



Center for Social and Economic Research

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**Transition from a Centrally
Planned to Market Economy:
Experience of Eastern Europe
and FSU**

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Similarities between “Arab socialism” and Soviet-type socialism

- Dominance of politics and ideology over economics
- Command economy (mandatory planning)
- Price controls, subsidies, price distortions
- Key role of public ownership
- Autarky, import-substitution industrialization, protectionism
- Social employment in public sector

Differences between “Arab socialism” and Soviet-type socialism

- Greater role of private sector
- Less distorted prices, less acute shortage of basic goods
- Less acute macroeconomic disequilibria
- Less over-industrialization
- More economic openness

Transition in EE/FSU

- Macroeconomic stabilization
- Domestic and external liberalization
- Privatization and enterprise restructuring
- Institutional and legal reform
- Building a market-based social safety net
- Political reform

Macroeconomic stabilization

- Fiscal adjustment (reducing subsidies and government investment spending, market-based tax reform, creating room for SSN)
- Stopping quasi-fiscal activities of central bank
- Limiting credit expansion, active role of central bank, central bank independence, market-based monetary policy instruments
- Temporary wage control in some countries

Liberalization

- Price deregulation, removing subsidies
- Unification of exchange rate, current account convertibility
- Free private entrepreneurship, business deregulation
- Trade liberalization (unilateral then followed by AA with the EU and EU/WTO accession)
- Dismantling monobank, opening door for private and foreign banks, abolishing interest rate control

Privatization and enterprise restructuring

- Limited results of enterprise restructuring without privatization
- Corporatization works only as the intermediate stage to privatization
- The role of hard budget constraints and competition
- Experience with various privatization schemes (IPO, sales to strategic investor, voucher privatization, employee/management buy-out, debt-equity swap, joint-ventures)

Institutional and legal reform

- Building of various kind of market-support institutions and adopting market-oriented legislation
- Crucial role of independent, professionally competent and uncorrupted judiciary as well as civil service
- Helpful role of EU AA and accession

Social safety net

- Moving from subsidies and enterprise-based SSN to publicly open SSN
- Better targeting (political and institutional constraints)
- Unemployment benefits and ALMP
- Building a multi-pillar pension system
- Demographic challenges
- Mixed results of SSN (“premature post-communist welfare state”)

Comments to Nabil Sukkar's paper:

- How to define surplus labor/ over-employment (micro and macro-approach)?
- How to force public enterprises to cut over-employment (the role of market incentives and a complex reform of enterprise's environment)?
- Compensation schemes (medicine cannot be more damaging than disease)
 - early retirement schemes
 - voluntary severance schemes