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The economic systems of the East European countries at the start of the nineties

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The Economic Systems of the East European Countries at the Start of the Nineties

In response to the dramatic developments over recent months this year's report by the Department of Socialist Countries and East-West Economic Relations at the Hamburg Institute for Economic Research (HWWA) focuses on the present economic systems in the East European countries, the solutions already found and the steps still to be taken on the path to a definitive transformation of the various systems.¹ The following is a synopsis of the report.

As a result of the Second World War, a number of East European countries had to adopt the system of a centrally planned economy, which till then had only been applied in the Soviet Union. As in the Soviet Union, lack of coordination in the system imposed on the smaller socialist countries was soon reflected in adverse developments and imbalances. The Soviet socialist system needed to be improved via reforms but public criticism of the system, in particular in the Soviet Union itself, was essentially impossible until Stalin's death.² Later, too, critique levelled at the centrally planned economy continued to be repeatedly considered tantamount to an attack on socialism itself, owing to the dovetailing of the economic and political systems. It was not comprehended that due to its mechanistic understanding of economic relations the Soviet socialist system persistently impeded the spontaneous and flexible flux of economic processes, which meant that the pressure for reform was present from the inception of the socialist planned economy. Lenin's New Economic Policy of 1920/21 provided the first proof of this thesis.

With the advent of the 1960s, when declining growth rates in the economy pointed to diminishing efficiency and threatened to jeopardize the achievement of economic policy targets, the imperative of a change in the system became particularly evident, not just in the USSR. For the first time, the socialist countries came to a kind of crossroads.³ Owing to the growing tightness of resource endowment, raising economic efficiency via

the extensive deployment of production factors had become virtually impossible. An added factor was that in the course of developments in the individual countries economic relations had become more obscure, making it increasingly difficult to ensure the precise achievement of particular targets with the old planning and control methods. (Even the system of economic cooperation within the socialist bloc – the CMEA – proved unsuited to help solve the problems of the individual countries, for it, too, was a product of the Soviet doctrine.)

The changed economic conditions in the 1960s thus rendered inefficient the planning, management and control mechanisms that had been to a certain degree quite effective in the previous phase of economic development. Internal criticism centred in the main on the coordination methods practised and their inability to warrant intensive quantitative growth and improvements in structures and quality as well as the absorption of technological progress. The procedure adopted for the coordination of economic processes in the Soviet economy, namely planning – planned targets – fulfilment of targets – bonus, became the object of criticism.⁴ The inadequate availability and application of information as well as the misguidance of enterprises by a system of sanctions which emanated false signals reduced the efficiency of the planning system. Improvements in planning techniques by means of new accountancy methods and in particular through the use of computers could not remedy the essential shortcoming of the Soviet socialist system, however.

¹ Klaus Bolz (ed.): Die Wirtschaft der osteuropäischen Länder an der Wende zu den 90er Jahren, Verlag Weltarchiv GmbH, Hamburg 1990. The author of the introductory section is Klaus Bolz, the report on the USSR was written by Sybille Reymann, that on Poland by Andreas Polkowski, that on Romania by Petra Pissulla, all from the Hamburg Institute for Economic Research (HWWA). The contribution on Bulgaria was written by Ilse Grosser of the Wiener Institut für internationale Wirtschaftsvergleiche, Vienna. The author of the report on Czechoslovakia is Richard Frensch, Osteuropa Institut, Munich. The report on Hungary was contributed by Andreas Wass von Czege, University of Hamburg.

² Cf. Klaus Bolz, Hermann Clement, Dieter Lösch: Wirtschaftssysteme, Marktwirtschaft – Kapitalismus, Planwirtschaft – Sozialismus, Munich 1978, p. 126 ff. and the broad range of literature on this topic cited therein.

³ Cf. the book by Erik Boettcher: Die sowjetische Wirtschaftspolitik am Scheidewege, Tübingen 1959.

⁴ Cf. Klaus Bolz et al., op. cit. p. 127 ff.

