

Schrader, Klaus

Book Part — Digitized Version

In search of the market: A comparison of post-Soviet reform policies

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Schrader, Klaus (1994) : In search of the market: A comparison of post-Soviet reform policies, In: Zohlnhöfer, Werner Rüter, Günther (Ed.): Ökologische und soziale Marktwirtschaft: Entstehung, Grundlagen, Instrumente. Ein Arbeitsbuch, ISBN 3-88579-077-7, Köllen, Bonn, pp. 259-283

This Version is available at:

<https://hdl.handle.net/10419/1909>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

13 In search of the market: a comparison of post- Soviet reform policies

KLAUS SCHRADER

Introduction

The dissolution of the Soviet Union and the foundation of the Commonwealth of Independent States (CIS) in Minsk on 8 December 1991 opened the way to the political independence of the former Soviet republics. However, these countries have yet to develop a sound economic base for their independence. Governments have failed to create the necessary conditions for recovery in their economies, ruined by decades of socialism and the lost years of *perestroika*. The analysis of the reform policy in three major successor states - the Russian Federation, the Ukraine and Belarus - shows that decisive steps towards a working market economy are yet to be taken. In view of the reform deficits it is not surprising that GDP and consumption in these countries are declining by double-digit rates, hyperinflation evolved and unemployment becomes a serious problem. All these are symptoms of an *economic breakdown*, not of a painful economic recovery.

A catalogue of criteria based on the essential elements of a liberal market economy helps to carry through the analysis of the reform process in the three major successor states. The criteria include: legal base, state of private property, competition rules, liberty of the markets, macroeconomic assignment and economic openness (cf. Annex). This catalogue serves two purposes. On the one hand it defines an ideal economic policy framework of a market economy ('how it should be'). On the other hand it is an instrument to determine the *status quo* of the reform process ('how it is'). By comparing this ideal to reality it becomes feasible to identify reform deficits and to develop adequate reform proposals.

The legal base

When deciding on the location of their production activities investors first of all expect a country's legal system to provide certain qualities. These entail a guarantee of the market order itself, protection against political arbitrariness and the enforceability of claims resulting from private contracts. In a market economy the state offers a legal system as a public good which is a prerequisite to the production of private goods. A market system can only work, if engaging in economic activities is guaranteed by law without any discrimination. For this purpose strong public authorities are necessary which, however, have to be controlled to avoid political arbitrariness, typical of dictatorial regimes. In the case of the Soviet successor states the control of state power is of special importance, because as a result of bad historical experience all public institutions lack a minimum degree of trustworthiness (Glismann, H. and Schrader, K. 1991, p. 96). An effective protection against political arbitrariness can only be expected if the constitutional order provides a power-sharing arrangement with checks and balances, if the legal system is independent from governmental and parliamentary patronage and if administrative and legislative decisions can be appealed at courts.

The legal system must also guarantee the liberty of private contracting which constitutes the essence of a market order. A sanction mechanism is necessary to enforce contractual fidelity, i.e. public goods in the form of a legal infrastructure and legal instruments are needed to let the market function.

None of the three major post-Soviet states has adopted a new constitution up to now (criterion 1.1). Although in the Russian Federation alternative drafts have been discussed, salient features of the new constitution remain open. At present there is no institutional division of powers (as different from power struggle). Governmental reform policy relies overwhelmingly not on laws approved by the parliament, but on presidential decrees. To be sure the government faces a dilemma. The Russian Congress of People's Deputies and the Supreme Soviet were elected under communist rule, thus the majority of deputies reject market reforms. In the Russian Federation the situation is also characterized by ill-defined competences of the different levels of territorial authorities which affect both legislation and administration. The legislative and executive powers of the different levels (federation, autonomous republics, regions, municipalities) often pass laws and decrees on the same subject which are in conflict. At the lower level the administration is overcharged or blocks the enforcement of reform measures. A Western-style rule of law is missing, the reform of the jurisdiction - in spite of its formal independence - has yet to come, though in 1991 - under Gorbachev - a constitutional court was established. In the Ukraine the whole executive and legislative is ruled by the idea of securing the independence from Russia.¹ In Belarus just the opposite is true. Independence came as a surprise and obviously did not delight the majority of the political agents. There are only modest efforts to establish new democratic structures and it is tried to copy the developments in the Russian Federation with a certain time lag.²

In all of the three post-Soviet states the civil rights of citizens (criterion 1.2) are formally guaranteed. The old Soviet regulation has been taken over which permits ordinary courts to overrule the decisions of public authorities. In view of traditionally low efficiency of legal action and law enforcement, coupled with

insufficient real autonomy of the jurisdiction against political pressure³ the present regulations are often not worth the paper they are written on.

Looking at the restrictions on the individual contractual liberty (criterion 1.3) some variation between the successor states can be observed. In the Russian Federation individual contractual liberty exists with the exception of restricted property rights concerning land (see criterion 2.2) and the existence of state monopolies (see criterion 3.3). The Ukraine is striving for a similar development. But Belorussian legislators walk further on the old path.

In the selected successor states *incentives to fulfil private contracts are still missing* (criterion 1.4). Breaches of contracts occur without having effective mechanisms to sanction such behaviour - the enforcement deficits are obvious. But it can be observed that contractual fidelity which to be guaranteed would be a public good is supplied as a private good. For example at the commodity exchanges breaches of contracts are sanctioned by the expulsion from the exchanges' business.

The property question

Private property - especially of real estate and means of production - is a necessary condition for the efficient resource allocation in an economy. In a market economy private property means that the proprietor has the exclusive right to use and transfer his property and to realize returns guaranteed by law (Boebel, I. 1988, pp. 18-19). In addition, the stability of the property rights structure must be ensured. Under these conditions the proprietor has incentives to allocate his property efficiently and to spend a part of his returns for the maintenance of his assets. In the case of state or social property these incentives are missing because the user's property rights are severely restricted and the user's income is independent from the realized returns. In the absence of suitable incentives and any kind of altruism the users would not care about efficient allocation and maintenance of public property. The case of the centrally planned economies in Eastern Europe reveals the disastrous effects of the dominance of public property. Without regard to costs and maintenance of the industrial substance it was tried to keep the production running - with decreasing success. The bad condition of public housing space is yet another indirect proof for the necessity of private property rights.

The conclusion suggests itself that the private share of national productive property is an important indicator for the degree of capitalism and therefore decisive for a country's wealth. Although private property has to be dominant in a market economy a certain share of public property is necessary to provide public goods. Moreover it seems to be justified to restrict private property rights in so far as to avoid *negative externalities* which would impair others' private property rights. Therefore the following questions seem to be relevant: to which extent are the formation and free disposition of private property guaranteed? What kind of measures are proposed and/or taken to transform public into private property?

In all of the three countries immense ideological resistance remains against tolerating a degree, leave alone dominance of private property on real estate and means of production (criterion 2.1 and 2.2). At best private property is put in the same legal category with public property. Moreover private property rights on

land are still restricted although the Russian Federation and Belarus have taken measures to enable foreigners to purchase land. Still up to now the fear of a foreign sellout has been the dominant concern shaping legislation and - even more - implementation.

