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Transition in Eastern Europe: Current Issues and Perspectives



Duncker & Humblot · Berlin

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Introduction

By Bernd Huber and Friedrich L. Sell

This special issue of "Konjunkturpolitik" brings together a selection of papers presented at the conference "Transition in Eastern Europe: Current Issues and Perspectives", held at the Dresden University of Technology on March 27 - 29, 1996. We would like to thank our main sponsor, the Volkswagen Foundation, who enabled us to organize a meeting of more than 25 economists specialized in the field of economics in transition. Additional financial assistance by the Dresdner Bank and further support by the Centre for Economic Policy Research (CEPR) and the Irving-Fisher-Gesellschaft (IFG) is also gratefully acknowledged.

The aim of the conference was to discuss (i) some fundamental issues in the economics of transition, (ii) aspects of liberalization/privatization/stabilization and (iii) the experience of selected countries. In this volume, Ulrich Blum's paper is a contribution to (i); Klaus-Dieter Schmidt, Clemens Fuest / Bernd Huber have worked on (ii) and Bas van Aarle, Nina Budina / Sweder von Wijnbergen, Johannes Bröker / Bernd Raffelhüschen as well as Antonin Rusek and Daniel Gros / Andrej Gonciarz have presented case studies of the recent past (iii).

Rather than glancing through the abstracts of the papers included in this volume, we would like to present what we think were major outcomes of the sessions / discussions. In doing so, we focus on the 'perspectives' notion mentioned in the conference title and we hope to offer to the public a number of hypotheses which, in our view, are worth further discussion.

1. First of all, it seems to be quite important to tackle the economic reasons for the failure of the socialist system of central planning. At the same time, one should analyze historical and economic phases of relative success during the socialist experiment and try to identify which factors jointly contributed to this outcome.
2. The distribution of personal incomes and wealth appears to be an extremely important if not critical variable for the success of the trans-

formation process. This observation not only applies to episodes of stabilization and / or liberalization but also to the chosen modes of the privatization process and their relative success. In a way, one may ask whether there exists an “optimal change of personal income and wealth distribution” during the process of transformation.

3. When trying to assess the costs and benefits of reform policies and the results achieved, any methodological approach should take into account an intertemporal perspective.
4. The discussion on how countries of Central and Eastern Europe can be integrated into (or how they can find access to) the world economy, should not be conducted solely under the auspices of a future membership in the EU. Instead, economists are challenged to investigate – among other things – how much the EU continues protectionism against countries which will not become members of the EU in the foreseeable future.
5. The Dresden conference has confirmed that one should deal carefully with the role of the institutional environment when it comes to analysing the process of transition. Among those institutions, financial markets figure prominently and are of great relevance for a sound development. From today’s point of view, it cannot be expected that countries in transition will show balanced budgets in the (more or less) near future. Hence, the financing of these deficits must take into account a number of issues. If, for example, the aim is to minimize the present value of future costs associated with the process of transformation, it is important for the government to issue not only short and medium-term but also long-term debt instruments.
6. Most interestingly, the role of exchange rate policy as a factor contributing to the success of reform policies is given much less weight today than a few years ago. On the contrary, the independence of central banks from public finance obligations receives more and more attention (as can be observed in the case of Russia). A number of contributions claim an early status of independence for the central bank which helps to eliminate the monetary overhang. This can be combined with a variety of exchange rate regimes.
7. In comparison, the relative success in countries of Central and Eastern Europe seems to point at the comparative advantage of a quick, almost instant liberalization strategy. Gradual liberalization along with interventionism of trade policy (see Russia, Ukraine and Belarus

as examples) has proved to be much less successful. Protectionism tends to postpone structural adjustment and reduces the (external and internal) competitiveness of the country in question.

Finally, we would like to thank the publisher, Duncker & Humblot, who made this special issue possible, its managing director, Prof. Dr. Norbert Simon, and the managing editor of "Konjunkturpolitik", Herbert Wilkens, whose support and cooperation were invaluable.

Dresden and Munich, January 1997

Bernd Huber
Friedrich L. Sell