The basic problem of the system can also be summarized thus: between the central planning authorities and the individual economic units irreconcilable interests were permanently in force and had a decisive effect on the actions of those involved.⁵ The central economic leadership in the socialist countries, too, was always concerned to achieve high rates of production and productivity and furnish the economy with a good supply of capital and consumer goods, but on the other hand it was unable to gather the requisite optimum information for the planning geared to these goals and devise effective planning targets from this for the enterprises. It was, namely, dependent on industry itself and its interests for the acquisition of information: the planning bodies could not verify whether the plants always revealed their full production potential. The result was that planning targets were set too low. Also, plants always designed their production structure so as to achieve the output necessary to obtain a bonus with comparatively little work.

For the populations of these countries the achievement of planned targets was of little comfort when many goods were not manufactured in adequate quantities and quality. In internal company planning, the squandering of resources such as material, energy, investment funds and labour was rewarded, so to speak. In addition, innovation largely stagnated and technological progress lagged a long way behind the potential that had long been realized in Western firms.

To this day, it is almost impossible to convey to the proponents of the socialist planned economy that as a result of the structure of such a system these mutually antagonistic interests automatically produce unsatisfactory results for the national economy and that this happens precisely because the enterprises from their own individual standpoint show perfectly rational economic behaviour. Not until the crises of recent months have the CMEA countries really come to realize that only the coordination of supply and demand via the market can assure effective, technologically advanced production able to meet demand. This is effected via the free adjustment of prices, domestic and foreign competition and the fact that the earnings of enterprises, and hence of the workers, are directly linked to performance.

Party Leadership and the Free Market Economy

The economic leaders in the socialist systems not only failed to grasp that the market is more efficient than a planned economy; there was always also the fear that introducing a market economy would deprive the party of its rationale and leadership role. Behind the

postulated right to decide on the distribution of investment resources between various uses and on the production structures, as well as to occupy the leading positions in the economy and economic administration was hidden the not less important intention of maintaining its own political power.⁶ The official version of this set-up was worded in such a way that the introduction of the market economy would directly jeopardize not the power of the party but rather the social achievements of socialism.

This mutual dependence between the economic system on the one hand and social and political conditions on the other means that reforms in the socialist countries cannot proceed in the form of purely technical measures to raise efficiency, but that the concrete working-out of such reforms was, and is, always decisively influenced by those holding political power. In general, notwithstanding their appreciation of the need for economic reform, the ruling elites in party and state have always tried to implement a reform model that left the existing party and political power structures as intact as possible. A genuine, new economic model was thus not actually sought. Instead, it was believed for 35 years that it would do to perfect the existing system.

Still No Transformation

We should therefore not lose sight of the fact that, despite the breathtaking pace of change in Eastern Europe, none of the euphoric phases of reform since the Second World War in the East European countries have brought about a new economic system. A fundamental change, a transition from a centrally planned economy as in the Soviet Union to a Western-style market economy has not yet taken place anywhere, so that an historical precedent for today's attempts to transform the system is wanting. All reform initiatives got stuck in the labyrinth of party and state interests. Although in part new planning and control methods were applied which did improve the position of individual enterprises in the national economy, at least temporarily, and gave industry more say in the setting of targets so as to mobilize latent reserves, the principle of central control was never seriously questioned.⁷

For the preservation of the party's monopoly of power, in the economy as well, the socialist countries and their populations have paid a high price: production remains less efficient than in the West, the productivity of labour

⁵ Cf. also Ota Sik: Theoretische Ursachen sozialistischer Wirtschaftsmängel, in: Gerhard Fink (ed.): Socialist Economy and Economic Policy, Vienna and New York 1985, p. 31 ff.

⁶ Cf. Ota Sik, op. cit., p. 36.

grows more slowly than is possible in terms of technology and, above all, consumer needs can be adequately satisfied neither in terms of volume nor of quality.