If the lack of civil rights traditions in these countries is taken into consideration it will become understandable that post-Soviet states have an ambiguous attitude towards private property. It is not surprising that a restitution is not planned (criterion 2.3) because after seventy years of communist rule the private property structure of imperial Russia can not be restored. Unlike the Central European reform countries the Soviet successor states have yet to develop private property structures, solely by privatizing public property and formations of new private enterprises.

In the three post-Soviet states massive privatization is yet to be accomplished (criterion 2.4). The present privatization efforts do not convey the impression that a quick transformation of public into private property can be expected. In the Russian Federation until the last quarter of 1992 privatization process mostly existed on paper. Regulations do not look very convincing in accelerating privatization. Preceding the purchase or competitive bidding a time-wasting procedure is needed to work out a privatization plan which has to include the particular interests of workers and management, municipality and public owner. This kind of social conditioning discourages private investors who will bear the financial risks of restructuring the loss-making public enterprises.⁴ The high number of exceptions and restrictions which mainly affect interesting sectors do not increase the attractiveness of the privatization programme. In addition it is questionable if the privatization decisions are legally binding for the various levels of territorial authorities which carry through privatization programmes of their own in contradiction to federal initiatives. Moreover, *spontaneous privatization* - organized by workers and management - takes place and contributes to the *legal uncertainties*. Like in the Russian Federation the Ukrainian privatization programme was pure theory for a long time.⁵ The institutional framework and the privatization techniques are still to be put in concrete form. It is disquieting that only 60 - 65 per cent of the public property will be affected by the privatization process which probably will not be finished in the assumed privatization period covering 4 - 5 years. In Belarus the privatization process does not exist even on paper. It is discussed to privatize about 90 per cent of the industrial production. But the privatization procedures and techniques have to be outlined first. The impression remains that in all of the three countries the privatization process lacks a consistent concept and enjoys a very limited if any political backing.

Competition rules

The more an economic system is committed to the principle of competition, i.e. the more the openness of the markets is guaranteed and the abuse of economic power is sanctioned, the more efficient the allocation of a resources will be. Competition serves as a combined incentive and control mechanism which ensures an efficient cost control and maximum productivity because competition forces enterprises and individuals to look permanently for new products, processes and locations for production - a behaviour which is a typical feature of

a growing economy. In the view of von Hayek (1968) competition can be characterized as a discovery procedure.

Competition is a *permanently endangered good* because suppliers often tend to arrange agreements or to form cartels restricting competition. In most of the Western countries rules exist which prohibit such agreements and the abuse of economic power. The institutionalized control of competition differs, however, considerably from country to country corresponding to the criteria which define the market dominance of an enterprise, the abuse of economic power and the activities which can be viewed as restrictive. In the absence of qualified and experienced institutions it can be suggested that the Soviet successor states will not be able to pursue a Western-style competition policy in the near future. The regulation of the *dominating sectoral monopolies*, however, is inefficient as the public utilities regulation in a number of industrialized countries reveals and moreover represents an alternative public price control which is completely incompatible with a system of free markets. Therefore the opening of the domestic markets for foreign competitors appears to be the better instrument to stimulate competition. Openness means that the still existing domestic monopolies will at least be subject to competition. While it takes some time to introduce institutionalized domestic competition control, foreign competition would be effective immediately.

In the three post-Soviet states the market *entry for foreigners* (criterion 3.1), i.e. their freedom of movement, is mainly indirectly restricted. In the Russian Federation only a limited participation in the privatization process is conceded to foreigners. Their engagement is welcome in important but problematic sectors which need foreign capital investments and know-how. Moreover foreigners face the difficulty that it remained unclear whether they can purchase the real estate necessary for the formation of new enterprises. In the Ukraine the privatization regulations seem to be more generous concerning the participation of foreigners than in the Russian Federation. But as mentioned above the whole privatization process exists on paper only and has yet to be tested. In Belarus it is still open to which extent foreign investors may participate in the privatization of public property and formation of new enterprises.

In the sphere of *anti-trust regulations* and restricting the abuse of economic power (criterion 3.2) the Russian Federation appears to be most advanced. An anti-monopoly law has been passed and a state committee has been established to enforce this law. Comparable regulations or institutions exist neither in the Ukraine nor in Belarus. But it is questionable that the Russian anti-monopoly policy is compatible with market reforms because the monopoly control which the anti-monopoly law demands seems to be nothing else than a monopoly regulation. Enterprises that are registered as monopolies are obliged to give information on prices, costs, qualities and quantities of their products to the anti-monopoly committee which determines the monopoly price. This kind of *anti-monopoly policy* means that the *price liberalization* (criterion 4) is *neutralized* because most of the Russian enterprises are registered as monopolists and are thus included in the new price administration.

In the Russian Federation the privatization and demonopolization of state enterprises has yet to be started (criterion 3.3). A long list of sectors exists which are excluded from privatization. This list includes goods and services which production is organized in state monopolies comparable to Western countries (postal and telecommunication services or infrastructure). Furthermore sectors

of strategic importance like aerospace, defence, energy, chemicals and natural resources are exempted. In the Ukraine and Belarus similar sectors are excluded from privatization and organized as state monopolies. It becomes obvious that in the three successor states the guarantee of competition is still missing.

Liberty of the markets

Free markets are characterized by sovereign decisions of sellers and buyers. It is up to the sellers to fix the prices of their goods as it is up to the buyers to determine the relevant price for their demand. The price mechanism coordinates supply and demand at an equilibrium price at which the market is cleared. In this way a system of relative prices emerges which carries information about the relative scarcities of goods and services and helps allocate the available resources efficiently. The price mechanism is responsible for the decentral coordination of the economy. It can work as long as state authorities relinquish to restrict the sovereignty of sellers and buyers. The experience of the Eastern European socialist economies shows that a system of administrated prices cannot realize an equilibrium of supply and demand on the various markets. The exchange of information by supply and demand through the price mechanism cannot be substituted by a central mechanism - neither quantitatively nor qualitatively. A central planning authority is not able to collect and process a comparable amount of information. To make the price mechanism work every potential supplier must be permitted to offer those goods and services where he assumes having comparative advantages, i.e. on the one hand the entry to the markets must be guaranteed without any exception (see v. Hayek, 1967, p. 29). On the other hand a bankruptcy regulation must ensure the *exit* of non-competitive suppliers.

In January 1992 the Russian Federation liberalized a significant number of prices which immediately spilled over to the Ukraine and Belarus (criterion 4.1). Since the initial price liberalization in the Russian Federation the whole price reforms became more and more questionable. The important energy prices were not liberalized - contrary to government announcements - and the above mentioned anti-monopoly regulations (see criterion 3.2) reintroduced many administrated prices. In the Ukraine the development was quite similar. A system of 'cost-plus-profit'-prices was introduced to avoid an abuse of economic power by the state monopolies which probably will not be demonopolized in the foreseeable future. In Belarus the government tries to save as much of the old central planning system as possible - therefore a lot of 'liberalized' prices are in fact still under government control.

