

Political constraints need to be taken into account in design of transition strategy

The transition from socialism to capitalism, and the comprehensive transformation of the economic institutions of the countries concerned, is surely one of the most important economic events of the twentieth century. According to Gérard Roland of the Free University of Brussels, speaking at an IMF Institute seminar on July 6–7, future economic historians will probably remember the twentieth century for the contest that took place between the socialist and the capitalist economic systems.

The large-scale institutional changes that transition requires are among the most complex economic and social processes one can imagine, Roland said, but because the collapse of central planning in many countries was sudden and unexpected, no theories or empirically tested models for dealing with transition existed to which policymakers and strategists could turn for guidance. Given these complexities and the important stakes for hundreds of millions of people, economists cannot claim to know the right answers. The experience in policy advice to transition countries, Roland acknowledged, has been “particularly humbling.” It is important, he said, that research on transition issues be collated and systematized for the benefit of policymakers in transition countries as well as for the insights such research can provide to the study of economics at large.

Roland devoted the first part of the seminar to the political economy of reforms. The second part focused on the role of soft budget constraints (see box, pages 232–33).

Political constraints

Transition is an economy-wide process involving winners and losers. Thus, even if aggregate welfare is enhanced, political constraints are of crucial importance. These constraints, Roland said, have played an important role in the transition process in many countries, influencing both the design and the implementation of policy and affecting its outcome as well. Privatization strategies, for example, have differed markedly, depending on the political situation. In the Czech Republic, privatization was undertaken quickly, the object being to distribute assets and put ownership into the hands of outsiders as quickly as possible, leaving the new owners to undertake the necessary restructuring. In Russia, assets and ownership of privatized state enterprises were merely redistributed among the insiders, who were too strong a faction to oust.

Do political constraints matter? Some analysts have suggested that the efficiency gains from a reform pro-

gram could be used to compensate the losers. If everyone is convinced that the outcome of a full-steam-ahead reform will be positive, then no one will attempt to derail or delay the reform. In this case, political constraints should not affect the speed and sequencing of reforms, only the level of compensation. The main flaw in the theory of compensation from efficiency gains, Roland noted, is that uncertainty about the outcome—either individual or aggregate—can lead to strong resistance from potential losers that may stall or subvert the reform process. In actual experience, political constraints appear to have played a major role in the transition process. In Russia, for example, the Duma has blocked stabilization plans, and continued stalemate over key issues of reform has been a characteristic of reform politics. In all transition countries, political constraints have also played an important part in blocking parts of the restructuring process—for example, drastic cuts in state-owned enterprises and heavy worker resistance



Gérard Roland addresses an IMF Institute seminar.

IMF launches Data Quality Reference Site

In recent years, the IMF has intensified its efforts to help countries improve the quality of their data. The establishment of a Data Quality Reference Site on the IMF's Dissemination Standards Bulletin Board (<http://dsbb.imf.org>) complements earlier work by the IMF's Statistics Department on statistical methodologies and technical assistance and training activities, and the IMF's data standards initiatives—the Special Data Dissemination Standard and the General Data Dissemination System.

The main objective of the Data Quality Reference Site is to foster a common understanding of data quality. Drawing on contributions from the statistical community, the site introduces definitions of data quality, describes trade-offs among elements of data quality, and gives examples of evaluations of data quality. The reference site offers direct access to papers by experts within the statistical community and includes a basic bibliography on data quality issues. New articles and information are posted from time to time and are flagged to alert users to what's new. A comments box is provided on the site, and users are encouraged to use the box to e-mail their views to the IMF about the site.