Three Reform Phases

The many attempts at reform of the existing economic systems in the socialist countries over the last 35 years can be divided into three or four phases.⁸ The first wave of reform began at the end of the 1950s after Stalin's death and the uprisings in the GDR, Poland and Hungary. Although the proposed reforms – particularly from Polish analysts – were never fully put into practice, they acted as important guidelines for later attempts at reform in the individual East European countries. This discussion centred around the postulate that economic efficiency could only be raised by conferring greater autonomy on the management of industry, i.e. by allowing them their own administration and business accountancy.

The second reform phase – the first in terms of practice – started in the 1960s. The GDR introduced the New Economic System of Planning and Control in 1963 and the Soviet Union carried out a reform in 1965 following the so-called Liberman debate. Hungary first followed suit in 1968 with the New Economic Mechanism. These reforms were implemented while retaining the centralized system of planning and control and were largely aimed at curbing and in part redefining the centrally prescribed plan figures and at the introduction of free-market-style components, which were to place greater emphasis on the relationship between goods and money, which in turn was to improve material incentives for enterprises and the individual worker and thus better utilize production capacity and introduce technological innovation more rapidly.

A third wave of reform began at the end of the 1970s and is still making itself felt today. The reform in the GDR at the end of the 1970s was aimed solely at completing the system of centrally planned economy by changing control structures through the formation of combines. In the 1980s, though, the reform process in Eastern Europe had already taken on a new quality. Initially, this movement stemmed from Hungary and Poland. When with Gorbachev's ascent to power the Soviet Union, too, increasingly took up the reform ideas long advocated by Hungary and Poland, an unprecedented scope for economic reform was engendered in the individual

countries of Eastern Europe. The big brother not only tolerated reforms in the direction of the market economy, it expressly advocated them. The crucial feature of recent developments is that the previous close ties between economics and politics are gradually loosening. This has now been demonstrated by the Communist Party's relinquishment of its claim to leadership and in some countries by the fact that multi-party governments have been elected or are presently in the process of being established.

A Chance for the Market?

The changed political conditions in the individual countries could create the chance for a genuine transformation of the system for the first time in 35 years of economic reform in Eastern Europe. The reform processes taking place before our eyes are aimed at introducing free market components and in part at converting the centrally planned economic systems into market economies. From Poland, Hungary and finally from perestroika in the Soviet Union a wave of reform has swept over Eastern Europe and compelled even a country like the GDR, whose political leadership long appeared absolutely convinced of the effectiveness of its centrally planned economy – in conjunction with the East Germans' street protests – to acknowledge the need for basic change.⁹ More than anything else, it was the Soviet Union's spearheading role, at least politically, amongst the pro-reform countries that induced Poland and Hungary to abandon attempts at socialist reform once and for all and clearly opt for a transformation of the existing system into that of a social market economy. Accordingly, the reform process is at present most advanced in Hungary and Poland. Despite glasnost and perestroika in the Soviet Union, which has to overcome and reform a much more than only forty years old socialist economy, the battle over the final shape of the new economic order has not yet been won. The structurally inevitable stormy conflicts to be weathered in the process of transition from a centrally planned economy to a market economy in a country like the Soviet Union are presently being exacerbated by the many and varied supply bottlenecks.

In the following, a brief outline is presented of the state of developments in the economies of the East European countries. The prime concern is not to describe the latest changes but to attempt to paint a complete picture of the present economic systems; solutions already implemented in the area of coordination mechanisms

⁷ Cf. also E. Ulrich Cichy, Andreas Polkowski: Preis- und Währungspolitik in ausgewählten RGW-Ländern, 1st Chapter: Reformdruck – Markt statt Plan; planned for publication by HWWA in 1990.

⁸ Ibid.

⁹ Ibid.

and institutionally will be examined, but attention will also be paid to the steps that still need to be taken on the road to a final transformation of the system in question.

USSR

The crucial feature of perestroika under Gorbachev which distinguishes it in an essential respect from previous attempts at reform is the simultaneous reorganization of the economy and society. Under Gorbachev, too, the new mechanisms introduced via administrative measures are decreed from above. Unlike other reforms, though, social change is no longer taboo. Democratization is seen as the "main engine of transformation, in the economy, too". Self-administration has for example been introduced in enterprises. Through glasnost, i.e. more transparency and ruthless frankness, Gorbachev hoped to motivate each individual to work harder and shoulder greater responsibility.

