition, throughout the transition economies, effective local fiscal management is hampered by central mandates on both local tax rates and the tax base.

Closing the Budget Gap with Transfers

The revenue capacity and expenditure needs of subnational governments rarely match perfectly, so fiscal transfers help close the resulting gap. In the transition economies, subnational governments are particularly transfer-dependent—far more so than developing or OECD countries (table 2).

The aggregate volume of transfers is typically determined ad hoc by the central government and is subject to intense negotiations that lead to unpredictable outcomes from year to year, and across localities. As a result, neither the incentives with respect to tax effort, nor the equity impacts of transfers are clear.

Once the aggregate volume of transfers is determined, the next step is fixing its distribution across subnational governments. Typically, the objective is to equalize spending levels, based on fiscal capacities and expenditure needs. Empirical work undertaken as part of the seven-country study could not establish a relationship between "fiscal needs" indicators and transfers in the transition economies, suggesting that they were not equalizing. This is not surprising since *formula-based allocation* is

not yet common in the transition economies. Rather, *norms* are currently used for regional budget allocations in a number of transition countries, relating to the *existing installed capacity* for particular services, such as the number of hospital beds. Such norms clearly reward jurisdictions that had high rates of capacity (or expenditure) in past periods, and often distribute funds regardless of whether or not funds (i.e., the beds) are needed.

Given the importance of subnational spending in the transition economies, especially in socially sensitive areas as health, education and social welfare, much more work is needed on the design of transfers, including their equalization properties and conditionality, and their role vis-à-vis shared own taxes. In reforming transfer systems, transition economies should aim for simplicity, as accurate economic and social indicators proxying expenditure needs are hard to come by and revenue capacity estimates are hard to make. Compressed wages, distorted prices, and regional inflation differentials complicate the calculation of even the most basic indicator of needs—per capita income—in some countries.

Tax sharing. In transition economies, tax sharing between central and subnational governments is very common and uniformly takes place on a so-called derivation basis, i.e., revenues flow back to the locality where they were collected. In Hungary, Poland, Russia, and Ukraine—and in all the countries of the FSU—some or all personal income tax (PIT) is shared (table 2). Russia also shares VAT, the corporate tax, and certain natural resource taxes with oblast governments. Tax sharing is a simple mechanism and guarantees some degree of revenue certainty. But it does little to enhance accountability or efficiency. And local governments are vulnerable to changes in the rules of the game. In Hungary, local governments initially received 100 percent of the PIT; as fiscal pressures on the center have increased, they now receive just 30 percent.

Derivation-based sharing means that resources are channeled to higher income areas where the tax bases and therefore revenue collections are largest. It is thus inherently *counter-equalizing*; the more resources accrue on a derivation basis, the more richer localities will benefit. This may be a problem where regional inequalities are serious, as in Romania or Russia, and where the intergovernmental system lacks other instruments such as transfers (see box) to address such imbalances. In deciding on the weight to be given to equalization, transition economies must balance the tradeoff with growth. In some countries, vast disparities between regions make equalization a political priority. In others, such as Russia, still in the process of nation-building, the need to maintain political unity may be greater than the need for equity: some of Russia's better off oblasts have threatened to opt out of the revenue sharing system if too much is shared with poorer regions.

Property taxes. These taxes have some potential. Current yields are minimal (much of the housing stock is still owned by public enterprises or local governments themselves, and is not easily taxed) and even in OECD countries the property tax is not a major source of state finances. To improve its yield, up-to-date cadastres, and the many centrally mandated exemptions (such as Hungary's ten-year exemption for any dwelling with improvements—a bath, a new roof) will also need to be eliminated. *Automobile taxation* could also be explored: increased automobile ownership makes this a growing tax base that may also be distributionally and environmentally attractive.

Excise taxes and single-stage retail taxes. These taxes would seem to be

good subnational taxes, as they are in market economies. In the transition economies studied, tobacco or alcohol excises are an important revenue source at the national level; however, major administrative reforms would be needed to convert them into subnational taxes. Excises are currently levied on producers who are located in only a few regions (Russia's taxpaying cigarette factories are located in only 21 of its 2,000 rayons). Excise revenues would benefit only these few localities. As for *local retail sales taxes* common in market economies, implementing them in addition to the VAT, while theoretically feasible (Canada's provinces do this), would be costly, complex, and probably inconsistent with the tax regimes of the European Union.

Table 2 Local government revenue sources, selected transition economies, 1993
(percentage of government revenue)

Country	Own taxes	Nontax Transfers and other revenues ^a and shared revenues	
		other revenues ^a	shared revenues
Albania	0.0	0.0	100.0
Bulgaria	1.2	4.1	94.7
Hungary	4.0	19.9	76.1
Poland	25.7	18.8	55.5
Romania	17.0	6.0	77.0
Russia	8.8	1.6	89.6
Ukraine	0.7	2.5	96.8

a. Includes revenues from privatization and borrowing.
Source: Authors.

Surcharges. Transition economies should give serious consideration to surcharges. Such piggybacking is common in many OECD countries, and would promote fiscal accountability and improve local fiscal discretion; subnational governments could also rely on the superior central administrative machinery for tax collection. The PIT lends itself especially well to piggybacking, since arguably, local residents, who would pay the surtax, benefit from local services. Surcharges on either the corporate tax or VAT would be undesirable. Instead of receiving a centrally mandated share of the PIT (as is now the case in most transition countries), subnational governments would surcharge the national PIT to receive "their share." Depending on the level of the local surcharge, the combined rate could be less or more than the previous central rate.

A final note: The decentralization of the socialist state and the ongoing reforms in subnational finance are of considerable importance. With local governments now responsible for key spending on infrastructure, education, health, housing, and the safety net, the strengthening of subnational governments is essential not only to support the evolving private sector and to provide

the human and physical infrastructure for growth, but to ensure the social acceptability of the transition process. The intergovernmental systems being put in place will have a major impact on the lives of those undergoing one of the major upheavals of our time—the move from a command to a market economy. It is essential that they be designed to meet this challenge.

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From the *World Press Review*

Castro Tries Survival Strategy

by Jorge F. Pérez-López

Cuba, which this year marks the thirty-sixth year of Fidel Castro's reign, remains in the deep economic recession that began around 1990. The government's response to the country's economic woes has been ineffectual, falling short of economic liberalization through a comprehensive reform program. But on the political front, Castro remains at the center of power, stubbornly refusing to provide space for new leaders and policies to emerge.

Until the late 1980s, the Soviet Union and its Central and East European allies bought 85 percent of Cuba's exports, provided a like share of imports, and were the main source of the island's development financing. The collapse of socialism in these partner-countries—coupled with Cuba's "rectification process," which began in 1986 and eliminated incipient market-oriented policies—prompted an economic crisis from which the country has been unable to recover. And although 1993-94 saw modest improvement in some key sectors, such as tourism, agriculture, and oil production, and a moderate curbing of excess demand in the economy, these positive trends have been offset by the continuing deterioration of the sugar industry. This downward trend is expected to continue in 1995, which could again drag down the overall performance of the Cuban economy.

Sparse Statistics

Official information on the Cuban economy is virtually nonexistent. The latest published statistical yearbook dates back to 1989, the year that trade and economic relations with the former COMECON partners started to break down. For more up-to-date information,

analysts have to rely on the public speeches of Cuban leaders and guestimates by Cuban and foreign economists. But finally, in October 1994, *Bohemia*, a local weekly magazine, published selected economic statistics for the period 1988-93. This allowed, for the first time, a glimpse into recent economic performance.

Cuba's gross domestic produce (GDP) in 1993 was estimated at 10.0 billion pesos, only a little more than half the 19.3 billion pesos produced by the economy in 1989. Per capita GDP also shrank to about half over the four-year period, from 1,828 pesos in 1989 to 909 pesos in 1993, according to *Bohemia*. This output decline significantly exceeded economic contractions experienced during the same four years by the transition economies of Central and Eastern Europe—even those that underwent the more radical adjustments.

Cuban merchandise exports in 1993 were valued at 1.7 billion pesos, 69 percent lower than the 5.4 billion pesos exported in 1989. Over the same period, merchandise imports fell by 75 percent, from 8.1 billion pesos to 2.0 billion. The trade deficit fell to 0.3 billion pesos from 2.7 billion, because Russia refused to finance bilateral trade deficits. In 1993 crude oil and oil products made up 44 percent of Cuba's imports (in value terms), compared with 32 percent in 1989. The sharp increase in the share of oil in Cuba's shrinking imports meant that purchases of consumer goods, raw materials, and machinery had to be cut back, adversely affecting consumption and the agriculture and manufacturing sectors. In 1993-94, up to 80 percent of the island's factories stood idle, because of a lack of fuel, raw materials, machinery, and spare parts.

Cubans saw their consumption of food and both durable and nondurable consumer goods sharply reduced, with rationing reinstated for a wide range of staple foods and personal hygiene and clothing items, and monthly allowances scaled back. Electricity shortages and blackouts have become commonplace, and transportation has been cut back sharply. And the chief beneficiaries of government policies, public health and education, have declined severely in quality.

Between 1989 and 1993 the budget deficit nearly tripled, ballooning to 4.6 billion pesos in 1993, nearly 50 percent of GDP. The scarcity of consumer goods, and the government's policy of continuing to pay 60 percent of wages to workers even if they were laid off, resulted in a sharp rise in the population's cash holdings, which grew from 5.0 billion pesos in 1990 to 11.4 billion pesos in 1993.

Sugar production, still the mainstay of the economy and the most significant source of export revenue, fell by 43 percent during the period, from 7.3 million tons in 1989 to 4.2 million tons in 1993. (The sugar industry hit hardest between 1992 and 1993, when production fell from 7.0 million tons to 4.2 million tons. Nickel production fell by 35 percent, from 46,600 tons in 1989, to 30,200 tons in 1993. Oil production—a rare bright spot in Cuba's economy—has been rising and in 1993, for the first time, exceeded the 1 million ton mark. Despite this increase, however, domestically produced oil still accounts for less than 20 percent of total oil consumption.

International tourism is another sector that has performed well. Buttressed by foreign investors who have set up joint

ventures with domestic enterprises, Cuba's tourism industry has steadily attracted many foreign visitors and generated increasing revenues. In 1993, 600,000 foreign tourists visited the island, double the total in 1989. Tourism's gross income increased more than four-fold during 1989-93, from 166 million pesos to 720 million pesos.

As for 1994, the handful of available economic statistics indicate the following:

- The 1993-94 sugar harvest, which ended in June 1994, yielded only about 4.0 million tons of sugar, 5 percent less than the 4.2 million tons produced in 1993, an amount that was already considered "disastrous."
- Production of root tubers, staples in the Cuban diet, dropped to 21 million quintals (1 quintal equals 100 pounds) from a yield of 25 million quintals in 1993.
- More than 600,000 tourists visited Cuba in 1994, an increase over 1993, but still lower than expected. Gross 1994 revenue from tourism has been estimated at about 800 million pesos, of which about 30 percent is figured to be net revenue.
- Crude oil production expanded again, setting a new record of 1.3 million tons.
- The budget deficit in 1994 was slashed to 1.5 billion pesos, and households' cash holdings were reduced by 1.2 billion pesos (from 11.4 billion pesos).