In all of the three successor states the entry barriers on markets for goods and services are comparable to those in Western countries (criterion 4.2.a). The capital market regulations are not worth mentioning because *capital markets* which come up to Western standards *do not exist* (criterion 4.2.b.a). On the labour markets minimum wage regulations and administered wages still exist (criterion 4.2.b.b). It appears to be positive that Russian state enterprises are permitted to determine wages independently. But these enterprises do not guide their wage policy along productivity growth, they pass on the wage bill to the public owner or to the central bank. Although the Russian parliament passed a bankruptcy law to regulate market exit, effective from 1 May 1993 (criterion 4.3)

it is doubtful that state enterprises will go bankrupt as long as the soft budget constraint exists. Similarly to the Russian Federation the Ukraine and Belarus know rules for the case of liquidation. But their implementation is just as much limited as it is in Russia. It can be concluded that the successor states have still a long way to go to working markets. The mixture of 'Potemkin villages' (price liberalization), non-existing or regulated markets (capital and labour markets) and soft budget constraints cannot be regarded as decisive reform steps.

The assignment of macroeconomic policy tasks

A basic question concerns the *role of the public sector* in a market economy, i.e. the tasks and the institutional structure of economic policy, the goods to be supplied by the public sector and the public sector's financing have to be defined. If the public sector produces a significant share of private goods and services the private contractual liberty (criterion 1), the guarantee of private property (criterion 2) and the free competition (criterion 3) will be severely restricted. It is a feature of a free market economy that the public sector is restricted to the supply of public goods such as internal and external security, the development of a legal system, the regulation of the monetary system, to some extent the supply with infrastructure and the guarantee of the citizen's physical subsistence level.

Defining public tasks also implies the necessity to find sound financing. A restrictive definition of public tasks helps avoid significant expenditures like sectoral subsidies which cause welfare losses in the long run through a distorted allocation. In addition the revenues must be based on a simple system of taxes and fees which the taxpayers do not regard as disincentives to work. Other elements of a sound fiscal policy are a limitation of public liabilities and a strict delineation of financing fiscal outlays from money and credit emission.

If no control of the expenditures exists and emission is abused to finance the budget deficit, monetary stability will be considerably undermined. Considering the close connection between a sound fiscal policy and monetary stability it is important to prohibit the financing of the state budget through central bank credits. For this reason the independence of the central bank and its statutory commitment to monetary stability are indispensable ingredients to macroeconomic stability. The problem is to assign to each of the four macroeconomic targets - monetary stability, full employment, external equilibrium and sustainable economic growth - one instrument and one institution which is responsible for meeting the target in each case. In a market economy an appropriate assignment would include the following elements: 1) an independent central bank responsible for monetary stability; 2) independent employers and employees responsible for full employment by decentral collective bargaining; 3) external equilibrium to be secured by a flexible exchange rate regime; 4) a government which guarantees a liberal institutional setting and produces the above mentioned public goods to attract domestic and foreign capital investments which again stimulate growth (see Fels, G. et al., 1971).

Macroeconomic assignment also deals with the role of social groups whose activities can be controversial. Although they could contribute to the social consensus there is also the danger that they act as rent-seekers who try to influence economic policy with the intention to push through regulations which only

serve a single group's vested interests but cause social welfare losses in the long run. A social consensus which aims at the realization of a liberal economic policy however would be socially advantageous.

In the Russian Federation, in the Ukraine and in Belarus it is obvious that a macroeconomic assignment which comes up to Western standards does not exist, i.e. *no public institution takes a clear responsibility*. Concerning price stability (criterion 5.1.a) in the Russian Federation no institution seems to take care of this task, not even the central bank which is responsible to parliament; in addition the central bank's president is member of government. This means that the central bank is far away from independence but is nominated by those with an interest to finance loss-making large firms and wages. The legal limitation of central bank credits is not worth the paper it is written on: the Supreme Soviet increases the limit quarterly and the central bank has to finance public expenditures which are not included in the budget (e.g. public house-building). Moreover the central bank supplies state enterprises with generous credits at negative real interest rates through the existing commercial bank system; these credits will be probably never repaid. So it is not surprising that annual inflation rate exceeded 1000 per cent in 1992. In the Ukraine in January a multiple usable coupon - *karbovanets* - was introduced which developed to a substitute of the ruble. It was intended to introduce the *brivna* as the new Ukrainian currency at the beginning of 1993. While the *karbovanets* is controlled by the government it is unclear which institution will be responsible for the stability of the *brivna* and whether a monetary policy aiming at price level stability will have priority at all. These questions also need to be answered in Belarus which introduced its own version of coupons, but remained a member of the ruble-zone.

In the three successor states the responsibility for full employment (criterion 5.1.b) is shared by the government which determines minimum wages and the enterprises which are authorized to fix the final wages independently (not in Belarus). But there is no real collective bargaining in view of the central bank's unlimited propensity to finance any wage increase.

The external equilibrium (criterion 5.1.c) still depends on the Russian ruble-system in the CIS-countries. The Russian government under Gaidar tried to stabilize the ruble at a fixed exchange rate towards the US dollar. In view of accelerating inflation and small hard currency reserves these efforts were not successful. The Ukrainian undertaking to fix a coupon exchange rate towards the US dollar was just an obscure episode.

In the three countries as a consequence of a missing privatization the public sector is responsible for the production of the vast majority of private goods and services (criterion 5.2.a). In none of the selected successor states does the government seem to be credibly committed to a sound fiscal policy (criterion 5.2.b). Restrictions to deficit spending are pure theory. The governments face the problem that tax systems and financial administration are ineffective, i.e. taxes only make a modest contribution to the state budgets. Although a sound fiscal basis is missing neither parliament nor government practise the necessary financial self-discipline.

In the Russian Federation the various interest groups *never entered into a social consensus* (criterion 5.3). At present the struggle for political influence is destabilizing the political situation, in some parts of the Federation political conflicts are to be settled by civil war. In the Ukraine and especially in Belarus where the old power structures are still in charge the political situation is

comparatively stable. But it becomes obvious that the three successor states still have to solve the problem of an effective and efficient macroeconomic assignment of economic policy tasks.

External economic relations

The market reforms can prove their seriousness only if the national economy is opened up to foreign competition and tied up in the international division of labour. International competition will show whether or not the enterprises and the *institutional framework are competitive* in the reform countries. The advantages of openness are self-evident. The free exchange of goods and services and the unrestricted mobility of capital and labour guarantee an optimal supply; being involved in the international competition the domestic producers are forced to keep pace with international technological progress. Moreover in the case of the Soviet successor states a participation in the international division of labour would make it easier to find a market-conform path of structural change and to bust the old monopoly structures. The trade relations would gain a new quality compared with the intra-COMECON and intra-Soviet-trade which did not follow the principle of comparative advantages.⁶ In detail openness means that the markets have to be opened for imports, i.e. dispensing with tariff and non-tariff import barriers and giving up the policy of import substitution. This is also true for the export business: tariffs, quotas and preferential (subsidized) loans represent the old autarkic regime which only results in a non-competitive economic structure which does not correspond to the revealed comparative advantages. In addition enterprises must be enabled to organize their foreign trade activities on their own account. Restoration of foreign trade monopoly - as it seemed to be the case in the first quarter of 1993 - would certainly be counterproductive.