The realization of the economic reforms in the Soviet Union is beset with many contradictions which make it difficult for the observer to make a clear assessment of the future path the country will take. Owing to the half-hearted implementation of reforms so far the Soviet Union has drifted into an extremely precarious transition phase in which some mechanisms of the centrally planned economy have been dispensed with while many of the general conditions indispensable for the effective functioning of a market economy are still lacking.

Since 1 January 1989, the 1987 company law applies to all state enterprises. It defines the firm as the basic unit of the national economy, thus opening up the chance for a radical reform of the economic system. Amongst other things, the firms are allowed to draw up their plans themselves, while being obliged to gear their planning to profit and to earn funds for investment

themselves. The supply of materials and technology is to be increasingly effected via the wholesale trade. Particularly important projects and the production of major goods are to be secured via binding government contracts with industry. As of 1 April 1989 the right to conduct independent import and export transactions has been extended to encompass all centrally registered firms. The final goal is the complete self-financing with foreign exchange. At present foreign exchange auctions are being held where firms can buy and sell hard currencies; they could be seen as a first step towards the formation of a more realistic exchange rate.

In practice, however, firms have not managed to break away from the still inordinately powerful bureaucracy. Despite tangible growth, wholesale trade in production inputs to the firms has evidently not led to any notable improvement in quality. Industry is still confined in its foreign transactions; the extension of license requirements by the foreign trade ministry, without which many goods cannot be exported, also narrowed their scope for action. At the same time, the lack of competition enabled firms to raise profits via higher prices for only ostensibly new products and by removing cheap products from their range. This meant that pay rises were much higher than planned, which lengthened the demand overhang year after year.

In the face of substantial imbalance between goods and money supply and the related danger of steep inflation with aggravated social unrest, one of the major components of the economic reform, the price reform, has not yet been put into effect, the planned date having been postponed to 1991. Other important general conditions still need to be created. Draft legislation on property rights for example is under discussion. It is intended to reorder property relations and provide a legal framework for new forms of business enterprise

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SUBVENTIONIERUNG IM WELTSCHIFFBAU

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permitting inter alia private ownership of means of production in farm households. Regulations are being drafted on a uniform tax system to replace the disparate norms on profit transfer to the government and on a law on socialist businesses under which the new forms of enterprise, such as leasehold, cooperatives, combines and joint ventures fall, as well as legislation on public companies.

The proliferation of draft legislation – a law on leasehold has already entered into force and an act on real estate has been passed – indicate that Gorbachev is at least intent on advancing reform. On the other hand the emergency and crash programmes and other measures such as price and export controls, curtailment of the activities of cooperatives and enlargement of government procurement in response to the adverse supply situation and the lack of a coherent system of free market mechanisms all point to a reversion to the old methods of administrative control. It is thus difficult to tell whether the basic decision for a modified planned economy or a market economy has already been taken or not. The Soviet Communist Party's planned introduction of private property and abandonment of single party rule can possibly be interpreted as inaugurating the final installation of a market economy.

Poland

In Poland reform policies have a tradition going back over thirty years. At the moment, the Republic of Poland is endeavouring to introduce a free market economy on its territory. In the last decades there have been numerous partial changes and reform phases which have always had one thing in common – to adjust the socialist economy to modern needs and thus reinforce the power of the communist apparatus. These half-hearted reforms, however, were all unsuccessful. The rift between social and individual needs and the economic potential of the system has widened continually. After the abortive attempt to introduce representatives of the opposition into the last communist government, the reform process entered a new, decisive phase. In the negotiations at the round table the path was paved for pluralism in politics, in the economy and in the trade unions.