Speaking to the World Economic Forum in Davos, Switzerland, in late January 1995, Vice President of the Council of State Carlos Lage reported that the economy grew by 0.7 percent in 1994. Lage did not provide any additional information or statistics on economic growth by sectors. Considering the poor sugar harvest and the lackluster performance of other sectors, it can be assumed that the Cuban economy in 1994 experienced negative growth despite Lage's statement to the contrary.

Since the mid-1980s Cuba's economic policies have undergone several important shifts:

- In 1986 Castro announced the beginning of a "rectification process," under which the Soviet reform model, which had been implemented progressively since the mid-1970s, was abandoned. Economic decisionmaking was centralized, and the nascent market-oriented mechanisms being tried throughout the economy were reversed.
- In 1990 Cuba adopted a "Special Period in Peacetime" emergency program in response to the economic and trade consequences of communism's breathtaking decline. Austerity measures have been instituted in combination with policies to stimulate key sectors such as sugar production, nonsugar agriculture, biotechnology, and tourism.
- More recently, Cuba redefined its economic strategy, announced an open-door policy to foreign investment, and began cautious liberalization of certain sectors of the economy.

Stop-Go Reform Policies

In 1992 Cuba's National Assembly passed a number of amendments to the 1976 Constitution, clarifying the concept of private property and providing a legal basis for transferring state property to joint ventures with foreign partners. During 1993 and 1994, when the economy was in a freefall and economic collapse seemed imminent, Cuba introduced tax holidays and other financial incentives to attract foreign investors. Cuban officials have stated that as of November 1994, 165 joint ventures with partners from 35 countries had been established, mostly in the tourism industry, and by the end of 1994 these joint ventures had attracted \$1.5 billion in foreign capital. (This high figure probably includes foreign investments that have been pledged but not yet realized.)

In addition to its policies aimed at attracting foreign investors, the government has introduced some reform measures, including:

•*Dollarization.* In June-August 1993 the government made it legal for Cuban citizens to use and hold hard currency. In so doing the administration hoped to eliminate the black market (the mid-1993 black market rate for the peso was 135 to the dollar, despite an official exchange rate of 1 peso to the dollar) and stimulate hard currency remittances from families and friends abroad. Special stores were established where Cubans could use their hard currency to buy items not available for pesos. Travel to the island became easier for relatives and friends living abroad. (Plans to encourage remittances were thwarted in 1994, however, when the United States clamped down and eliminated such flows in response to a sharp increase in unauthorized migration from Cuba.)

•*Authorization of self-employment.* To legitimize the booming black market for services and handicrafts, and to ease unemployment, the Cuban government in September 1993 specified more than 100 jobs that could be performed by the self-employed. In addition to fees and taxes, several restrictions were imposed: the self-employed had to apply for a license, could not hire employees, and faced limits in the marketing of their products or services. Professionals, such as teachers, physicians, and nurses, were not permitted to be self-employed, however, as the government explained, these professionals owed the state their service to compensate for the huge expenses incurred in their education and training. As soon as self-employment was authorized, private eateries (*paladares*) sprang up all over the country under the provisions of the law that allowed self-employment in food preparation. The government moved quickly to eliminate the paladares, arguing that

Cuba's Economy in 1995

Recent data suggest that economic activity in Cuba may now be increasing slightly after years of contraction. Since the beginning of the year, there have been some upswings in Cuba's economy:

- *Domestic oil production* is on an upward trend, from 1.1 million tonnes in 1993 to 1.28 million tonnes last year. This is sufficient to generate 27 percent of Cuba's electricity production. A target of at least 1.4 million tonnes is envisaged for 1995. Cuban domestic oil has a very high sulphur content, and is mainly used for electricity and cement plants. These industries continue to operate at low levels of capacity utilization, although their output is no longer in freefall. The transport system is still heavily dependent on imported crude oil, and therefore remains in a critical condition. However, the Russian and Ukrainian sugar beet harvest has been so poor that both states have recently resumed oil deliveries in an attempt to revive the 'sugar-for-oil' barter trade. This arrangement broke down in acrimony last year.

- The *Sugar harvest* this year is expected to be one of the lowest in memory—probably below 4 million tonnes, less than half 1980 levels. But foreign partners are now supplying essential harvest inputs: fertilizers, herbicides and spare parts (to be paid in raw sugar, the international price of which is now rising). This should result in some improvements next year. Sugar Minister Nelson Torres in early March claimed that next year's sugar production could reach 5 million tonnes, higher than previous estimates.

- *Nickel and cobalt production* in 1995 could rise by 20 percent, authorities project, as a result of injections of foreign capital in modernizing plants. (From 46,600 tonnes in 1989, output fell to only 26,800 tonnes in 1994.) Cuba has the potential to be one of the three biggest producers of nickel and cobalt.

- The *Number of foreign tourists* visiting Cuba rose 10 percent last year to 682,000, and gross tourist expenditures increased by around 18 percent in dollar terms. Both trends can be reasonably extrapolated into the current year.

- *Industrial production other than sugar* is officially estimated to have risen by 5.5 percent last year, reversing previous steep

declines. Barter or investment agreements with foreign companies have been established and are likely to sustain and even extend the turnaround.

- The *Construction sector*, deeply depressed for a long time, also showed some recovery, particularly in the critical area of low-income housing and in a few other priority sectors.

Authorities claim that GDP—the Western measure of national income—rose 0.7 percent last year, and should rebound further this year. In contrast, Miami observers claim that Cuba's economic performance in 1994 fell by more than 6.0 percent and will decline by a further 2.5 percent in 1995. Interpreting such figures is complicated by the absence of any price index through which to adjust for inflation. However, two indirect measures give some guidance as to the severity of underlying inflationary pressures:

- In spite of massive cutbacks in public bureaucracy and public sector subsidies, the public sector deficit for last year was still estimated at around 7.3 percent of GDP. This can only be financed through currency emission.

- Although in the last few months the black market rate for the dollar has stabilized at an improved level, it still stands at around 40-1, compared with an official 1-1 parity. That means that there is potentially an inflationary liquidity overhang, if dollars in circulation are included in the money supply at the free market rate.

The economic team was reshuffled in January, strengthening the presence of officials who have experience with Western market economies. Moreover, President Fidel Castro promised further incremental reforms toward a market economy, envisaging that small and medium-size private enterprises will be authorized. However, the international environment remains adverse for Cuba's economic reformers, and the domestic reforms in prospect are still too cautious and slow to create the conditions for a dynamic market economy capable of real development, rather than just basic survival.

Excerpted from a recent report from Oxford Analytica, the Oxford (U.K.)-based re-search group.

they were inconsistent with the authorized forms of self-employment.

- *Creation of agricultural cooperatives.* In September 1993 the National Assembly approved the breaking up of large state farms into cooperatives. To give farm workers an incentive to increase efficiency in production, the cooperatives were given user rights to the land they cultivated. Cooperative members have their own bank accounts and elect their own management.

The pace of change slowed down with the last quarter of 1993. A sweeping law against "improper enrichment" came into effect in May 1994. The law granted the government sweeping powers to confiscate the cash, goods, and other assets of individuals found guilty of profiteering, and it provided for retroactive application of sanctions for this offense. Food shortages during the summer of 1994 generated popular discontent, which began to threaten the regime's political stability.

Farmers' Market Comeback

A new set of economic reforms was approved in the second half of 1994.

- *Institution of a new tax code.* To introduce financial discipline, raise revenue to finance government expenditures, and reduce idle monetary balances, the National Assembly in August 1994 approved a new tax code to be implemented gradually beginning in 1995. The new system would be expanded to tax enterprise income, including that of joint ventures with foreign investors, as well as enterprise assets; also included are taxes on personal income, though application of this provision has been deferred. Subsidies to the public and to enterprises have been slashed.

- *Reinstatement of farmers' markets.* In late September 1994 Cuba reinstated

Cuban Economic Indicators, 1986-93

(billions of pesos)

Indicator	1986	1987	1988	1989	1990	1991	1992	1993
Gross domestic product (GDP)	14.5	18.2	19.1	19.3	18.7	14.1	12.1	10.0
GDP per capita ^a	1804	1755	1820	1828	1754	1302	1108	909
Exports	5.3	5.4	5.5	5.4	5.4	3.0	1.9	1.7
Imports	7.6	7.6	7.6	8.1	7.4	4.1	2.2	2.0
Trade turnover	12.9	13.0	13.1	13.5	12.8	7.1	4.1	3.7
Trade balance	-2.3	-2.2	-2.1	-2.7	-2.0	-1.1	-0.3	-0.3
Budget deficit	0.2	0.6	1.1	1.6	2.1	3.7	4.2	4.6
Liquidity					5.0	7.0	8.4	11.4
Sugar production ^b	7.2	6.9	7.8	7.3	8.0	7.6	7.0	4.2
Nickel ^c	35.1	36.8	43.9	46.6	40.7	33.3	32.4	30.2
Oil ^b	0.9	0.9	0.7	0.7	0.7	0.5	0.9	1.1
Gross income from tourism ^d	98	112	147	166	189	290	530	720
Number of foreign tourists ^e	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.6

a. pesos, b. million metric tons, c. thousand metric tons, d. million pesos, e. million persons.
 Source: *Bohemia* (28 October 1994), official Cuban statistics.

farmers' markets, where producers of selected agricultural produce could sell a portion of their output at prices set by supply and demand. (But first, cooperatives and private farmers have to meet their obligations to the state, known as *acopio*, and pay a participation fee; a sales tax is also assessed.) The markets have reportedly made a good start, quickly increasing the amount of produce available to the public, although at high prices. These farmers markets are similar to the *mercados libres campesinos* (farmers' free markets) that operated during 1980-86 and were scuttled during the rectification process.

•*Establishment of artisan markets.* A network of artisan markets was established in October 1994 to permit the sale of a wide range of consumer products at prices determined by the market. Artisans sell their handicrafts at these markets; state enterprises may join in as well to dispose of their inventories.

•*Introduction of the convertible peso.* In December 1994 the convertible peso was introduced to gradually replace the dollar and other foreign currencies within Cuba. The convertible peso, valued at par with the dollar, would eventually be used in tourism and at the "dollar outlets" authorized since mid-1993. Bonus payments made to workers in certain key

industries that generate hard currency, for example, tourism, tobacco, and oil extraction—are to be paid in convertible pesos rather than in foreign currencies as is the practice now.

Cuba's economy contracted by about 50 percent between 1989 and 1993 and probably contracted again in 1994, as

modest recoveries in some areas were more than offset by a ruinous sugar crop. Prospects for an economic turnaround in 1995 are bleak. The sugar crop could fall to below 3.5 million tons, further eroding the country's ability to finance imports. Cuba's economic strategy of opening the economy to foreign investment, coupled with its piecemeal adoption of economic liberalization measures, may prolong the Castro regime's life, but it will not turn the economy around. Comprehensive political and economic reforms that can turn Cuba into a market economy are essential if Cuba's economy is to grow and prosper.