A necessary element of foreign trade liberalization is the free convertibility of the national currency and unrestricted private currency transactions. The citizens could sovereignly decide on their participation in foreign trade and capital transfer; domestic sellers and buyers may avail undisturbed information about relative scarcities through world market prices; the governments would be forced to adhere to international standards of capital market policy. Convertible currency would mirror the overall condition of the economy. Finally the Soviet successor states are dependent from foreign direct investment to renew their physical capital and to acquire technical and entrepreneurial human capital from the capitalist countries. Therefore an attractive environment for foreign direct investment would be very helpful for the success of reforms.

In December 1991 after the dissolution of the Soviet Union the common customs regulations were abolished. In the Russian Federation an import tariff was introduced which became more and more restrictive during 1992, while in the Ukraine and in Belarus authorities are still in search of a consistent import policy (criterion 6.1). The export restrictions of the successor states are far more restrictive (criterion 6.2). In the Russian Federation and in the Ukraine export duties on primary products are raised to a prohibitive level to support the export of industrial products. But at least the Russian government announced plans to level down the tariff and other regulations during the next years. The compulsory exchange of hard currency earnings at artificially low rates is another

severe export restriction in the Russian Federation and the Ukraine because producers lose their incentives to export.⁷

In the three successor states state monopolies are no longer the sole agents of foreign trade business (criterion 6.3). But there is the danger that successor organizations are established by the malpractices of the recently reintroduced licensing system.

Moreover all the three countries which still belong to the ruble-zone face the problem that convertibility of the ruble is less than probable (criterion 6.4.b). It is obviously not possible to stabilize the ruble exchange rate by a stabilization fund as long as monetary stability is not realized and a trustworthy reform programme is not introduced. If the Ukraine and Belarus introduce currencies of their own they will face similar problems.

A significant amount of foreign direct investments will only flow into the successor states if they create or at least let the potential investors expect a stable market type of environment (criterion 6.4.a). In addition a generous foreign investment legislation is needed to achieve comparative advantages over several medium developed and developing countries which also compete for foreign direct investments.

Finally after the collapse of the command economy labour mobility was guaranteed by law in all of the three countries (criterion 6.5). It can be concluded that the question of openness still needs a final answer because the foreign trade policy of the three successor states remained inconsistent and instable.

The long road to a market economy

A comparative analysis of the economic policy of the Russian Federation, the Ukraine and Belarus reveals that in all these countries the political decision-makers still hesitate to enter the long and painful road to a market economy. Although in these countries the disastrous economic situation calls for radical reforms, many politicians are still looking for a 'third way' which *combines the benefits of a market economy with the (theoretical) distributional benefits of socialism*. The contradictions of the reform policy reflect the *strive for social compromise*. Private property is permitted but public property will remain significant. Privatization process is to be finished as soon as possible but has to result in a fair distribution of national assets without producing disadvantages for anybody. Competition is accepted at least half-heartedly but the state monopolies continue to exist. Prices are to be liberalized but they are to remain socially acceptable at the same time. The governmental full-employment guarantee is to be given up but without disclaiming job security. Most of the state-owned enterprises are said to be self-reliant but cannot go bankrupt. The central bank's monetary policy is to be guided along stabilization and simultaneously is to finance the state budget by emission. Government encourages producers to increase their exports in hard currency countries but skims off a significant share of the hard-currency earnings. Foreign investors are welcome, their acquisition of property and foreign investments in interesting sectors, however, are to be prevented.

Liberal economists who call the attention to these reform deficits are criticized to be ignorant towards the complex socio-economic problems of these countries or even to be just cynical. These critics often regard radical marketizing

reforms as an irresponsible social engineering in view of economies which are characterized by an incomplete social safety net. But they ignore that in these countries nowadays even the social substance minimum cannot be guaranteed any longer because the economic base has become too weak. Social unrest becomes all the more probable as time is wasted on political infights without establishing a functioning market economy. Therefore it would be necessary to realize a *reform programme* which is comprised of the *following elements*:

- a clear assignment of competences to the different levels of territorial authorities according to the principle of subsidiarity in order to improve the enforcement of reform measures;
- a legal guarantee of the largely unrestricted individual liberty of contracting and taking legal action to enforce individual claims against public authorities and other private economic agents;
- the constitutional guarantee of private property as the dominating type of property;
- realization of a decentral 'small' privatization and the introduction of a 'large' privatization without any restrictions of participation and without areas of exception which exceed the necessary capacities for the production of public goods;
- ensuring competition by allowing for free market entry - especially for foreign producers - and by demonopolization of the economic structures in the course of privatization;
- liberalization of all prices on goods, services and factor markets and doing without regulations prohibitive to market entry;
- monetary stability guaranteed by an independent central bank committed to stabilization;
- ensuring fiscal solidity by deficit limitation rules and restricted central bank credits;
- introduction of a convertible currency;
- opening up the domestic economy through eliminating various forms of protectionism.

Implementing of such a programme would probably entail significant social hardship for many citizens in the post-Soviet successor states. But this programme could lay the foundations of long term improvement. Continuation of the Gorbachevian policy of half-hearted reforms or a restoration of the command system would positively worsen the situation. Restoring the command system would uncover very soon that the loss of economic substance have been already too large to allow for a change by brute force. Russian reformers like Aven (1992, p. 238) recognize correctly that it is wrong to promise paradise but it is necessary to promise 'blood, sweat and tears' - at least in the short run.

NOTES

1. The presidential nominees - *prefekty* - as well as the government of Leonid Kuchma were even formally exempted from any legislative supervision in late 1992 in order to give them a free hand in order to fight crisis (ed. note).
2. This situation has changed considerably: whereas Russia continues a line of inflationary reformist policy, Belorussian legislation passed more conservative laws both on property and prices. The divergence is thus rather inevitable (ed. note).
3. A nice example was Yeltsin's intervention in favour of Gorbachev, allowing him to the funeral of W. Brandt despite Gorbachev's open defiance of the court (ed. note).
4. For a more detailed background analysis of the issues cf. the chapter of Silvana Malle in this volume (ed. note).
5. The first auctioning was launched in February 1993 in Lviv/Lemberg at the time of finalizing this volume (ed. note.)
6. For a somewhat more sceptical evaluation cf. the chapter of Wladimir Andreff in this volume (ed. note).
7. Despite several attempts the Russian government never managed to get companies to submit their export earnings at the official rate of exchange, not even the compulsory half of it. For more details see the chapter of Pekka Sutela in this volume (ed. note).