The first non-communist led government since the war confirmed its resolve to effect rapid and radical reforms. The government programme announced in October 1989 to reorganize the economy made clear that the intention of the measures planned was not to reform the existing system but to completely transform the economic system. The programme comprises crash measures (stabilization of the economy by curbing

inflation, reduction of the government deficit and a restrictive monetary policy) and a transition to an open market economy including the instigation of a process of reordering the ownership structures and the finance and banking system, the unconditional introduction of market mechanisms and institutions and demonopolisation of the economy.

The first part of the programme already came into operation in the last three months of 1989. For the first time the state obtained revenue to help finance the government deficit via the issue of treasury bills. As a result of the repeated devaluation of the Polish currency, the official rate of exchange had by the end of the year come into line with the commercial rate (exchange offices). In the months November/December 1989 a degree of success was achieved in combating inflation. At the close of the year then, there were first signs of an improvement in the equilibrium of the domestic economy, though at the same time production diminished.

The entire reorganisation scheme should be fully implemented by the beginning of 1991. As early as before the end of 1989 Poland's parliament adopted a package of legislative amendments to establish the legal foundation for the definitive transformation of the centrally planned economy into an open market economy. The new legislation pertaining to the economy in effect as of 1 January 1990 encompasses the following areas:

- foreign exchange law,
- economic activities with foreign participation,
- customs legislation,
- credit and banking,
- taxation.

The most important legislation is pending: the privatization of public property and anti-monopoly measures to lay the foundation for economic competition. The measures for the reform of the economic system are formulated in the Principles of Socio-economic Policy in 1990; according to the decisions of the Sejm and the Senate, this document is to replace the "Central One-year Plan".

The Polish reform process is being supported by economic aid from the West. New loans from the individual industrialized countries, the IMF and World Bank on the one hand and the concessions of the Club of Paris on rescheduling old debt on the other provide conducive external conditions for a successful implementation of the reorganisation scheme.

The reform's prospects for success, however, are not only contingent upon the effectiveness of the new mechanisms; they also depend on the willingness of the Polish citizens to accept a further drop in their living standards. No-one knows where the radical reforms will overstep the threshold of social acceptance. It is, however, certain that tangible success in fighting inflation and further increases in the supply of goods and services in the coming months would bolster the population's confidence in and commitment to reform.

Czechoslovakia

Following country-wide demonstrations in November, on 10 December the first government dominated by non-communist members within forty years was installed in Czechoslovakia. Since then, the new government has been working on a legislative basis for the transformation of Czechoslovakia from a centrally planned into a market economy. Different from 1968, this time there is no search for a "third way". The most

important new laws are to pass parliament late in March, in order to become effective as of 1 April. They include a new law on state enterprises and laws on stock companies and private entrepreneurship. These laws aim at a more effective control of state-owned enterprises, demonopolisation and a partial privatisation in industry but especially in services. Restrictions on private entrepreneurship will vanish totally. Still undecided yet is the question, which ownership form will dominate in Czechoslovakia in the future. As the possibility of a fast, global privatisation must be doubted, given the lack of capital in the country, state-owned enterprises will presumably dominate at least Czechoslovakian industry for the next few years.

As the transformation into a true market economy will certainly take a few years' time, Czechoslovakia may be best described for the time being as a modified planned economy. The modifications introduced until now include the shift from the system of direct plan directives to state enterprises to an indirect control through financial parameters. This of course implies a shift in

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control of the economy from the central planning authorities to the Ministry of Finance and the State Bank. Though reorganisation of industrial structures has been under way for about two years, considerable structural changes have not been implemented so far. Since 1985, there has been only a marginal shift of about 3.6% in favour of manufacturing industry, away from the material intensive industries.

The government will try to open the economy to the world market, both by introducing a Gatt-conform system of tariffs and quotas and by easing the rules for foreign direct investment. The up-to-now rather small size of joint ventures with Western partners in Czechoslovakia is expected to rise significantly during the second half of 1990 as a consequence of the revision of the joint-venture law now under preparation.

Apart from institutional changes, the new government has not yet formulated a clear concept for fighting inflation and cutting subsidies that burden the state budget. This is due to enormous pressures from the state monopolies and the fact that there is no outside counter-pressure in favour of such budget cuts, as might come from the IMF. The state budget for 1990, already formulated by the new government, is only a compromise in this respect.