Mr. Jorge F. Pérez-López is an international economist, author of Cuba's Second Economy: From Behind the Scenes to Center Stage (Transaction Publishers, 1995), and editor of Cuba at a Crossroads (University Press of Florida, 1994).



From the Hungarian magazine *Hocipo*

Quotation of the Month: "Siphon Off the Money That Otherwise Might Improve the Government's Finances: That's the Unwritten Law."

Ferenc L. Gazso of the Hungarian Daily *Mai Nap* Blasts Shadow Economy Operators

The nouveau riche sits in his mansion, reading his paper. It seems the government has become really tough. Devalued the forint by 9 percent. Thank God he listened to his broker and bought deutsche marks long ago. Half the money is in Vienna, half in his vault. The dough is ready to multiply. First generation of the newly rich—"grab what you can, while you can"—he continues his reading. Scratches his purebred show dog. His accountant listed it as a "guard-dog," tax-deductible...nobody will verify it anyway.

He skims through the lines, without blinking. Wage freeze. None of his concern. It's been five years since he was a wage-earner; after that he moved out of the apartment block, bought his first house. Now he owns limited companies, five of them. Under ghost-names, of course.

Business is fine. Capital assets are declared, then transferred on paper from one company to another—just so much paper down the sinkhole of the court register. By the time the registration is complete, the firm has filed for bankruptcy, fake receipts are available at half-price, and the reclaimed value added tax is pouring in as annuity. Slush fund money doesn't stain his soft palm—that's what the egghead managers are for.

Declare the profits? No way! He would be ridiculed by the "shady business association". Their world is a zero-balance world. They accumulate overhead costs: three weeks vacation last year in

the Bahamas. Blur the accounts, siphon off the money that otherwise might improve the government's finances: that's the unwritten law.

He sighs, sweetens the bitterness in his mouth with a double whisky. Turns to another page, reads about the "maintenance of the forint's exchange rate" and about social-welfare cuts. What are they doing up there in the government? No more family allowances for anyone above the miserable monthly-income level of 15,000 forints, no more child allowances, an education fee introduced, new charges for outpatient care.

He rubs his lips, stares gloomily into the near future. His black-market traders will hike up prices at the Chinese flea market [the former Comecon flea market]. He'll have to give more to the women working illegally in his sweatshops. What else can he do? He'll make it up by increasing his prices. Still, his prices are lower than those charged at the department stores. My god, without him, those miserable wage-earners would be even worse off....

Deeply touched by his own selflessness, he sits in his Jaguar, and suddenly gets a funny idea. What if he visited the local government office and presented an income statement that listed all his *legal* earnings? Of course he'd have to wait three hours in line and suffer the rank odor of poverty all around him. Certainly he would be eligible for poverty benefits. "Cool prank!"—his buddies in the club would laugh themselves to death. "Why not?" he would retort.

But time is money and he can't afford to stand in line. Instead, he meets with his lawyer, who has found some new legal loopholes.

He turns the radio on. Somebody mentions something about 170 billion forints—the amount to be cut from current budget expenditures, thanks to the austerity measures. Fed up with all those troubles, he turns the dial to a rock station. Thus, he misses the commentary that points the finger at him and his fellow club members, saying they are in fact a discredit to what is real entrepreneurialism. Operators in the illegal, black economy, depriving the public of an annual 900 billion forints. Even one-fourth of this sum would give Hungary a chance to breathe more easily.

Ferenc L. Gazso is editor of Mai Nap, which published this essay on March 22, 1995.

"Sorry to disturb you, but I am the black economy and I heard that you want to eliminate me . . ."



From the Hungarian magazine *Hocipö*

Milestones of Transition

The **Russian** government has approved a draft plan for the second stage of privatization that might include a major role for private banks. The draft, compiled by the State Property Committee, is expected to bring in 9 trillion rubles (\$1.8 billion) in state revenue. A consortium of major Russian banks (including Imperial, Menatep, Oneximbank, Stolychny, and Inkombank) is ready to offer the government 9 trillion rubles in exchange for control over packages of state-owned shares in Russian enterprises, including Gazprom; all of the nation's oil companies; Norilsk Nickel, the world's largest nickel producer; Rostelcom, the telecommunications operator; and UES, the electricity monopoly. The government has given preliminary approval to the plan; but critics warn of the risks of giving oligarchic power to banks with close ties to the government and to key state enterprises.

Russia's economic contraction slowed in the first two months of 1995, with GDP down just 4 percent from the same period in 1994, after declines of 15 percent in 1994 and 12 percent in 1993, the State Statistics Committee reported. The Russian daily, *Finansovye Izvestia*, adds that during January and February, real disposable income fell by 13 percent from December 1994. The volume of capital investments dropped by 28 percent from the corresponding period in 1994.

Russian Finance Minister Vladimir Panskov has announced that the budget deficit for 1995 has thus far been kept to about half the planned level, a result that should help reduce inflation. Monthly inflation in March is expected to be 6 to 8 percent, down from 11 percent in February and 18 percent in January. And for April and May it should be about 5 percent a month. Panskov said the deficit for the first two months of this year

is six trillion rubles, or 8 percent of the 73 trillion rubles targeted for the whole of 1995. Sales of treasury bills raised 2.8 trillion rubles over this period, enabling the government to use only 3.2 trillion rubles in (inflationary) central bank credits—1.8 trillion rubles below planned ceilings. The figures show the government was realistic in planning to raise 32 trillion rubles on the domestic bond market this year, Panskov said.

External Economic Relations Minister Oleg Davydov has said that **Russia** plans to sign restructuring agreements with all its foreign creditors by the end of 1995. Davydov announced that deals would be struck, in turn, with the Paris and London Clubs, and then with individual creditors. He said talks with the Paris Club concerning about \$34 billion of debt will begin in May. Russia wants to restructure its approximately \$120 billion foreign debt total over at least twenty-five years.

Russia's Parliament has approved a budget for 1995. The budget envisages expenditure of 248.34 trillion rubles and income of 175.16 trillion rubles (\$37 billion), leaving a deficit of 73.18 trillion rubles, or \$15.4 billion at the current exchange rate.

The Governmental Center for Studies of Economic Conditions said 1.84 million **Russians** were officially unemployed in February this year, and projected the May jobless total at 2.24 million. Women and young people account for two-thirds of Russia's unemployed. But according to Ministry of Economy data cited by Radio Rossii, the number of unemployed and partly unemployed in fact totaled 10 million, or more than 13 percent of the working population.

The **Russian** government anticipates non-CIS exports to rise for 1995 to \$49.1 billion, and total non-CIS imports to rise to \$32 billion. Even allowing for a further rise in shuttle trade and other unrecorded imports, this would leave Russia with another substantial trade surplus. Exports for January-February were around \$8.5 billion and imports about \$5 billion. While exports were up 10 percent year-on-year, imports rose by only 3 percent. However, the poor 1994 harvest will lead to a significant rise in centralized imports of grain and sugar.

Russia's trade surplus for 1994 exceeded \$10 billion. Exports to non-CIS markets rose 8.4 percent to \$48 billion. Oil, gas, and petroleum products remained the principal sources of export earnings, bringing in a total of \$20.3 billion, up from \$19.3 billion in 1993. Export earnings of the entire machine-building sector amounted to \$2.5 billion, as against \$2.9 billion in 1993. The sector's share of total exports fell from 7.2 percent to 5.3 percent. The rise in exports to non-CIS markets came largely at the expense of CIS markets; oil exports to other CIS states fell by 20 percent last year, to 34 million tons. Imports from outside the CIS rose 5.2 percent to \$28.2 billion. While wheat and corn imports fell roughly 80 percent, to 1.2 million and 900,000 tons, respectively, and cane sugar imports from Cuba were down 28 percent, at 1.2 million tons, imports of fresh-frozen meat rose 4.6 times to 387,000 tons; poultry imports rose 5.6 times to 411,000 tons; and butter imports rose 2.4 times to 171,000 tons.

Bulgaria's socialist-led government in March approved the state budget for 1995. The final draft of the budget provides for a deficit of 47 billion leva (\$700 million), or 5.6 percent of GDP. Expenditures are estimated at 387 billion leva

(\$5.8 billion), and revenues at 340 billion leva (\$5.1 billion). GDP is expected to amount to 800-850 billion leva (\$12.0-\$12.8 billion), while inflation is expected to drop to some 40 to 50 percent from a rate of 121.9 percent in 1994. The estimated budget deficit has risen from the previous year's 42 billion leva, because the government wants to allocate more money to the army and police. It also needs funds to finance its social projects. According to the daily, *Otechestven Front*, 20 percent of the budget deficit will be financed directly by the Bulgarian National Bank.

The final version of **Bulgaria's** privatization program was approved by the government in March; 20 billion leva (\$300 million) in privatization revenues are expected for 1995. The government wants to privatize 600 enterprises, or 20 percent of all state-owned firms, by the end of 1995. Yosif Iliev, director of the Center for Mass Privatization, said that every Bulgarian citizen over 18 will receive privatization vouchers worth a total of 50,000 leva (\$750). The final mass privatization scheme will be approved by the end of August or the beginning of September. A list of enterprises to be included in the first privatization wave will be drawn up at the same time.

Bulgaria will have to pay nearly \$1 billion in principle and interest in servicing its foreign debt in 1995, according to National Bank of Bulgaria Governor Todor Valchev.

The **Hungarian** government announced that it would dismiss 19,000 civil servants as part of radical plans to slash state spending. Lajos Bokros, Hungary's finance minister, said the cuts would mean that budget-funded institutions would have to reduce their staff by around 15 percent in 1995. As part of a large-scale austerity package, the forint was devalued by 9 percent against a basket of currencies on 12 March. An 8

percent surcharge on all imports was introduced on 20 March and is to be levied until mid-1997. The government also implemented measures to cut consumption, including a limit on pay increases and the abolition of family allowances except for those to people with low incomes. Other elements of the program that are aimed at improving export competitiveness and curtailing consumption must be approved by the Parliament.

China should heed the lessons of the Mexican financial crisis and further restrain foreign borrowing, which reached \$100 billion at the end of 1994, Zhou Shijian, deputy president of the International Trade Research Institute, has warned. China's debt-service ratio is deteriorating and Zhou urged the Chinese government to clamp down on enterprises and institutions raising capital abroad. (China's foreign exchange reserves, nevertheless, totaled \$51.6 billion at end-1994, up \$30.4 billion from 1993, and are at a suitable level, according to an official in the State Administration of Exchange Control.)

China has set its economic targets for 1995. The State Statistical Bureau has announced that inflation will be cut from 24.4 percent in 1994 to 15.0 percent, and that growth will be curtailed from 11.4 percent to 9.0 percent. The country's foreign trade is expected to grow by 12.2 percent to \$275.35 billion in 1995. Exports will account for \$143.88 billion, up 11.6 percent, and imports will reach \$131.47 billion, up 13.5 percent.

Record imports forced **Viet Nam's** trade deficit up to \$900 million in 1994 from \$200 million the previous year. Exports grew marginally from \$3 billion to \$3.6 billion, while imports shot up from \$3.2 billion to \$4.5 billion.