Synopsis of the 'Ordnungspolitik' in the three major European successor states
(as of November 1992)

Criterion 1 - Division of power, rule of law, and individual contractual liberty (as of November 1992)

	Russian Federation	Ukraine	Belarus
1.1 Does a clear separation of legislative, executive, and jurisdictional power with mutual control exist?	Preliminary drafts of the new Russian constitution are under discussion. The executive and jurisdictional structures of the old Union are taken over with similar competences. The formal division of power is unstable and neither guaranteed by law nor by legal traditions. Executive (president, government) and legislative (supreme soviet, congress of people's deputies) tend to block each other. The distribution of competences between the various federal levels is inconsistent, a presidential control system ineffective, reform measures are not enforced. In November 1991 a constitutional court was established, but the independence of the jurisdiction remains questionable in the absence of legal traditions, clear competences and the new personal structures.	The division of power exists formally. Supreme soviet and municipal soviets represent the legislative power while the executive power is exercised by president and government. It is questionable that the parliament controls the government effectively but both of them are interested to stabilize the independence from Russia. There is no reliable information about the independence of the jurisdiction.	Democratic traditions and the idea of the division of power seem to be underdeveloped. The old, formerly communist, structures are still dominating, while the opposition in parliament is too weak to control the government effectively. The independence of the jurisdiction is in question.
1.2 Is everybody entitled to take legal steps even against public authorities?	It is possible to bring an action against decisions of the executive at ordinary courts; the supreme court acts as a court of appeal. Considering the widespread legal uncertainty the practical relevance of taking legal action is doubtful.	See Russian Federation.	See Russian Federation.
1.3 Are there any legal constraints on individual contractual liberty?	See criterion 2.2 for the restrictions on the property rights of land. Further restrictions exist concerning the contractual liberty on the labour market (minimum wages, job protection) and in sectors which will remain dominated by state-owned monopolies (see criterion 5.2.a.). See criterion 4.1 for the price liberalization.	There are tendencies to realize the freedom of trade. At the end of January 1991 the government passed an programme which was intended to stimulate the principles of self-financing and self-responsibility. This plan is viewed as the first step for individual contractual liberty and privatization. The labour market is regulated by minimum and administrative wages, the prices are only partly liberalized (see 4.1).	The old planning system is still dominating, most of the prices are controlled (see criterion 4.1, 4.2).

Source: Schrader and Laaser (1992); PlanEcon Business Report (1992); DIW, IFW, IWH (1992a, b); Clement and Slàna (1992).

Criterion 1 continued

	Russian Federation	Ukraine	Belarus
1.4 Are there legal incentives for contractants to perform the contract?	In principle such incentives exists by the liability for damages which is actionable. In view of missing public authority the practical relevance is questionable. Infringements especially occur between contractants from different successor states. In general the legal enforcement does not work.	The civil code of law from 1973 which knows the liability for damages is still valid. The doubts referring to the Russian Federation are also relevant.	See Russian Federation.

Criterion 2 - State of private property: November 1992

2.1 Is private property permitted?	Yes. The law on property from December 1990 permits the formation of private property besides public and municipal property of social organisations	Yes. The law on property from February 1991 permits the formation of private property besides public and collective property.	Yes. The law on property from December 1990 permits the formation of private property with the exception of some not further specified sectors. Further types of property are the public and collective property.
2.2 Is the formation and the transfer of private property restricted in any way?	In November 1992 the supreme soviet passed the law on land which permits the private sale and lease of land and foreign investment in land resources. Restrictions: local authorities have to enforce a 'rational' utilization of the land and the resale is restricted according to the intended purpose (farming, housing etc). Foreigners are affected by restrictions concerning the formation of private property (e.g. participation in the privatization process, see criterion 2.4).	The purchase of land and natural resources is restricted. The resale of land is not permitted before 5 years. Foreigners must not purchase land.	The law on the right to purchase land from March 1992 restricts the sale to foreigners; special permission by parliament and local authorities is necessary.
2.3 Is the restitution of former property planned or already enacted?	The government does not intend to introduce any restitution.	See Russian Federation.	See Russian Federation.

2.4 Is the privatization of public property planned or already enacted?

Russian Federation

Legal basis of the privatization of state-owned and municipal enterprises is the privatization law from July 1991. The privatization programme from March 1992 represents the regulation of this law, completed by the presidential decree No. 721 from July 1992 which regulates the legal transformation of enterprises. The 'State Committee for the Administration of the State Property' (property committee) is responsible for the conception and the organisation of the privatization process. So called 'property funds' at all federal levels execute the actual sale. Property committee, management, workers, and local authorities jointly prepare the company-specific privatization plan. There are various forms of privatization: sale of shares to workers, management and external investors according to a fixed distribution scheme; direct sales of complete enterprises; sale by auction, call for tenders or direct sale within the framework of the 'small privatization'. In addition a mass privatization programme started in autumn 1992: Every citizen received privatization cheques worth 10.000 ruble which can be used to buy shares of enterprises or investment funds, flats, buildings and land; the cheques are tradable; foreigners are permitted to buy these cheques and to use them in the above mentioned manner.

Ukraine

According to the concept of denationalisation and privatization of enterprises, land and housing from October 1991 the privatization of public property is intended. The privatization process is to be completed within 4-5 years and will cover more than 60 per cent of public property. Among others, the post and telecommunication sector will not be privatized. The law on small privatization from March 1992 applies to small enterprises in sectors subject to urgent privatization (i.e. processing and local industries, building materials industries, light industry, services) and other enterprises which book value does not exceed 1.5 mn karbovantsi. These enterprises will be privatized by employee-buy-out or competitive auction organized by the State Property Fund or local authorities. In general foreigners are permitted to participate in the small privatization. The privatization law from March 1992 applies to enterprises worth more than 1.8 mn rubles. The citizens receive vouchers to be used at competitive auctions. Workers receive a preferential treatment. The law on private farms from January 1992 deals with the privatization of the agricultural sector. It is intended to transform collective and state farms into private farms which do not exceed 100 hectares of which 50 hectares may be used agriculturally.

Belarus

Up to now a privatization law has not been passed by parliament. It is planned to privatize 147 enterprises which ostensibly produce about 90 per cent of industrial production. Some of these enterprises have already received approvals of their privatization plans by government decision. Enterprises which are part of the defence or other strategic industries will be excluded from the privatization process. The privatization method is still open: It is discussed to distribute vouchers to the citizens which can be used to buy 50 per cent of the enterprises either directly or through investment funds; 40 per cent remain with the state property agency which is to sell this shares to foreign investors, to channel them into the voucher-system or to transfer them to the government.