Hungary

In the postwar era, Hungary's policy regarding the economic system has undergone almost regular cycles with phases of liberalization, decentralization and deregulation alternating with – at least in part – periods of restoration of the Stalinist economic creed of a centrally planned economy. Without a firm decision of principle being taken, developments pointed to a "learning process" and/or weakening of the forces that insisted on centrally planned economy, which led to a mixed economic system, where coordination via markets increasingly gained the upper hand. This specifically Hungarian system, known at first as the "New Economic Mechanism" and then later as the "socialist market economy" was permeated with inconsistencies owing to its compromise nature, which substantially impaired its efficiency. It was not until the political upheaval in Eastern Europe – the weakening of Soviet hegemony, the loss of power of the socialist parties and the transition to a Western type parliamentary democracy in Hungary – that a new fundamental decision on the economic system became possible which found expression in a clear commitment to the market economy in 1989. It is still quite unclear, though, what specific shape this market economy will

take and how the transformation of the system will take place.

Hungary's path to the system of market economy so far has been more the result of changing constellations of political power than that of a detailed programme of reform; despite the ever shorter intervals between "development leaps" a critical mass for the reforms needed for the transition to a market economy could so far not be attained.

Hungary's national economic planning – which since the reform of 1968 had already been confined to specifying a few target figures for macroeconomic aggregates with a largely indicative character – has been relegated to a negligible status at the beginning of the 90s. The once so powerful State Planning Office will probably be subsumed in a new economics ministry. The second major control instrument of state economic planning – the government budget – which has up to now redistributed some 60% of business income via a complex system of taxes and subsidies, will in future no longer primarily serve the purpose of resource allocation. In 1988-89 a comprehensive tax reform package was adopted (including the introduction of general income tax and value added tax) and a programme of subsidy cutbacks for 1989-92 launched (in 1988 the various producer subsidies still contributed over 30% to direct income in this sector).

Administrative intervention by the state in the activities of businesses has been increasingly replaced in recent years by monetary control parameters such as interest rates and exchange rates. Government allocation of materials or rationing has been abolished except in a few areas such as energy supply. Since the beginning of the year 1990 the systems of pricing and pay scales in businesses have been liberalized and largely deregulated; a new antitrust law, which for the first time includes the competition behaviour of the new organs of government administration, is to ensure that market participants do not abuse their new freedom to the detriment of the overall economy.

This list of recent measures, which the author does not claim to be exhaustive, are necessary but by no means sufficient preconditions for an effective market coordination of Hungary's economy. Special institutional conditions also need to be created, especially unrestricted access to and exit from the market as well as a system of monetary control mechanisms for market processes.

Proceeding from the premise that markets need to be created before a transition to a market economy can

take place, numerous reform measures were conducted in the 1980s to remove existing barriers to market entry, for example, the creation of a legal basis for forms of small business (1980-81), the divesting of the large supply monopolies (from 1980 on), the privatization programme (1985-1988) in the course of which the number of enterprises rose by over 3,000, the new company law (1988) and the law on foreign investment in Hungary (1989), the gradual removal of the state monopoly on foreign trade (between 1985 and 1989 alone the number of businesses with the right to trade in convertible currency went up from 150 to over 2,000) and the relaxation of import controls introduced in 1989. In addition to these measures, which are all intended to ease access to markets for national and foreign competitors, the barriers preventing market exit have also been rolled back over the last few years so as to speed up structural adjustment. Examples here are the passing of the legislation on bankruptcy (1986) and the redefinition of the "right to work" in conjunction with the introduction of unemployment benefits (1988).

Another set of measures over recent years has been aimed at creating the institutional framework for a monetary control of market processes, for instance, the transition to a two-tier banking system (1987), the creation of competition amongst the banks by founding new finance institutes and doing away with the specialization prevalent so far (1987-89), the setting up of a – still rudimentary – capital market by introducing new financial instruments and establishing a stock market and the abandonment of the government monopoly over foreign exchange allocation (1989-90).