In **Slovakia** real GDP growth for 1994 was 4.7 percent, after a 4.1 percent

decline in 1993. The government has based its current budget on the assumption that this growth rate will be sustained, if not raised, in 1995.

The **Cambodian** government has discovered that its civil service rolls include 3,487 employees who don't exist but are being paid some \$55,000 each in monthly salaries that end up in the pockets of corrupt officials, the *Wall Street Journal* (Europe) has reported.

Georgia will introduce its national currency, the lari, in the first half of 1995.

More than half of **Ukraine's** \$4.4 billion debt to Russia has been rescheduled. The \$1.4 billion owed to Gazprom will be paid out over twelve years with a two-year grace period. Russia has also agreed to reschedule \$1.1 billion in official debt, accepting repayment over thirteen years with three-years' grace.

Estonia's Minister of Reform Liia Hanni told a news conference on 28 March that the majority of state-owned companies have been sold into private hands. The Privatization Agency sold 339 companies for 1.4 billion kroons (\$112 million) in 1994, but as most contracts provided for payment by installments, privatization income amounted to only 431 million kroons. Among the major companies still to be privatized are Estonian Energy, Estonian Shipping Company, Estonian Railways, Estonian Air, and Estonian Oil Shale.

Oil-rich **Kazakhstan** is attracting more long-term foreign investment than any other country in the former Soviet Union or Eastern Europe, according to a United Nations survey released in late March. The study, by the United Nations Economic Commission for Europe, said Kazakhstan has attracted more than \$46 billion in foreign investment commitments over the past five years, or 39 percent of the region's total. The largest

long-term investor was the United States, followed by Turkey.

Slovakia has received an offer from the Czech firm Skoda Praha to finish two reactors at the nuclear plant in Mochovce. The European Bank for Reconstruction and Development (EBRD) was to have decided on 27 March whether to grant a loan to Slovakia to allow a Slovak-French joint venture to complete the project, but Slovak Deputy Premier and Finance Minister Sergej Kozlik asked the EBRD to delay its decision until April. The Czech offer undercuts that of Electricite de France by one-third. Russia offered in

February to put up \$150 million to help complete the plant.

The rump **Yugoslav** currency, the "super dinar," has come under intense inflationary pressure. The super dinar, which was introduced by National Bank Governor Dragoslav Avramovic in January 1994, has been pegged officially to the German mark at a rate of 1:1. Dealers in Kragujevac were selling one German mark for 2.7 dinars on 27 March, while in Novi Sad the mark fetched 3.5 dinars, and in Belgrade, 4.7-5.0 dinars.

Polish Finance Minister Grzegorz Kolodko expects 5 percent GDP growth

in 1995 and has called unattainable the target of cutting the annual inflation rate to 17 percent by December. Privatization Minister Wieslaw Kaczmarek announced on 28 March that in May the government will submit to the Sejm, a draft law on restitution. Only property confiscated between 1944 and 1962 in violation of the law at the time would be covered. Compensation would be paid out in "privatization coupons" valid for the purchase of shares in privatized firms. No restitution in kind would be possible. Former owners have so far lodged 500,000 claims for property worth 20 billion zloty (\$14 billion), or a quarter of the annual budget.

World Bank/IMF Agenda

IMF Development Plans

U.S. Treasury Undersecretary Lawrence Summers advises that the IMF should consider creating a new fund that would respond quickly to financial crises such as the one in Mexico. Establishing some sort of "lender of last resort" capability at the Fund to respond to future crises would be a key issue for the world's top industrialized countries in the coming months, according to Summers. To prepare for the future, IMF Managing Director Michel Camdessus has asked the IMF Executive Board to authorize a formal investigation into the possibility of a capital increase. Early indications are that Camdessus may want as much as a doubling of the IMF's \$220 billion capital. The special drawing rights (SDR) issue will be discussed at a meeting of the Interim Committee. Under a modified proposal, 16 billion SDRs (about \$24.6 billion) would be allocated to the world's poorest countries and to 37 IMF members that have not received any allocation. An additional 20 billion SDRs (\$28 billion) would be used to create a special contingency fund for Mexico-style emergencies, to

be disbursed under clear conditionality. Camdessus said the proposal would be part of a package including either increasing IMF quotas to strengthen the IMF's capital base, or expanding the General Arrangements to Borrow.

IMF Approves Loan to Ukraine

The International Monetary Fund approved on 7 April a \$1.96 billion credit package to Ukraine including a \$1.46 billion standby credit, and a \$392 million second tranche of the systemic transformation facility (STF). Donors at the World Bank-sponsored 21 March meeting in Paris pledged further financing this year. Speaking of a "new social contract," World Bank Vice President Wilfried Thalwitz announced an \$850 million loan package to help Ukraine's efforts to finance a 1995 external payments deficit of \$5.5 billion. The country's national output during the 1990s dropped by nearly 50 percent.

IMF Standby to Russia Approved

Russia's 1995 economic program, if fully implemented, will achieve macro-

economic stabilization and accelerate structural reform according to IMF Managing Director Michel Camdessus. His comments came after the Executive Board approved a \$6.8 billion standby credit for Russia to support the government's 1995 economic program. Its key objectives: to bring inflation down to an average monthly rate of 1 percent in the second half of the year, via a major tightening of monetary policy and a substantial cut in the fiscal deficit (halving it to 6 percent of GDP from nearly 11 percent in 1994); and to accelerate structural reforms, including measures to liberalize the trade regime and the oil sector. (Domestic wholesale oil prices should increase from around \$40 per ton at end-1994 to \$65-\$70 per ton by the end of 1995.) The program envisages a decline in real GDP of 9 percent this year, compared with 15 percent in 1994.

Finance Minister Vladimir Pankov said in an interview with *Trud* that the budget deficit so far this year had been kept to about half of planned levels, a result that would help reduce inflation. Monthly inflation is expected to be 6 to 8 percent in March, down from 11 percent in Feb-

ruary and 18 percent in January, and it will likely be 5 percent a month in April and May. Panskov said the deficit for the first two months of this year was 6 trillion rubles, or 8 percent of the 73 trillion rubles targeted for the whole of 1995.

Facelift for Russia's Housing

A \$400 million World Bank loan approved will help the Russian government create a private land and housing market. A housing program of \$758 million will leverage private investment in small-scale construction industries, help local governments sell public land to private developers and families, and stimulate the development of a real estate market. This project plans 22,000 apartments, 8,200 townhouses, and 1,000 houses to be built in St. Petersburg, Tver, Novgorod, Niznij Novgorod, and Barnaul, as well as in Moscow.

Streamlining Russia's Tax Collection

Russia is reforming its tax system, which must be improved to keep up with increasing private sector activity. Millions more profit tax and value added tax returns are being filed. A \$16 million World Bank loan will help the country modernize tax administration in two key regions, with better procedures, automation, and training. The project, which will improve the national tax service is further supported by \$9.7 million from the Russian government and \$0.9 million from the IMF.

IFC Invests in Russian Paper Mill

A group of investors, led by the World Bank's International Finance Corporation (IFC) and Herlitz International Trading, a subsidiary of the German paper and stationery retailers, have invested in the recently privatized AO Volga, one of the largest paper mills and newsprint

manufacturers in Russia, in Nizhny Novgorod province. The \$150 million deal, including \$86 million that the IFC will mobilize directly, aims to turn the mill into one of the most competitive in the region. The remaining \$64 million of the financing package is in the form of equity participation of outside investors and funds generated by the improved performance of the company. To date, the IFC has approved 14 investments (including AO Volga), in Russia's capital markets, energy, and telecommunications sectors, for a total of \$261.5 million.

Cleanup Loan to Russia

The World Bank and the European Bank for Reconstruction and Development are offering Russia up to \$100 million in loans to finance an international cleanup of last year's Komineft pipeline spill. The loans would pay for repair of the oil pipeline and removal of the estimated 100,000 metric tons of spilled oil. The sums are contingent on Russia agreeing to put up \$12 million to \$15 million to begin the work immediately. Komineft, the Russian oil company whose pipeline was responsible for the spill, has approved an international partnership to begin the cleanup.

World Bank President: James Wolfensohn

The World Bank's Board of Executive Directors unanimously selected James Wolfensohn to become the institution's ninth president. Wolfensohn will assume the presidency succeeding Lewis Preston who is retiring because of ill health. Wolfensohn, 61, is an international investment banker who founded his own firm in 1981. Since 1990, he has been chairman of the Board of Trustees of the John F. Kennedy Center for the Performing Arts in Washington, D.C. He is director of both the Business Council for Sustainable Development and

CBS, Inc., and chairman of the Institute for Advanced Study at Princeton University.

World Bank and IMF Support Azerbaijan

The World Bank is to grant a total of about \$150 million in four credits to Azerbaijan until June 30 1996, the end of the 1995 fiscal year. A credit of \$20.8 million will be used to develop the country's oil industry, and \$20.0 million will support creation of a market infrastructure. A rehabilitation loan of \$60 million to \$70 million will cover part of the country's budget deficit. Financing of an investment project to upgrade Baku's water supply system will come to \$45 million. The country is to receive the first half of an \$80 million IMF systemic transformation facility credit during April to support price liberalization, accelerated privatization, and inflation reduction. The IMF credit will be used mainly to stabilize Albania's currency, the manat, and to cover the budget deficit, set at 4.7 percent of GDP for 1995.

Donor Meetings in Paris: Pledge of \$780 Million to Mozambique...

With the completion of the peace agreement and the success of the first multiparty election, Mozambique's eighth Consultative Group meeting in Paris was a watershed, with donors pledging about \$780 million in credits and grants to the country. The Group focused on the reforms proposed by the government to consolidate peace, revitalize the economy, and reduce poverty. The draft budget presented to the meeting provides for a 14.6 percent cut in defense spending, a 40 percent increase in teachers' wages, and a 21.9 percent increase in health providers' wages.

...\$1,350 Million to Cambodia...

Donor countries meeting in Paris pledged \$1.35 billion to Cambodia for 1995 and 1996. The donors urged the Cambodian government to restore law and order and institute economic and social reforms. Negotiations were concluded with the World Bank for a \$20 million credit agreement to support a social and economic redevelopment project.

...\$1 Billion to Tanzania...

Donors pledged at least \$1 billion in new aid commitments to Tanzania for 1996, provided reforms can be accelerated. Members of the Consultative Group for Tanzania praised the country's progress in instituting structural reforms, although tax evasion and tax exemptions contributed to the recent higher-than-expected fiscal deficits; government representatives announced new measures to collect taxes and investigate corruption.

...and \$290 Million to Moldova

Commitments made at the March 20 meeting of the Moldova Consultative Group should cover the country's 1995 financing requirements of \$290 million. Donors noted that inflation has been reduced dramatically, with rapid liberalization of both prices and external trade. The balance of the economy is shifting to the private sector. The IMF has approved a \$90 million standby credit arrangement with Moldova supporting government economic reforms that aim at real economic growth of 1.5 percent in 1995, and at keeping the budget deficit below 3.5 percent of GDP and the annual inflation rate at 10 percent. The World Bank approved a \$30 million standby loan for Moldova's Guarantee Administration Unit (GAU); the non-governmental agency will sell guarantees to qualified overseas investors against risks of government performance and political force majeure.