Criterion 3 - Guarantee of Competition: as of November 1992

	Russian Federation	Ukraine	Belarus
3.1 Do general market entry barriers for foreign competitors exist?	Foreigners are excluded from economic activities concerning infrastructure provision and in sectors where state monopolies have been established (see criterion 3.3 and 5.2.a). Moreover foreigners are not permitted to participate in the privatization of certain sectors like trade, transport, other services and industrial/construction plants with less than 200 employees. A government licence is needed for foreign participation in a number of sectors: defence industry (if designated to conversion), energy and natural resources.	There seem to be no prohibitive market entry barriers for foreign investors. Only in the machine building, line construction and energetics industry foreigners require special licences which are said to be no effective barriers; a concession has to be bought to exploit natural resources. In general foreigners have the right to participate in the privatization process without any restrictions as domestic investors.	The participation of foreigners in the privatization process is not yet regulated. The law on foreign direct investment from November 1991 does not include direct restrictions. But legal restrictions like a ban on certain economic activities or the necessity of licensing are at least potential policy options. In the finance sector foreign participation in an enterprise is explicitly limited to a share of 50 per cent.
3.2 Is there any institutionalized control of cartels or abuse of economic power?	The anti-monopoly law from March 1991 determines the legal basis for the control and liquidation of monopolistic structures; the law is to be enforced by the state committee for anti-monopoly policy. In addition in October 1991 the government decreed the setting-up of a register to list the existing monopolists which are defined as enterprises with a market share exceeding 35 per cent or a certain limit annually determined by the anti-monopoly committee or as enterprises which have a dominant position on the relevant market. These enterprises are monitored by the committee. A further decree from December 1991 details the price regulation of the monopolists' products. The Ministry for Economics and Finance can fix prices and set maximum prices and maximum profit rates. Moreover in February 1992 the government decreed a special temporary regulation of monopolistic enterprises: a government commission has been established to ensure the supply with natural resources, intermediary and basic products; pursuing this task it can overrule every entrepreneurial decision and it disposes of the respective means to enforce its orders; i.e. the enterprises have to	An anti-monopoly law is still under preparation. Without such a law prices and profit rates will be further regulated.	There is no information about the introduction of an antimonopoly law. But in the beginning of 1992 the council of ministers decided that the state property committee, the state planning committee and local authorities together had to register prices and costs of monopoly enterprises and to determine maximum prices. The abuse of economic power will be fined up to 15 per cent of the costs.

Russian Federation

declare prices, costs, product quantity and quality; abuse of monopolistic power is punished by price regulations, suspending financial support, denying export licences or laying-off the management.

Ukraine

It is intended to keep the state monopolies in the areas of transport, postal and telecommunication services, energy production/distribution and resource extraction. The existing state monopolies are neither privatized nor busted; they comprise of 70-80 per cent of industry. The programme on the main determinants of economic policy under the conditions of independence from October 1991 aims at the commercialization of enterprises, the reorganisation of the present relationship between the enterprises and the support of new suppliers.

Belarus

The demonopolization of industry is closely linked with the privatization process. At present the privatization concept is under discussion. For this reason the Belarussian industry is still characterized by monopolistic structures which are still tied up in a kind of central planning system. It is not intended to privatize monopolistic enterprises which are part of the defence sector or sectors of 'strategic interest'.

3.3 Have state-owned monopolies been
- privatized?
- busted?

Especially in the areas of postal and telecommunication services, aerospace industry, pharmaceutical and chemical industry state-owned monopolies will remain; state-owned monopolies will also persist in areas where so-called public goods are produced (e.g. national defence, internal security, infrastructure, health, media). Up to now 87 per cent of the industrial production is produced by monopolistic or oligopolistic enterprises, i.e. single products are supplied by only 1-3 enterprises. The demonopolization is closely connected with the progress of the privatization process.

Criterion 4 - Liberty of the Markets: November 1992

4.1 To which extent does free price formation on goods and factor markets exist?

On 2 January 1992 most of the prices for goods and services were liberalized (80 per cent of the investment goods, 90 per cent of the consumer goods). Maximum prices are applied to energy, raw materials, medicaments, rents, public transport and selected basic consumer goods. But at the same time the government introduced price regulations within its anti-monopoly policy (see criterion 3.2); i.e. the price liberalization is to a certain extent neutralized by the anti-monopoly regulations which affect most of the industrial enterprises. In addition energy, transport, defence products and basic food products are substantially subsidized.

Following the Russian price liberalization the Ukraine liberalized about 60-70 per cent of consumer goods and service prices in January 1992. But price regulations remain for certain basic food products, energy, rents, transport, chemical products, mining, construction, machines, pharmaceutical products, communication services and wood processing. In addition parliament passed a decree that demands the profit rates to be restricted to 25-40 per cent of the production costs in the case of 'liberalized' prices.

Although the Belarussian government carried through a price liberalization on 3 January 1992 a number of prices are still regulated. These regulations include the prices for basic food products, energy, rents and other services. As a consequence of the still existing planning system a lot of other prices are also controlled by the government.

	Russian Federation	Ukraine	Belarus
4.2 Do market entry barriers exist?			
a. On markets for goods and services	For certain activities occupational qualification has to be proved. Enterprises need an official registration. Special restrictions exist among others for the production of drugs, spirits, ammunition and pharmaceutical products. Foreigners face restrictions in the banking and insurance sector, their participation in the privatization process is regulated (see criterion 2.4).	A number of occupations like judicature or medicine demand a special qualification proof; enterprises have to be registered. The market entry is further restricted for the production of defence goods, spirits, mining geological exploration, pharmacy, banking and insurances.	The regulations are comparable to those of the Russian Federation
b. On factor markets.			
- Capital market	A decree of the president from autumn 1992 demands the establishment of a stock market; for this purpose a commission has been set up. The activities of the existing so-called stock exchanges are restricted by a decree from December 1991; e.g. they are not permitted to finance investments. I.e. a working capital market does not exist.	A capital market which comes up to Western standards does not exist. In Kiev the 'Central Funds Exchange' has been established besides some smaller exchanges.	A capital market does not exist.
- Labour market	A minimum wage regulation exists. But it is possible that state-owned and private enterprises fix the wages decentrally.	In January 1992 a wage indexation was introduced: the indexation varies according to the relation between personal income and minimum wage; if the income does not exceed the twofold minimum wage price increases will be fully compensated; a compensation of 50 per cent will be paid if the income is up to the threefold minimum wage; wages of receivers of higher incomes are not compensated. Although this rate was actually restricted to the public sector it became relevant for the whole enterprise sector.	Minimum wage regulations and administrated wages are dominating.
4.3 Are there any barriers for market exit? Do bankruptcy proceedings exist?	In June 1992 the president issued a decree which permits and defines the bankruptcy of state-owned enterprises. This decree has been enforced by the parliament in November 1992. Moreover the soft budget constraint is still effective (see criterion 5.1).	The law on enterprises from February 1991 and the law on co-operatives from April 1991 include rules for the case of liquidation or reorganisation.	Banruptcies are regulated by the bankruptcy law from May 1991. It defines the bankruptcy as an enterprise's complete inability to pay and determines the single steps of the bankruptcy proceeding.

Source: See criterion 1.