This very dynamic institutional change in recent years has not always been coordinated and adequately prepared for; it also often failed to achieve the hoped for effects due to existing forces of inertia stabilizing the system. In nearly every case, however, institutional reform aimed at liberalization, deregulation and decentralization has had a destabilizing effect: double-digit inflation rates, unprecedentedly large balance of payments and budget deficits, an unemployment rate of nearly 5% and worsening social impoverishment of

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broad sections of the population attest to the high price to be paid for a market economy.

Romania

On 22 December 1989, Romania was the last East European country to put an end, after more than 40 years, to its Stalinist system of centrally planned economy and political oppression. In no other East European country is the present uncertainty about the future political and economic course so great as in Romania.

Most of the newly formed parties – including the National Salvation Front – advocate the creation of a democratic, pluralistic political order and a system of market economy, but at the beginning of 1990, there are real fears that the old mechanisms and power structures could reassert themselves. Even the hated agents of the *Securitate* appear to have returned to their old civilian jobs – hardly that surprising in view of the large number of people linked with the *Securitate*.

It is unlikely that a decision will be taken on the concrete form future economic mechanisms will take until after the elections of 20 May. Should the National Salvation Front, as the party most experienced in government and with the most official posts, gain the greatest number of votes and launch their programme to transform the system, it will – according to its programme – pursue a step by step policy of transition to a market economy.

The programme is aimed at removing the monopolistic structure of industry and permitting cooperative and private property along with public property. Besides, foreign direct investment in the form of joint ventures is to be promoted again after having been increasingly discouraged under Ceaucescu's austerity programme which began in 1981. Large businesses should remain in public hands while "being integrated into the mechanism of the market economy". Private businesses should be set up primarily in small-scale production and services. A comprehensive privatization of industry is thus obviously not (yet?) on the agenda.

The situation is similar for agriculture. It would appear that public and cooperative property is to be largely retained. "Viable structures (are to be created) in line with real conditions in Romania" – whatever that means. There is nothing to indicate that private small-holdings are to be extended beyond the present half a hectare already permitted Romania's farmers. The agricultural production cooperatives – as voluntary associations of free producers – though, shall be allowed to at least

decide themselves on crops and the use to which their production is put.

Government monopoly over foreign trade is to be abolished. Should businesses in the future be permitted to decide themselves on imports and exports in the course of greater autonomy, a major condition for the calculation of the profitability of exports and imports has been created with the new rules regarding exchange rates (standardization and devaluation) effective as of 1 February 1990. Exchange rates can, however, only perform their task in conjunction with a comprehensive price decontrol in Romania. Yet no such price reform is at present in prospect.

The Front's programme here outlined, only excerpts of which have been published, contains no indication of the way in which the intended reforms are to be carried out nor the time their implementation is likely to take. There is no reference at all to the degree of decision-making autonomy to be accorded businesses nor to important areas such as the price reform, the reform of the banking sector and the reform of the money and capital market.

In short, a basic decision for the introduction of a market economy in Romania has been taken, but a comprehensive reform plan seems to be a long way from completion. It remains to be seen in which direction the reform ideas will develop after the elections and how quickly the reform process can be set in motion. The present, extremely vague ideas hold little promise of success.

At the beginning of 1990 at least, there is little evidence of the changes planned. As in the "heyday" of the centrally planned economy, the performance of businesses is still measured according to the degree of plan target accomplishment; in most cases targets are supposed to have been reduced – in line with the businesses' supply bottlenecks caused by the revolution – yet in part the original production plans would seem to be still in effect despite production shortfalls. No detailed information is as yet available on the economic plans at present being followed. All that appears certain is that planning directives are still being issued by the ministries responsible in Bucharest.