Fueling China's Energy Development

The World Bank has approved more than \$1 billion in loans to support three projects in China, two in the energy sector and one to promote productivity-enhancing technologies. The power development transmission projects in Zhejiang (with a loan of \$400 million) and Sichuan (\$270 million) provinces will increase the supply of electricity in two of China's most industrialized and populous regions. The third loan, for \$200 million, will help China adopt clean, productivity-enhancing technologies for industry.

World Bank Loans to Romania

The World Bank on March 7 approved a \$55.4 million loan for Romania to support the country's unemployment services. At present the client-staff ratio in labor offices is 600 to 1. (According to Romanian government estimates, by the end of 1995, unemployment could reach 14.5 percent, in a labor force of about 12.2 million.) The loan will help boost management, increase automation of labor offices, and develop career counseling and adult training programs. Another loan of \$175 million will provide support for Romania's medium- and small-scale enterprises, making them more competitive in the international markets. Technical assistance will accelerate privatization and reorganization.

Armenia Gets IDA Loan

The International Development Association on February 28 approved a \$60 million credit to back Armenia's economic reform program. The credit will supply Armenia with much-needed foreign exchange for the purchase of critical imports. It will also help strengthen the social safety net for the poor, and it will serve as a catalyst to raise financial support from other donors.

Money Pours in to Uzbekistan

A \$160 million World Bank rehabilitation loan approved on March 28 will help accelerate Uzbekistan's structural reform program. The loan will finance imports and provide foreign exchange, helping the government make the transition to a market-based economy. The loan will bolster Uzbekistan's new currency and provide a framework for donor support. Earlier, a \$32 million World Bank loan was approved to try to save the Aral Sea, a once-huge saltwater lake that has been so drained and polluted that it is in danger of drying up completely. International experts have been invited to find corrective solutions. Another \$70 million from the World Bank will help develop the country's cotton farming. The international donor community, meeting in Paris in March, pledged more than \$900 million for Uzbekistan for 1995. Japan and France have agreed to a total of \$200 million in trade insurance for an Uzbekistan refinery project.

IDA Upgrades Nicaragua's Public Services

The International Development Association has approved a total of \$57 million in credits to Nicaragua. Despite privatizing more than 300 public enterprises and cutting the number of public workers, Nicaragua's public sector still accounts for 40 percent of GDP and is a drag on private sector growth. A \$23 million credit will back the government's plans for broad reform of up to 20 ministries and agencies, improvement of public services, and reduction of public spending. A credit of \$34 million will boost basic education in Nicaragua, especially in the poorest areas. It will help decentralize school administration, provide textbooks, expand preprimary school programs and rebuild dilapidated schools, including basic sanitation services. Nicaraguan Presidency Minister

Antonio Lacayo said the Paris Club has agreed to write off \$500 million-\$600 million of Nicaragua's foreign debt as a first step in the renegotiation of the country's total foreign debt of \$11.7 billion.

Croatia Reschedules

The Paris Club has accepted Croatia's request for a rescheduling of its \$1 billion in official foreign debt, according to Vice Prime Minister Borislav Skegro, quoted on Croatian radio. Croatia will

repay the debt over fourteen years, starting in January 1998. Another \$100 million, borrowed after 1992, will be repaid immediately. Skegro said the rescheduling was a "huge financial relief" for Croatia, ending all links to the former Yugoslavia, and opening the door to new financial arrangements. Talks on \$1.5 billion of debts with commercial banks are proceeding more slowly, Skegro said.

Algeria-IMF Agreement

An extended structural adjustment facility has been signed between the IMF

and Algeria, enabling the country to draw nearly \$500 million over the next three years. Algerian Finance Minister Ahmend Benbitour said that a new agreement with the IMF would provide Algeria with the financing it needs to undertake deep structural reforms. Senior Algerian officials have said the government will seek more debt rescheduling from the Paris Club.

Conference Diary

Pension Privatization in Latin America: What Can We Learn?

April 27-29, 1995, Washington, D.C.

The Institute for EastWest Studies is organizing a small working retreat, to be held at Airlie House near Washington, D.C. The forum is designed to evaluate, for the benefit of transition economies, recent trends in pension privatization based on the Chilean model, in Argentina, Colombia, and Peru. The idea is to promote discussion between finance ministers and other high-level officials in charge of pension reform in both Europe and Latin America, in an informal, relaxed discussion of vital policy and political issues related to reforming existing pension systems.

Key topics include: financing the transition costs (Robert Holzmann); regulation of private pension funds (Julio Bustamante Jeraldo); political strategy (Peter Diamond); and comparative case studies (Dimitri Vittas).

Information: IEWS, New York, 360 Lexington Avenue, New York, New York 10017, USA, tel. (212) 557-2570, fax (212) 949-8043.

Seventh Annual Bank Conference on Development Economics (ABCDE)

May 1-2, 1995, Washington, D.C.

The conference is organized by the World Bank, sponsored by Vice President (Development Economics) and Chief Economist Michael Bruno, inaugurated by Gautam S. Kaji, with a keynote address by Domingo F. Cavallo, Argentina's Minister of Economy and Public Works. The conference will have roundtable discussions on *Second Generation Issues of Transition*, including: From Stabilization to Growth (Stanley Fischer); Limiting Corruption (Susan Rose-Ackerman); and Does Mass Privatization Really Spur Restructuring? (Jana Matesova). Other topics of the conference: *Revisiting Redistribution with Growth* (Albert Fishlow, Pranab Bardhan, Montek Ahluwalia, Francois Bourguignon, Gustav Ranis, Ravi Kanbur, and Michael Lipton); *Demographic Change and Development* (Peter Diamond, Nancy Folbre, Nicholas Barr, Estelle James, Salvador Valdes-Prieto, Elza Berquo, and Lawrence Haddad); *Aid and Development* (Dani Rodrik, Elinor Ostrom, Richard Cooper, Guillermo Calvo, Stijn Claessens, Rob-

ert Klitgaard, Margaret Levi, Willem Buiter, and Matthew J. Slaughter); *Fiscal Decentralization* (Vito Tanzi, Rudolf Hommes, Charles McLure, David Wildasin, Wallace E. Oates, and Remy Prud'homme). Bank-IMF staff members are welcome, others by invitation. *Information: Boris Pleskovic or Gregory Ingram, Research Advisory Staff, World Bank, 1818 H Street, N.W., Room N9-037, Washington, D.C. 20433, USA, tel. (202)473-1062, fax (202)-477-0955.*

The Macroeconomics of Recovery in East-Central-European Economies

May 2-5, 1995, Budapest

Organized by the Institute of World Economics, Hungarian Academy of Sciences.

Information: Gaspar Pal, Institute of World Economics, Kallo esperes u 15, H-1124 Budapest, tel. (361)166-5917/166-8433/45, fax (361)162-0661.

Corporate Adjustment, Market Failures, and Industrial Policy in the Transition

May 5-6, 1995, Prague

Organized by the Institute of Economics of the Czech National Bank.

Information: Jan Klacek, Czech National Bank, Institute of Economics, Politických veznu 7, CS-11003 Prague, tel. (422) 242-30-278, fax (422) 242-24-585.

Russian Far East Opportunities: Working Strategies for Investing, Trading, and Partnering

May 9-10, 1995, New York

The goal of the conference is to present the case for doing business in the Russian far East and specific project prospectuses, prepared according to Western standards, to foreign investors and companies, particularly those based on the east coast of the United States.

Information: Geonomics, tel. (802) 388-9619, fax (802) 388-9627.

Convertibility and Exchange Rate Policy

May 12-13, 1995, Sofia

Organized by the Centre for Strategic Business and Political Studies.

Information: Alexander Tomov, XXI Century Foundation, Centre for Strategic Business and Political Studies, 11 Aksakov Street, B-1000 Sofia, Bulgaria, tel. (359) 265-8366, fax (359) 265-7590.

The 4th AVOK Congress

May 15-17, 1995, Moscow

AVOK, the Russian Association of Engineers for Heating, Ventilation, Air Conditioning, Heat Supply, and Building Thermal Physics, will hold its 4th Annual Congress. This Congress features an overview session on energy-efficient windows and an exhibition of energy efficiency technologies. AVOK is an international affiliate of ASHRAE in the United States.

Information: John Parker at Battelle, Pacific Northwest Laboratories, tel. (202) 646-7861.

Cooperation and Investment Possibilities in the Regions of the Russian Federation

May 17-19, 1995, Berlin

Organized by the Russian Finance Corporation, Kooperationsbuero der Deutschen Wirtschaft, and BAO Berlin Marketing Service. The conference will be conducted in German.

Information: Dr. Beatrice Kuehne, and Dr. Alexander Spaak, tel. (4930) 882-65-96.

International Workshop on Energy Efficient Windows in Russia

May 18-20, 1995, Moscow

This workshop is sponsored by the Russian Ministry of Construction, with support from the U.S. Department of Energy; Battelle, Pacific Northwest Laboratories; and Lawrence Berkeley Laboratory. The program will include site visits to Russian window test laboratories and production facilities, an overview of the market potential for energy-efficient windows in the Russian Federation and the Commonwealth of Independent States, and meetings between potential U.S. and Russian partners.

Information: John Parker at Battelle, Pacific Northwest Laboratories, tel. (202) 646-7861.

Business Opportunities for Energy Efficiency in Russia

May 23-25, 1995, Moscow

Conducted by the Moscow Center for Energy Efficiency (CENEF), with support from the U.S. Agency for International Development; the U.S. Department of Energy; and Battelle, Pacific Northwest Laboratories. Program highlights include briefings on national and

regional energy efficiency policy, an overview of financing mechanisms for energy efficiency projects, opportunities to meet with prospective Russian business partners, and an exhibition of energy efficiency technologies and equipment.

Information: John Parker at Battelle, Pacific Northwest Laboratories, tel. (202) 646-7861.

Geographies of Transformation: New Perspectives on the Former Soviet Union and East and Central Europe

May 24, 1995, Birmingham

The seminar is organized by the School of Geography, University of Birmingham, and sponsored by the IBG's Political and Economic Geography Study Groups, to present new research by postgraduates and younger researchers on the geographies of transformation in Eastern and Central Europe and the former Soviet Union.

Information: (E-mail: adam.swain@durham.ac.uk); or Nick Lynn, School of Geography, University of Birmingham, Edgbaston, Birmingham, B15 2TT, U.K., tel. (4421) 414-5543, (E-mail: ggy92514@ibm3090.computer_centre.birmingham.ac.uk)

Regional and Local Authorities in the CIS—Economic Activities and Institutions

May 26-27, 1995, Moscow

International conference focusing on small and medium-size enterprises, organized by the Friedrich Ebert Foundation/Humboldt University of Berlin.

Information: Mr. H. Wollmann, and Mr. A. Heinemann-Grueder, Humboldt Universitaet zu Berlin, Institut fuer Politikwissenschaft, Unter den Linden 6, 10099 Berlin, Germany, tel. (4930) 2843-1533, -1532, fax (49-30) 2843-1500, (E-mail: Hell-mutWollmann@sowi.hu-berlin.de).