Criterion 5 - Macroeconomic assignment of economic policy tasks: as of November 1992

	Russian Federation	Ukraine	Belarus
5.1 Which institution is responsible for			
a. price level stability; is the central bank subject to government decisions?	<p>The central bank is under the parliament's supervision; but since November 1992 the president of the central bank is also a member of government; i.e. there is no independence of the central bank but a competition between executive and legislative for political influence on the central bank's policy. A control of monetary aggregates is actually missing; the state budget and the state enterprises are generously financed by central bank credits; an effective credit ceiling does not exist; state enterprises use the central bank credits for paying their current costs and do not care about repayment. Price level stability is obviously no priority target of economic policy.</p>	<p>At present the Ukraine is leaving the ruble-zone step by step. In January 1992 after the dissolution of the USSR and the partial price liberalization the karbovanets, a multiple usable coupon, was introduced to substitute the ruble gradually. Meanwhile the cash transactions (wages, purchases) are shifted to karbovanets, next the cashless money transfers will follow. The government tried to stabilize the karbovanets at an exchange rate of 1:1 towards the ruble. In the beginning of 1993 the new currency, hryvna, was to be introduced. Government, parliament and central bank are now discussing legal and technical aspects of the future monetary policy.</p>	<p>As a member of the ruble-zone Belarus is severely restricted in its monetary policy. The introduction of a Belarussian currency has been linked to a possible dissolution of the ruble-zone. The Belarussian ruble which was introduced as agreed with the Russian central bank is only a means to soften the scarcity of rubles. The internal exchange rate between 'old' ruble and Belarussian ruble is fixed to 10:1.</p>
b. full employment?	<p>Minimum wages are prescribed; but they are not effective because of the accelerating inflation. Wages are decentrally fixed at the enterprise level, the government tries to limit the wages by a wage sum tax. The management of the state enterprises uses central bank credits to pay the labour costs.</p>	<p>Minimum wages exist and the wages are indexed (see criterion 4.2). The enterprises use their liquid funds for wage increases under the pressure of the workers and because of the supply of cheap credits. The government has introduced a wage sum tax and intends to reduce the indexation.</p>	<p>Administrated wages are still dominating.</p>
c. external equilibrium?	<p>Until July 1992 a system of multiple exchange rates existed which depended on the use of foreign currency. At present officially only one exchange rate exists which is determined at the Moscow interbank market. The government tries to stabilize this exchange rate but these efforts are restricted by the scarce hard currency reserves.</p>	<p>The karbovanets is now convertible to the Russian ruble; the exchange rate is close to 1:1 meanwhile. It was tried to make the karbovanets convertible to the US dollar (14:1); but there was no demand for karbovanets.</p>	<p>Without a currency of its own the ruble-regime is the determinant for Belarus.</p>

Criterion 5 continued

	Russian Federation	Ukraine	Belarus
5.2 The public sector			
a. Is the public sector responsible for the production of private goods?	In the absence of successful privatization efforts and without a significant number of new private enterprises the public sector still produces the majority of private goods. The public share of production exceeds 80 per cent.	It depends on the speed of the privatization process that the public share of private good production - which is still dominant - will decrease.	The bulk of private goods is produced by state enterprises because of the further on dominating planning system.
b. Is the government bound to a sound fiscal policy by law?	There is no effective legal obligation to fiscal soundness. After the record deficit of 1991 (20 per cent of GNP) it was intended to reduce the deficit to 5 per cent of GNP. But now the budget deficit is estimated to amount about 15 per cent of GNP in 1992. As a consequence of the accelerating inflation the budget is set up quarterly. Lacking an effective tax system and a reliable financial administration there is only a modest flow of revenues while the missing fiscal discipline (subsidy policy) leads to growing expenditures. A parliamentary control of the budget to strengthen fiscal soundness does not exist.	Under the pressure of international financial organisations (e.g. IMF) a budget plan was passed which included a deficit of about 2 per cent of GNP for 1992. According to reliable estimates a figure between 10 and 15 per cent seems to be more realistic; in addition the government distributes a significant amount of extra-budgetary credits. Fiscal discipline is missing because of the continuous subsidization of the old industrial structures. The revenues are lower than expected because the high tax rates cause disincentives-to-work and the financial administration is as ineffective as in Russia.	The budget plan for 1992 estimated the deficit to be 2.1 per cent of GNP. But the deficit was probably much higher. These expectations result from the flaws of the tax system, the declining income of enterprises and the missing fiscal discipline.
5.3 Social consensus			
a. Which are the major interest groups?	Western-style political parties do not exist but three major loosely organized parliamentary groups (reformers, constructive opposition, intransigent opposition). In addition numerous parties were established which are of minor importance. The association of the state enterprises (founded by A. Volskij) is widening its political influence; decentrally organized worker's councils are of local importance.	The most important political groups are the successor organization of the old communist party and the people's movement RUK.	Although some new political parties were founded the old political structures remained working. The communist nomenklatura still determines politics.

Criterion 5 continued

	Russian Federation	Ukraine	Belarus
b. What is the interest groups' attitude towards the state (not towards the government)?	At present the Russian state is changing its contours day by day. Each of the interest groups tries to influence the changes according to their political ideas. The spectrum of these ideas reaches from a democratic and pluralistic Russia to a stalinist and imperial, Soviet-style union. A lot of regional interest groups - especially in the borderlands - want their respective region to leave the Russian Federation.	There is a common policy of former communists and nationalists concerning the protection of Ukraine's independence.	The social groups and the people do not appear to be quite happy with the Belarussian independence.
c. Are there serious conflicts between government bodies and/or state powers?	At the horizontal level of the Russian Federation executive (president, government) and legislative fight for the decisive influence on the reform policy. While the executive tends to advocate market reforms, the legislative - represented by a parliament and a peoples' deputies congress elected under communist rule - is looking for a 'third way' (constructive opposition) or demands a restoration of the old planning system (intransigent opposition). At the vertical level of the federation a lot of regional powers obtained de facto independence - they simply ignore the political decisions which are made in Moscow. In some borderlands (e.g. Caucasus) civil wars sprang up.	The nationalist opposition demands an immediate leaving of the 'Commonwealth of Independent States' while the government prefers a gradual leaving. On the Crimea separatist tendencies are existing (reunification with Russia, Tartar independence).	The social and political situation is rather 'stable' up to now.

Source: See criterion 1.

Criterion 6 - Trade relations: November 1992

	Russian Federation	Ukraine	Belarus
6.1 To which extent do import restrictions exist?	<p>In January 1992 the government cancelled the import tariff of the USSR without introducing a new Russian tariff. In July a Russian tariff was introduced for the first time: 13 commodity groups at specific rates, others at a rate of 5 per cent. This tariff was changed in September 1992, i.e. it was lifted to protect domestic industries and to improve the fiscal situation. In 9 of the 13 commodity groups the rates were lifted significantly (spirit, electronics, cars up to 50 per cent) while the others came up to a rate of 15 per cent (if the trade value exceeds 10000 US \$); easements: 10 commodity groups are exempted from any duty (medical and pharmaceutical products, basic food products etc.). In the case of investment good contracts which are financed by guaranteed foreign credits Russian importers need no longer deposit 100 per cent of the value + transaction costs but now 15 per cent in rubles.</p>	<p>In April 1992 the Ukrainian parliament passed a law on foreign trade. It is intended to introduce a uniform tariff and to establish a national customs administration. The import of unhealthy goods is prohibited.</p>	<p>In January 1992 the Belarussian parliament passed a law on the export and import tariff. It authorizes the government to determine detailed customs rates. This tariff structure is still under preparation.</p>
6.2 To which extent do export restrictions exist?	<p>At present the export tariff is at a rate of 20-35 per cent. The rates for resource-intensive goods are above the average while labour-intensive goods are at comparatively low rates. The government intends to decrease the tariff level in the following years. Only exports necessary to carry through government contracts are exempted from any duty. In addition to the export tariff export quotas have been introduced, varying across the commodity groups. It is the government's intention to lift the quota-system in a piecemeal-approach, restricting it to quotas for energy, metal, chemical and wood products. All exports which could be of military relevance have to be licenced. The compulsory exchange of 50 per cent of the exporters' hard currency earnings (after 40 per cent) serves as a strong disincentive-to-export; this measure aims at stabilizing the ruble.</p>	<p>Exporters are bound by a hard-currency regulation to exchange 15-70 per cent of their hard-currency profits for domestic currency. These shares differ according to the factor-intensities of the exported goods (e.g. energy and natural resources 70 per cent). The Ukrainian parliament prepares a list of about 200 goods whose exports is to be regulated by a licencing and quota-system.</p>	<p>See criterion 6.1.</p>