Bulgaria

The 1989 revolutionary developments in Eastern Europe spread to Bulgaria in November. Unlike elsewhere, they started with a coup within the top Party ranks: Todor Zhivkov, Party leader since 1954, was replaced by Petar Mladenov, Minister of Foreign Affairs

since 1971. Since mid-March 1990, the Communist Party is headed by Alexandar Lilov (ousted from the Politbureau in 1983) and the new government by Andrey Lukanov, while Mr. Mladenov has retained the office of the Head of State.

If the changes had been initiated "at the top", the new leadership found itself increasingly under the pressure of the strengthening opposition, largely united in the "Union of Democratic Forces". Thus, the leading role of the Communist Party was eliminated from the constitution in January, and subsequently the Party had to agree to dismantle its organizations in the enterprises. Though Bulgaria is clearly moving from a totalitarian system towards political pluralism, the democratization process (and the round table talks) has been more sluggish than elsewhere in Eastern Europe so far: with an opposition still weak in relative terms, the BCP, though showing signs of increasing polarization, is not in a state of collapse as other Communist Parties are. After the new leadership had announced the restitution of the rights of ethnic Turks (and Bulgarian Muslims), the country was seized by a wave of eruptive unrest at the turn of the year. Despite the subsequent surface appeasement, fears of increasing political – and economic – destabilization are nourished by a lack of democratic traditions.

The heritage of "Zhivkovism" comprises, beneath the statistical whitewash, an economy in crisis: stagnation of production, outdated equipment, inefficiency and low productivity, unfavourable industrial structure and agricultural crisis, severe environmental damage, deterioration of living standards, inflation and excess purchasing power, high budget deficits and a critical hard-currency indebtedness. This rather bleak picture is the outcome of misconceived economic policies as well as of endless and half-hearted reform experiments during the 1980s. If they were, in part, accompanied by radical rhetoric, the legal framework was badly arranged, contradictory and extremely unstable. De facto, the economy continued being largely centrally administered, with market forces and competition playing hardly any role. The starting point for future reform efforts is a patchwork system, where old and new forms of institutions (like the firms established in 1989 and the reformed banking system) are combined with traditional regulation.

Since November 1989, political events have rather over-shadowed economic policy. A short-term stabilization programme announced in December has not been adopted yet, first steps towards comprehensive economic reform (laws on ownership,

land, economic activity, taxes) have been delayed, too. Partial measures actually adopted include price liberalization for fruit and vegetables, the lifting of size limitations for private plots, promotion of private housing construction, relief in personal income tax, the introduction of unemployment allowances etc.

The ruling Communist Party has no clear reform concept. Though the aim of a "socialist market economy", still officially propagated in December, has again been dropped, there are signs of a rather strong dogmatic wing, advocating a third road (in between a planned and a market economy) at best. Meanwhile a "mixed and socially oriented economy, functioning on market principles" with equal legal treatment of all forms of ownership is officially strived for, but the role and instruments of state regulation are not clearly specified. Reflecting a compromise between the different political orientations within the party – with some government representatives talking of a free market economy – the ambiguous objective of the BCP as a whole entails substantial uncertainty regarding the policy of transition. If a choice has not been definitely made, for its lesser potential to cause social hardships a gradual approach is seemingly preferred to a shock therapy, but very little is known about the time horizon and sequence of reform steps envisaged. The new opposition is presently without a visible economic concept.

Yet the (disputed) anti-crisis programme, to be passed by the National Assembly in late March, was announced to entail first steps toward economic reform. Searching for a consensus in this matter, the present Communist government is now in consultation with the opposition. Presently, a revision of regulations restricting economic initiative is under way, state subsidies are being cut and first steps in price liberalization may be expected in 1990. Other likely steps in the near future are privatization measures in trade and services, possibly also in consumer goods production, changes in the foreign-exchange regime, implying a devaluation, and possibly measures to increase the independence of the sub-units of the huge firms.

If the future reform policy will be determined by the results of free democratic elections (presumably in June), its shape is not unlikely to be strongly influenced by the Communist Party in the case of Bulgaria. In January 1990, the new opposition was expected to get about one third of the vote. Unless the country experiences a political – and economic – destabilization, the reform process may be expected to keep developing more slowly than elsewhere in Eastern Europe.