Industrial Organization and Entrepreneurship in Transition

June 5-8, 1995, Varna, Bulgaria

International conference, organized by the Institute of Economics of the Bulgarian Academy of Sciences, University of National and World Economy, Sofia. Topics include: Privatization and Restructuring of Enterprises, Management and Control of Enterprises in Transition, Management and Development of Small Business, and Interfirm Relations. Submission of final papers until May 10, 1995.

Information: Mr. Mitko Dimitrov Institute of Economics of the Bulgarian Academy of Sciences, 3 Aksakov st., 1040 Sofia, Bulgaria, tel. (359) 287-4984, fax (359) 288-2108, (E-mail: ineco@bgearn.bitnet), or Mr. Kiril Todorov, Department of Industrial Business and Entrepreneurship, University of National and World Economy, Students Town, 1100 Sofia, Bulgaria, tel. (359) 262-5512, fax (359) 268-9341.

International Conference on Russian Enterprise Restructuring

June 12-13, 1995, St. Petersburg

This two-day international conference will examine enterprise restructuring in the Russian industrial sector since 1992 and its policy implications. Most of the papers for the conference are based on a large survey of randomly selected Russian industrial enterprises conducted in the second half of 1994. The conference is sponsored by the World Bank, with participation from the Russian government. Participants will include senior officials from Russia and the World Bank, as well as internationally known researchers.

Advance registration is required. As the number of participants is limited, those interested in attending are advised to register early.

Information: Qimiao Fan or Une Lee, the World Bank, 1818 H Street, N.W., Washington, D.C., USA, tel. (202) 473 7373/0991, fax (202) 477 3288.

For registration, contact Elena Belova, the Leontief Centre, 16 Voznesensky Pr., St. Petersburg, 190000, Russia, tel. (7-812) 314 4119, fax (7-812) 319 9814, (E-mail: sln@leontief.spb.su).

Economic Education in Economies in Transition (Problems and Solutions)

June 14-17, 1995, Riga

Organized by the University of Latvia. *Information: Biruta Sloka, University of Latvia Faculty of Management and Economic Informatics, Aspazijas bulv 5, tel. (371) 221-3122, fax (371) 228-0882.*

Different Approaches to Market Reform: A Comparison between China and the Central and East European Countries

June 16-17, 1995, Budapest

Organized by the Centre for Economic Policy Research (CEPR), London, the Centre for International Prospective Studies (CEPII), Paris, and the Institute for World Economics, Budapest.

Information: Emily Gilmour, Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, U.K., tel. (44171) 734-9117, fax (44171) 734-8760.

Transformations in Managing Organizations in Central and Eastern Europe

June 22-24, 1995, Warsaw

International conference, organized by the Scientific Society for Organization and Management.

Information: Stanislaw Rakowicz, Scientific Society for Organization and Management, Central Board, Ul.

Koszykowa 6, PL-00564 Warsaw, Poland, tel. (4822) 299-973, fax (4822) 292127.

Fourth Annual World Business Congress

July 13-16, 1995, Istanbul

Organized by the International Management Development Association, and the Marmara University on Innovation, Technology and Information Management for Global Development and Competitiveness.

Information: Assistant Professor Jarmo Nieminen, Institute for East-West Trade, Turku School of Economics and Business Administration, P.O. Box 110, Turku, Finland, tel. (358) 2163-83-568, fax (358) 2163 - 83-268, (E-mail: jnieminen@abo.fi_9).

Microeconomics of Transition and Growth

August 28-30, 1995, Germany

Organized by the European Association for Comparative Economic Studies (E.A.C.E.S.) at the Technical University Bergakademie Freiberg, Germany.

Call for papers. Topics will include: property rights and entrepreneurship; from destructive to productive entrepreneurship; business ecology and market evolution; West-East transfer of knowledge and technology; productivity and innovation; competition and enterprise behavior; human capital; reallocation of capital from the state to the private sector; information and transaction costs; and emergence of an institutional infrastructure.

Information: Technical University Bergakademie Freiberg, Faculty of Economics and Business Administration, Gustav-Zeuner-Str. 8, D-09596 Freiberg, Germany, fax (+49) 3731-392733.

Emergence of a Private Property Regime in Bulgaria: Paths for Perfection of the Market Instruments and Institutions

September 20-24, 1995, Albena

Organized by Club "Economika 2000" to address the key problems of economic development of Bulgaria.

Key topics include: ownership transformation and the evolution of the new corporate structure; mass privatization: dispersing ownership or creating new devices for corporate control; privatizing by sales: bringing the immediate taste of ownership over tangible assets; and the growth of the private sector.

Deadline for applications will be August 31, 1995.

Information: Spartak Keremidchiev, Club "Economika 2000," tel. (+359 2)805-201, fax (+359 2)804-662.

Social Relations and Social Policy under Conditions of Market Economy: Russia and World Experience

September 24-27, 1995, Moscow

International conference organized by the Institute for Employment Studies, and the Socio-Economic Research Association. Registration by May 1; abstracts by May 15, 1995.

Information: Dr. Gulnara Sorocoumova, Institute for Employment Studies, Malaya Lubyanka St. 16, 101000 Moscow, Russia, tel./fax: (7095) 928-8319, (E-mail: comm_pub@comlab.vega.msk.su).

Small-Medium Enterprise Development Policy in Transition Economies

September 28-29, 1995, Wolverhampton

Organized by the University of Wolverhampton and the University of Bristol.

Information: Dr. Milford Bateman, Russian and East European Research Centre, University of Wolverhampton, Stafford Street, Wolverhampton WV1 1SB, U.K., tel. (902) 322-324, fax (902)322-739.

Restructuring the Foreign Economic Sphere in Ukraine

October 19-20, 1995, Kiev

Organized by Kiev University, Institute of International Relations.

Information: Professor A. Filipenko, Kiev University, Institute of International Relations, 36/1 Melnikova St. 254119 Kiev, Ukraine, tel. (744) 211-4512, fax (744) 213-0767.

On the Theory of Transforming Economies

October 13-15, 1995, Frankfurt/Oder

Organized by Rijksuniversiteit Limburg and Europa Universitaet Viadrina. Con-

ference will be conducted in German and English.

Information: Professor Dr. Juergen Backhaus, University of Limburg, Faculty of Economics, P.O. Box 616, 6200 MD Maastricht, Netherlands, tel. (43) 883-636, fax (43) 258-440.

Transforming Economies and Societies: Institutional Theory of Economic Change

October 19-21, 1995, Krakow

Organized by the European Association for Evolutionary Political Economy Abstracts to Klaus Nielsen, Economics and Planning Institute, Roskilde University Centre, Box 360, DK-4000 Roskilde, Denmark.

Information: Jane Roe, Sheffield University Management School, Sheffield S1 4DT, U.K.

New Books and Working Papers

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

World Bank Publications

Policy Research Working Papers (PRWP)

Robert E. Anderson, **Voucher Funds in Transitional Economies: The Czech and Slovak Experience**, PRWP no. 1324. *To order: Faten Hatab, the World Bank, Room H8-087, tel. (202) 473-5835.*

Kathie Krumm, Branko Milanovic, and Michael Walton, **Transfers and the Transition from Socialism: Key Tradeoffs**, PRWP no. 1380, November 1994, 49 p. *To order: Kathie Krumm, the World Bank, Room H12-081, tel. (202) 473-4263.*

David Sewell and Christine I. Wallich, **Fiscal Decentralization and Intergovernmental Finances in the Republic of Albania**, PRWP no. 1384, November 1994, 57 p.

Tax sharing of central government revenues based on area of origin cannot be the only means of local finance in Albania, as most revenue is collected from a few districts. To meet financial needs, local governments need some authority over significant own-source revenues (such as user charges and property and vehicle taxes). Privatization revenues can also help local governments, but only in the short run as they are nonrecurrent. For low-income regions incapable of meeting their spending needs

on their own, a transparent, equalizing transfer system should be developed. Albania's draft laws allow for this possibility, having established constituent and independent budgets for the local level. *To order: Ms. Gemma Langton, the World Bank, Room H11-075, tel. (202) 473-8392.*

Patrick Conway, **Ruble Overhang and Ruble Shortage: Were They the Same Thing?** PRWP no. 1389, December 1994, 20 p.

"Ruble overhang" and ruble shortages in the Soviet Union and its successor states were manifestations of the same economic phenomenon: the household sector's inability to convert financial assets into purchasing power over commodities. In both cases, forced saving led to a reduction in purchasing power and downward pressure on inflation. The difference was in the mechanism that induced forced saving. For the ruble overhang, the government maintained price rigidity; and there was nonprice rationing of output that was insufficient to satisfy demand at those rigid prices. For the ruble shortage, the government—through the government-controlled banking system—imposed the holding of bank deposits on households, through mandatory wage deposit programs and through the de facto inconvertibility of deposits to currency. *To order: Ms. Lenora Suki, the World Bank, Room H2-096, tel. (202) 473-3974.*

Piritta Sorsa, **Regional Integration and the Baltics: Which Way?** PRWP no. 1390, December 1994, 48 p. *To order: Jennifer Ngaine, Room R2-052, ext. 37947.*

Jun Ma, **Macroeconomic Management and Intergovernmental Relations in China**, PRWP no. 1408, January 1995, 77 p. *To order: Ms. Carlina Jones, the World Bank, Room N10-063, tel. (202) 473-7754.*

Nanak Kakwani, **Income Inequality, Welfare, and Poverty: An Illustration Using Ukrainian Data**, PRWP no. 1411, January 1995, 54 p. *To order: Ms. Grace Evans, the World Bank, Room N11-041, tel. (202) 458-5783.*

Ren Ruoan and Chen Kai, **China's GDP in U.S. Dollars Based on Purchasing Power Parity**, PRWP no. 1415, January 1995, 46 p.

China's gross domestic product per capita was only \$300 to \$370 in 1980-91 according to an estimate based on the *World Bank Atlas* approach used in the *World Development Report*. These estimates fail to capture the fact that in the ten years since embarking on a program of economic reform aimed at rapid economic development, China has been one of the fastest growing economies in the world. China's per capita GDP in 1991 international dollars is between \$1,227 and \$1,663, allowing for the impact of inflation in the United States on the purchasing power parity, and growth rates in China, computed from national currency GDP data in constant prices. *To order: Ms. Elfrida O'Reilly-Campbell, the World Bank, Room S7-136, tel. (202) 473-3707.*

Lyn Squire and Sethaput Suthiwart-Narueput, **The Impact of Labor Market Regulations**, PRWP no. 1418, February 1995, 35 p. *To order: Ms. Ghislaine Bayard, the World Bank, Room N11-049, tel. (202) 473-7460.*

Other World Bank Publications

Farm Restructuring and Land Tenure in Reforming Socialist Economies: A Comparative Analysis of Eastern and Central Europe, World Bank Discussion Paper no. 268, February 1995, 170 p.

Zvi Lerman, Karen Brooks, and Csaba Csaki, **Land Reform and Farm Restructuring in the Ukraine**, World

Bank Discussion Paper no. 270, December 1994, 126 p.

Simon Commander and Fabrizio Coricelli (eds.), **Unemployment, Restructuring, and the Labor Market in Eastern Europe and Russia**, EDI Development Studies, December 1994, 416 p.