Criterion 6 continued

	Russian Federation	Ukraine	Belarus
6.3 Are there still state monopolies for exports and imports?	Enterprises are permitted to carry through their foreign trade business independently. Only enterprises which have been registered in a special record have the right to export strategic raw materials. But the registration procedure does not seem to be too selective (170 enterprises already registered, 400 further applications for registration).	The state monopolies for exports and imports are liquidated. Enterprises are responsible for their foreign trade business.	See Ukraine.
6.4 Is the free movement of capital flows guaranteed?			
a. Foreign direct investment	Foreign investment legislation: (1) Registration: delivered within 21 days by Ministry of Finance; registration by Ministry of Economy in the case of investments exceeding 100 mn. rubles or investments in selected industries; (2) Equity limitations: wholly foreign-owned companies are permitted; (3) Taxation: no special tax regime for foreign investors (profits 32 per cent, dividends 13 per cent, profits from trade mediation 45 per cent); (4) Incentives: tax reductions are possible in priority or designated sectors; (5) Repatriation of profits: no restrictions concerning after-tax profits and proceeds from equity liquidation; (6) Investment protection: foreign investments are protected by law; expropriations have to be fully compensated; (7) Purchase of land: seems to be possible now (see criterion 2.2).	Foreign investment legislation: (1) Registration: registration by Ministry of Finance within 30 days if the responsible local authority has approved before; (2) Equity limitations: 100 per cent foreign companies are permitted; (3) Taxation: no special tax regime for foreigners (income 18 per cent, hard-currency income 40 per cent); (4) Incentives: various tax holidays and tax reductions depending on the origin of income, the taxable income is reduced by the sum of actual investment resp. by the reinvested profits; (5) Repatriation of profits: no restrictions concerning after-tax profits; (6) Investment protection: the respective law protects foreign investments; no expropriation without compensation; (7) Purchase of land: is not permitted.	Foreign investment legislation: (1) Registration: within 30 days if approved by a local authority, financial institutes need registration at the central bank, joint ventures need permission by the government if capital exceeds 30 mn ruble at November 1991 prices; (2) Equity limitations: no restrictions; (3) Taxation: no special tax regime for foreigners (profits 30 per cent in general, JV-profits 15 per cent); (4) Incentives: various tax holidays and tax reductions; (5) Repatriation of profits: no restrictions; (6) Investment protection: the law on foreign investments guarantees the foreign investors' property, expropriations only in emergency situations and with compensation; (7) Purchase of land: permitted under certain circumstances.

Criterion 6 continued

	Russian Federation	Ukraine	Belarus
b. Currency trade and convertability	Since July 1992 only one ruble-exchange rate is left, the interbank exchange rate. In Moscow once a week an exchange rate is determined at the interbank currency trade market; because this market only comprises a few licenced participants the exchange rate is rather distorted. The internal convertability of the ruble (i.e. for current account balance transactions) has not been introduced on 1 August as intended. As a precondition for internal convertability a stabilization of the ruble at a fixed exchange rate is regarded to be necessary; for this purpose a 6 bn US-\$ stabilization fund is to be established with the support of the IMF; the compulsory exchange of the exporters' hard currency earnings is also part of these stabilization efforts.	During 1992 the Ukrainian coupons (karbovanets) substituted the ruble step by step (see criterion 5.1). The coupons are not convertible and only serve as an interim currency. In of 1993 the hryvna was to be introduced as the new Ukrainian currency. The internal convertability of the hryvna is the government's aim. For this purpose it is planned to form a national precious metal and stone reserve. Currency auctions are organized by the central bank.	The introduction of a Belarussian currency depends on the probable dissolution of the ruble-zone. The coupons do not substitute the ruble.
6.5 Labour force mobility	Since 1991 the unrestricted migration of Russian citizens is guaranteed by law.	Labour force mobility is legally guaranteed.	See Ukraine.
Source: See criterion 1.			

REFERENCES

- Aven, P. (1992), 'Experiences, Prospects, and Policy Options: The Case of the USSR', in Siebert, H. ed, *The Transformation of Socialist Economies*, J.C.B. Mohr (Paul Siebeck), Tübingen, pp. 211-41.
- Boebel, I. (1988), *'Eigentum, Eigentumsrechte und institutioneller Wandel'*, Springer Verlag, Heidelberg and New York.
- Clement, H. and Sláma, J. (1992), 'Die wirtschaftliche Situation der Ukraine', Osteuropa-Institut München, *Working Papers*, no. 154, November.
- Deutsches Institut für Wirtschaftsforschung (DIW), Institut für Wirtschaftsforschung Halle (IWH), Institut für Weltwirtschaft (IfW) (1992a), 'Die wirtschaftliche Lage Rußlands und Weißrußlands - Systemtransformation am Scheideweg', *Kiel Discussion Papers*, no.193/194, October.
- DIW-IWH and IFW (1992b), 'Die wirtschaftliche Lage Weißrußlands - Vor der Entscheidung für die Marktwirtschaft?' *Kiel Discussion Papers*, no. 196, December.
- Fels, G., Giersch, H., Mueller-Groeling, H. and Schmidt, K-D. (1971), 'Neue Rollenverteilung in der Konjunkturpolitik', *Die Weltwirtschaft*, no. 1, pp. 5-8.
- Glismann, H. and Schrader, K. (1991), 'Zur ordnungspolitischen Situation in den Ländern Osteuropas', *Die Weltwirtschaft*, no. 2, pp. 95-129.
- Hayek, F. (1967), 'Grundsätze einer liberalen Gesellschaftsordnung'. *ORDO-Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft*, G. Fischer Verlag, Stuttgart, Jena and New York, vol. 18, pp. 11-33.
- Hayek, F. (1968), 'Der Wettbewerb als Entdeckungsverfahren', *Kieler Vorträge*, no. 68, Tübingen.
- Lindsay, M. ed. (1992), *Plan Econ Business Report*, vol. 2.
- Schrader, K. and Laaser, C-F. (1992), 'Kompromisse statt Marktwirtschaft - Reformdefizite in der Russischen Föderation, der Ukraine, Weißrußland und den baltischen Staaten', *Kiel Discussion Papers*, no. 186/187, June.
- VWD - Vereinigte Wirtschaftsdienste GmbH ed, VWD-Spezial: *Neue Bundesländer / Osteuropa*, Eschborn, various issues, 1992.