China: Internal Market Development and Regulation, World Bank Country Study, December 1994, 274 p.

Poland: Policies for Growth with Equity, World Bank Country Study, January 1995, 148 p.

Tajikistan: The Transition to a Market Economy, World Bank Country Study, December 1994, 264 p.

Tanzania: Agriculture, World Bank Country Study, January 1995, 286 p.

Viet Nam: Poverty Assessment and Strategy, A World Bank Country Study, 1995.

The study is based on the Viet Nam Living Standards Survey, the first multi-purpose household survey ever performed in Viet Nam. It was conducted by the government with World Bank technical assistance. Key findings include:

- The incidence of rural poverty averages 57 percent, twice as high as the 27 percent poverty incidence found in urban areas. About 90 percent of all the poor are concentrated in rural areas, and more than 75 percent are farmers.
- There are significant regional disparities in living standards throughout the country. Poverty incidence ranges from 33 percent in the Southeast to 71 percent on the North Central Coast.
- Despite very low levels of per capita consumption throughout Viet Nam, other social indicators, even among the poor, are very high, compared with other countries with similar levels of GDP per

capita. For example, among the poorest 20 percent of Vietnamese, almost 80 percent are literate. (Per capita income in Viet Nam is \$170 a year.)

- Education is a key indicator of agricultural productivity, per capita consumption, and household welfare. Sixty-five percent of those with no education are poor, while only 11 percent of university graduates are poor.

- The poorest children tend to drop out after grade school—only 19 percent of them go on to junior secondary schools at the appropriate age.

Hyung-Ki Kim and Mashiko Aoki, **Corporate Governance in Transitional Economies: Insider Control and the Role of Banks**, EDI Development Studies, March 1995, 492 p.

The World Bank Atlas: 1995 27th edition, the World Bank, 1995, 36 p.

Leila M. Webster, Juergen Franz, Igor Artimiev, and Harold Wackman, **Newly Privatized Russian Enterprises**, World Bank Technical Paper no. 241, 1994, 70 p.

World Data 1994: World Bank Indicators on CD-ROM, the World Bank, December 1994.

World Debt Tables 1994-95: Data on Diskette, the World Bank, 1995.

FSU Stars—States of the Former Soviet Union 1994: Data on Diskette, the World Bank, February 1995.

World Bank data and statistics on the states of the former Soviet Union are now available on diskette. The database includes more than 4,000 indicators covering population and labor, national accounts, foreign trade, government finance, monetary statistics, industry, agriculture, prices and wages, household budget statistics, and investment figures. The data are for 1980 and 1985-93.

To receive ordering and price information for World Bank publications, write: World Bank, P.O. Box 7247-8619, Washington, D.C., 20433, USA, tel. (202) 473-1155, fax (202) 676-0581; or visit the World Bank bookstores, in the United States, 701-18th Street, N.W., Washington, D.C. or in France, 66 avenue d'Iena, 75116, Paris.

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IMF Publications

Matthew I. Saal and Lorena M. Zamalloa, **Use of Central Bank Credit Auctions in Economies in Transition**, IMF WP no. 94/11, June 1994, 30 p.

Vito Tanzi, **Corruption, Governmental Activities, and Markets**, IMF WP no. 94/99, August 1994, 20 p.

Adam G. G. Bennett, **Currency Boards: Issues and Experiences**, IMF WP no. 94/18, September 1994, 25 p.

Ernesto Hernández-Catá, **Russia and the IMF: The Political Economy of Macro-Stabilization**, IMF WP no. 94/20, September 1994, 21 p.

Vicente Galbis, **Sequencing of Financial Sector Reforms: A Review**, IMF WP no. 94/101, September 1994, 27 p.

Eastern Europe: Factors Underlying the Weakening Performance of Tax Revenues, IMF WP no. 94/104, September 1994, 26 p.

Koenraad Van der Heeden, **The Pay-As-You-Earn Tax on Wages: Options for Developing Countries and Countries in Transition**, IMF WP no. 94/105, September 1994, 34 p.

Marcello de Cecco, **Central Banking in Central and Eastern Europe:**

Lessons from the Interwar Years' Experience, IMF WP no. 94/127, October 1994, 31 p.

Influenced by the Financial Section of the League of Nations, the new central banks adopted laws that prohibited or severely restricted the financing of government fiscal debt. They were encouraged to centralize their payments systems and manage exchange rates to keep control of the money supply and achieve monetary stability. Before long they were forced to adopt further provisions in banking supervision to regulate commercial banks. The paper considers the cases of Czechoslovakia, Hungary, and Poland.

Peter K. Cornelius, **Defining, Measuring and Alleviating Poverty in an Economy in Transition: The Case of Lithuania**, IMF WP no. 94/116, October 1994, 20 p.

Zu-liu Hu, **Social Protection, Labor Market Rigidity, and Enterprise Restructuring in China**, IMF WP no. 94/122, October 1994, 29 p.

Carline Van Rijckeghem, **Albania: Income Distribution, Poverty, and social Safety Nets in the Transition, 1991-1993**, IMF WP no. 94/123, October 1994, 63 p.

Income and consumption data in Albania produce conflicting results. Based on income data, including average presumptive agricultural incomes and state sector wages, there is a significant rise in real income in rural areas and a decline in real income in urban areas. Based on food consumption data, however, a large decline in urban real incomes is implausible. The possible clue: poverty in both the urban and the rural population was mitigated by the presence of formal social safety nets, as well as informal arrangements in the form of emigrant remittances.

Gabriel Sensenbrenner and V. Sundararajan, **The Payments System and Its Effects on Monetary Operations: Recent Experience in the Russian Federation**, IMF WP no. 94/133, November 1994, 49 p.

James Haley and Ghiath Shabsigh, **Monitoring Financial Stabilization in Moldova: The Role of Monetary Policy, Institutional Factors and Statistical Anomalies**, IMF WP no. 94/25, December 1994, 15 p.

Liam Ebrill, Ajai Chopra, Charalambos Christofides, and others, **Poland: The Path to a Market Economy**, Occasional Paper no. 113, October 1994, 117 p.

Wanda Tseng, Hoe Ee Khor, Kalpana Kochhar, and others, **Economic Reform in China: A New Phase**, Occasional Paper no. 114, November 1994, 84 p.

To order IMF publications: IMF Publication Services, 700-19th Street, N.W., Washington, D.C. 20431, tel. (9202) 623-7430, fax (202) 623-7201.

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CEPR Publications, London

Lászlo Halpern, **Comparative Advantage and Likely Trade Pattern of the CEECS**, CEPR no. 1003, September 1994, 46 p.

Sophia Dimelis and Konstantine Gatsios, **Trade with Central and Eastern Europe: The Case of Greece**, CEPR no. 1005, September 1994, 51 p.

Bernard M. Hoekman and Petros C. Mavroidis, **Linking Competition and Trade Policies in Central and East European Countries**, CEPR no. 1009, September 1994, 42 p.

Andre Sapir, **The Europe Agreements: Implications for Trade Laws and Institutions: Lessons from Hungary**, CEPR no. 1024, September 1994, 27 p.

Patrick A. Messerlin, **Central European Countries' Trade Laws in the Light of International Experience**, CEPR no. 1044, November 1994, 30 p.

Dani Rodrik, **The Dynamics of Political Support for Reform in Economies in Transition**, CEPR no. 1115, January 1995, 32 p.

John Micklewright and Gyula Nagy, **Unemployment Insurance and Incentives in Hungary**, CEPR no. 1118, January 1995, 42 p.

To order: Center for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, United Kingdom, tel. (4471) 734-9110.

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OECD Publications, Paris

OECD Economic Surveys: Poland, 1994, 191 p.

To order: OECD Publications, 2 rue Andre-Pascal, 75775 Paris Cedex 16, France, tel. (331) 4524 8200, fax (331) 4910 4276.

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Leuven Institute Publications, Leuven, Belgium

Marvin Jackson, Wouter Biesbrouck, and Valentijn Bilsen, **Central Europe and New Possibilities of Integration into the European Economic Space: The Initiative of Flanders**, Reprint 16, 1994, pp. 84-95.

Adam Torok, **Industrial Policy and Foreign Direct Investment (FDI) in Hungary**, Reprint 17, 1994, 36 p.

To order: Katholieke Universiteit Leuven, Blijde Inkomststraat 5, 3000 Leuven, Belgium, tel. (3216) 285-340, fax (3216) 285-344.

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Institute of Economic Studies, Prague

Michal Mejstrik, **Czech Investment Funds as a Part of Financial Sector and Their Role in Privatization of the Economy**, Reform Round Table Working Paper [RRT WP] no. 14, May 1994, 25 p.

Eva Zamrazilová, **Labour Market**, RRT WP no. 15, May 1994, 13 p.

Jan Mládek, **Transformation and Performance of the Czech Agriculture**, RRT WP no. 16, August 1994, 26 p.

Strategy of the Czech Telecommunications Development, Universitas Carolina Pragensis, Prague, June 1994, 62 p.

To order: Universitas Carolina Pragensis, Institute of Economic Studies, Faculty of Social Sciences, Charles University, 11001 Prague 1, Smetanovo náb. 6, Czech Republic, tel. (422) 2481 0804, fax (422) 2481 0987.

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The Institute for World Economics, Budapest

Fiscal Developments in Hungary: 1990-93, RRT Hungary Document no. 33, 1994, 15 p.

Improvement in the Hungarian Banking System, RRT Hungary Document no. 34, 1994, 30 p.

Hungary's Agricultural Trade Regime, RRT Hungary Document no. 35, 1994, 17 p.

The Behaviour of Investment in Hungary, RRT Hungary Document no. 36, 1994, 12 p.

The Role of the State during the Transition in Hungary, RRT Hungary Document no. 37, 1994, 15 p.

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

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Center for Agricultural and Rural Development, Ames, Iowa

William H. Meyers and Natalija Kazlauskienė, **Privatization and Restructuring of State and Collective Farms: Policy Environment and Strategies**, Baltic Report no. 94-BR 16, December 1994, 11 p.

Ferdaus Hossain and Helen H. Jensen, **Food Expenditures in Latvia: Analysis from the First Year of Reform**, Baltic Report no. 94-BR 19, December 1994, 21 p.

To order: Center for Agricultural and Rural Development, Iowa State University, Ames, Iowa 50011-1070, USA, tel. (515) 294-1183, fax (515) 294-6336.

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Latvian Academy of Sciences, Riga

Inna Dovlodbekova and Tatyana Muravskaya, **Development of the Secu-**

rities Market in Latvia, Reform Round Table Working Paper no. 10, January 1995, 26 p.

To order: Institute of Economics, Latvian Academy of Sciences, 19 Turgeneva Street, LV-1003, Riga, Latvia, tel. (371) 222-2830, fax (371) 782-1289.

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WIIW Publications, Vienna

Kazimierz Laski, **The Investment Multiplier at a Variable Savings Ratio**, WIIW no. 154, October 1994, pp. 205-20.

Anneli Ute Gabanyi and Gábor Hunya, **Vom Regimewechsel zur Systemtransformation: Rumänien**, WIIW no. 155, November 1994, pp. 77-111.

Josef Falkinger, **Research Project: Theoretical Investigation and Empirical Assessment of the Impact of Budget Deficits on the Economy**, WIIW no. 208, November 1994, 67 p.

Marko Jaklic, **Concepts for an Industrial Policy: The Case of Slovenia**, WIIW no. 250, November 1994, 63 p.

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

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Institute for Economic Research Publications, Ljubljana, Slovenia

Andrej Kumar, **European Integration: Reality or a Dream?**, IER no. 7, 1994, 20 p.

Franciska Logar and D. Zorko, **Up-swing of Tourism in Slovenia**, IER no. 8, 1994, 23 p.

Milena Bevc, **Educational Capital in Slovenia in the Early 90s**, IER no. 9, 1994, 28 p.

Franc Kuzmin, **The Main Characteristics of Slovene Labour Market during Transition Period: The Problem of Unemployment**, IER no. 10, October 1994, 9 p.

Emil Erjavec, Miroslav Rednak, and Jernej Turk, **The Main Issues Involved in the Economic Transition of Slovene Agriculture**, IER no. 11, October 1994, 16 p.

Stanka Kukar, **The Hidden Economy and the Labour Market in Slovenia in the Period of Transition**, IER no. 12, December 1994, 16 p.
To order: Institute for Economic Research, Kardeljeva ploščad 17, 61000 Ljubljana, Slovenia, tel. (386) 61 345-787, fax (386) 61 342-760.

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CASE Publications, Warsaw, Poland

Privatization in the Postcommunist Countries: Bulletin-Fall '94, no. 29, 1994, 31 p.

Foreign Privatization in Poland, no. 30, October 1994, 74 p.

Kazimierz Kloc, **The Banking System in Kyrgyzstan**, no. 31, November 1994, 22 p.

To order: CASE-Center for Social and Economic Research, Bagatela 14, 00-585 Warsaw, Poland, tel./fax (48-2) 628-6581.

Other New Publications

Mario I. Blejer and Fabrizio Coricelli, **The Making of Economic Reform in Eastern Europe: Conversations with Leading Reformers in Poland, Hungary, and the Czech Republic**,

Studies of Economies in Transition, Edward Elgar, London, 1995, 156 p. *To order: Edward Elgar Publishing Limited, Gower House, Croft Road, Aldershot, Hampshire GU11 3HR, England.*

Adolf J. H. Enthoven, Jaroslav V. Sokolov, and Valery V. Kovalev, **Doing Business in Russia and the Other Former Soviet Republics: Accounting and Financial Management Issues—An Updated Study, 1994**, Institute of Management Accounts, New Jersey, and Center for International Accounting Development, Texas, 1994, 164 p.

At present, education in accounting in Russia and the other countries of the former Soviet Union is conducted at institutions of higher education (academies, universities, and institutes), at institutions of professional secondary education (colleges and vocational schools), in specialized courses, and at the workplace. Diplomas are issued by the state to graduates of the institutions of higher and professional secondary education. The bearer of such a diploma may occupy positions that range from bookkeeper to chief accountant. There is no professional certification of accountants as yet, as the term is understood in the West.

Curricula are being developed for teaching in Western (international)-style accounting practices. Several training programs have been formulated jointly by Russia academics and practitioners, the United Nations, and Western academics, especially at the Center for International Accounting Development of the University of Texas-Dallas, in the United States; in Russia, at the St. Petersburg Institute of Commerce and Economics, Moscow State University, Moscow Finance Academy, and Moscow State Institute of International Relations; and in the Ukraine, at Kiev State University. *To order: Institute of Management*

Accountants, 10 Paragon Drive, Montvale, New Jersey 07645-1760; or Center for International Accounting Development, P.O. Box 830688, University of Texas at Dallas, Richardson, Texas 75083-0688.

William G. Frenkel, **Foreign Investment in Kazakhstan: Legal Regulation and Practice, 1994**. *To order: Transnational Juris Publications, Inc., One Bridge Street, Irvington, New York 10533, tel. (800) 914-8186, fax (914) 591-2688.*

Zivko Jurcevic, **Social Security Policy of the Republic of Croatia**, Reform Round Table Working Paper no. 15, January 1995, 15 p. *To order: IRMO, Ulica Ljudevita Farkasa Vukotinovica 2, P.O. Box 303, 41000 Zagreb, Croatia, tel. (385-41) 454-522, fax (385-41) 444-059.*

Bartłomiej Kaminski, **The Legacy of Communism**, East-Central European Economies in Transition—Study Papers, November 1994, pp. 9-25. *To order: U.S. Government Printing Office, Superintendent of Documents, Congressional Sales Office, Washington, D.C. 20402.*

Paul J. J. Welfens and Piotr Jasinski, **Privatization and Foreign Direct Investment in Transforming Economies**, Dartmouth Publishing Company, Aldershot/USA 1994, 295 p. *To order: Dartmouth Publishing Company, Gower House, Croft Road, Aldershot, Hampshire GU11 3HR, England.*

L. B. Babayeva and S. L. Holt (editors), **Agrarian Reforms in Russia and the Situation of Women and Pensioners** (in Russian), Report no. 4, Russian Scientific Fund, Moscow, 1994, 126 p.

Women and pensioners in Russia's rural areas have been hit hard by economic reform. According to recent statistics,

about 26.2 percent of the total population (39 million people) live in Russia's agricultural regions. Among the rural areas' active population the number of women considerably exceeds that of men: for every 1,000 men there are 1,120 women. The number of pensioners totals about 12 million, one-third of all pensioners in Russia. The aging of the rural population is accelerating: almost a quarter of them are above pensionable age (60 years for men and 55 for women).

Women have been seriously affected by the growing unemployment. Data for 1992 show that women made up 72.2 percent of all unemployed. In the Orel District (oblast) unemployed women represented 81.3 percent of all registered unemployed. Those women who did retain their jobs earned much less than their male counterparts. Over a five-year period (1986-91) a woman's salary on average represented only two-thirds of a man's salary in a comparable job. And while the law does not discriminate between genders, in the Orel oblast only 3 percent of land ownership was registered to women.

Pensioners in the agrarian sector are in a much weaker position than anticipated. For the most part, they are ill-informed and unprepared for the onslaught of changes in the organizational and legal arenas. When a senior official was asked about the role pensioners play in reorganizing agriculture, he claimed that "they do not understand what is going on." In the Orel oblast, though most pensioners were well-aware of the physical size of their land shares, they knew little of their value in rubles. Only 50 percent of the active pensioners and 35.5 percent of the retired ones were able to define the financial value of their land.

Most pensioners derive their primary income from private plots (92 percent) or from pensions (67 percent), while

dividends from land shares provided only 6 percent of pensioners with their primary source of income. Unemployed women pensioners number 2,730 for every 1,000 men in the agrarian sector, tilting the scale even further out of women's favor.

To order Russian Scientific Fund Papers: Director A.V.Kortunov, 121069, Moscow, Hlebnij per., 2/3, Russia. tel. (7095) 202-9000, fax (7095) 202-9895.

Book Review

Alice Amsden, Jacek Kochanowicz, and Lance Taylor. **The Market Meets its Match— Restructuring the Economies of Eastern Europe**, Harvard University Press, Cambridge/Massachusetts (U.S.)/London, 1994, 250 p.

This book might as well have been titled "From Pseudo-Socialism through Pseudo-Privatization to Pseudo-Capitalism; the Failure of the Washington Consensus Approach to Transition." It is an overt assault on the structural adjustment agenda of the Bretton Woods organizations, the new elites in the transition countries, and their Western academic advisers.

Yet it would be a mistake to shrug the book off as just another example of Bretton Woods-bashing in pursuit of an alternative ideological agenda. This book advocates that, rather than proceed from abstract principles, capitalism to be tailored to the transition economies' institutional environment, selecting policies that have succeeded in countries with comparable conditions. It recommends a sustainable policy mix; implicitly, a gradualist approach.

The authors chose their success stories from the East Asian "late industrializers," such as Japan and China. But the arche-

type is Korea (subject of much of Amsden's earlier works). Leaning on Taylor's structuralist analysis, Latin America provides the major negative lessons of failing to apply conventional macroeconomic adjustment programs. (Mexico is regarded in the book as the only successful country, apart from Chile, since 1982.) A combination of government-set prices and output allocation could facilitate transition to a market-driven system, argue the authors, and they urge these economies to adopt cutting-edge foreign technologies and to create effective marketing organizations, taking advantage both of their highly valued human capital and broad, though deficient, stock of physical capital.

The essence of their advocated industrial policy reaches beyond the cliché of "government picking winners." The state should provide incentives for the private sector, to save, invest, and absorb new technologies. Temporary protection of new activities and support for entering oligopolistic international markets are essential to foster dynamic structural change. Market forces or elimination of subsidies alone cannot take care of restructuring, which requires complex rearrangements of specialization and targeted plant closures. Development banks, with their easy access to foreign financing or public savings, could have a critical role in supporting selected enterprises, as long as small, underfunded, inexperienced private banks prefer providing short-term credits. The authors do not beat around the bush: "Historically, from England of two hundred years ago to South Korea, all successful industrialization experiences have rested on state intervention."

While supporting the privatization of state-owned enterprises, the authors envision a mixed economy, in which state owned and privately owned enterprises coexist side by side. They dismiss

give-aways as pseudo-privatization, and the resulting economic system as pseudo-capitalism. Pseudo-privatization is equated with an attempt "to create capitalism without capital, without credit, skills, and necessary expertise to restructure privatized enterprises." Enterprises privatized in this manner, will hardly become innovative and productive, assert the authors.

Abrupt removal of trade protection, elimination of export subsidies, restriction of imports credit, lack of investment credits, and discriminatory taxes would destroy basically viable state-owned enterprises. In many instances these critical constraints are imposed by the foreign lenders. According to the authors shocktherapists perceive managers of state-owned enterprises as members of the former nomenclatura, crooks or incompetents, and any attempt to salvage some of the physical and human capital under continuing public ownership amounts to a waste of effort and resources. Possible economic and social consequences of privatization should be taken into account and compared to other alternatives. Post-restructuring privatization could be an option, if asset prices drop too low as a result of little domestic saving and high-risk premiums (factored in by potential private investors).

No doubt many readers disagree with the book's suggestions. But unless received wisdom is challenged constantly, it petrifies into orthodoxy. By their thought-provoking approach, the authors of this volume provide plenty of new food for thought in the ever-expanding transition literature.

*Martin Schrenk, World Bank
Transition Economies Division*

Bibliography of Selected Articles

Postsocialist Economies

Brunner, H. P. **Recreation of Eastern European Competitiveness: Neither Magic nor Mirage.** *European Journal of Development Research* (U.K.) 6:143-63, June 1994.

Hettne, B. **Political Economy of Postcommunist Development.** *European Journal of Development Research* (U.K.) 6:39-60, June 1994.

Jackman, R. **Economic Policy and Employment in the Transition Economies of Central and Eastern Europe: What Have We Learned?** *International Labour Review/International Labour Office* (International) 133(3):327-45, 1994.

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