A Conference of
The Jerome Levy Economics Institute

Moving to a Market Economy:
Economic Reform in Eastern Europe and the Soviet Union

October 25-26, 1991
October 25, 1991

Dear Colleague:

I am delighted, on behalf of The Jerome Levy Economics Institute of Bard College, to welcome you to our conference on Moving to a Market Economy: Economic Reform in Eastern Europe and the Soviet Union.

The Institute, founded in 1986, is an autonomous, independently endowed research organization. It is non-partisan and open to the examination of diverse points of view, and dedicated to public service. Each year a number of scholars from around the world are chosen to serve as resident research fellows. In addition, Institute-sponsored workshops and conferences bring together economists, business leaders, elected officials and others to analyze contemporary economic problems and suggest solutions.

Thank you for being with us, and enjoy the conference. I look forward to seeing you again at subsequent activities in the years ahead.

Sincerely,

Dimitri B. Papadimitriou
Executive Director

DBP/sh
MOVING TO A MARKET ECONOMY:
ECONOMIC REFORM IN EASTERN EUROPE
AND THE SOVIET UNION

The Soviet Union and the nations of Central Europe have all pledged to move towards becoming market economies. The presentations at this conference examine whether there are different possible objectives in this regard. Many believe that a market economy can only take one form, so that at least determining the objective is easy. Others argue that a "middle way" might be more desirable, bridging the gap between Eastern legacies and Western practices.

The conference also focuses on the enormous changes required in microeconomic and macroeconomic institutions. Topics include the resolution of property rights, the opening of markets to domestic and international competition, the privatization of state-owned enterprises, as well as the creation of financial structures and monetary policy. An attempt is made to provide answers to such questions as what kinds of economies and societies would these nations like to establish? How should economic possibilities and social goals be reconciled? And, what influences should culture, history and politics play?

The Institute believes in the potential for economic study to improve the human condition. Its purpose is to generate viable, effective public policy responses to important economic problems. It is concerned with issues that profoundly affect the quality of life in the United States, other highly industrialized nations, and countries with developing economies.
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THE JEROME LEVY ECONOMICS INSTITUTE
of Bard College

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Friday, October 25th

9:00 am – 9:15 am  WELCOMING REMARKS
S Jay LEVY, The Jerome Levy Economics Institute

9:15 am – 10:45 am  SESSION I

*Microeconomic Reform: The Creation of Markets, Development Rights, Constitutional Principles*

Chair: Kenneth KOFORD, The Jerome Levy Economics Institute and University of Delaware

John LITWACK, Stanford University—"Property Rights and Law as Commitment Devices"

Jeffrey B. MILLER, University of Delaware, Kenneth J. KOFORD, The Jerome Levy Economics Institute and University of Delaware and David C. COLANDER, Middlebury College—"Application of Market Anti-Inflation Plans in the Transition to a Market Economy"

Janet MITCHELL, Cornell University—"Making Firms Financially Responsible: The Bankruptcy Problem and the Soft Budget Constraint"

DISCUSSION

Dennis C. MUELLER, University of Maryland
J.M. MONTIAS, Yale University
10:45 am – 11:00 am  
**BREAK**

11:00 am – 12:30 pm  
**SESSION II**

*Reform in Eastern Europe*

**Chair:** Ryszard FRELEK, The Jerome Levy Economics Institute

Stanislaw WELLISZ and Maciej IWANEK, Columbia University—*The Privatization of the Polish Economy*

Stephan PETRANOV, Institute of Economics, Bulgarian Academy of Sciences—*Bulgarian Reform and the Opening of the Bulgarian Economy*

Istvan ABEL, Wesleyan University—*Hungary*

**DISCUSSION**

Frederic PRYOR, Swarthmore College
Egon NEUBERGER, SUNY—Stony Brook
Cezary JÓZEFIAK, Senator—Polish Republic

12:30 pm  
**LUNCH**

**Speaker:** Mancur OLSON, University of Maryland—*The Key to a Successful Transition to a Market Economy*

3:00 pm – 5:30 pm  
**SESSION III**

*Soviet Union: Economic Policy*

**Chair:** Vladimir SHLAPENTOKH, Michigan State University

Egor GAIDAR, Institute of Economic Policy, USSR Academy of Sciences—*Current State of the Soviet Economic Reform: Prospects of Economic Union Agreement*

Igor NIT, Economic Advisor to Boris Yeltsin, President of the RSFSR—*Prospects for Economic Reform of the Russian Economy*

**DISCUSSION**

James LEITZEL, Duke University and Hoover Institution
Martin SPECHLER, Indiana University
5:30 pm - 6:30 pm    RECEPTION
6:30 pm - 8:15 pm    DINNER

8:15 pm    PLENARY SESSION WITH OPEN DISCUSSION

  Alternative Reform Paths

Chair: William LUNT, Vassar College

Michael KEREN, Hebrew University—"On the (Im)Possibility of Market Socialism"

David COLANDER, Middlebury College—"Rights and Responsibility in a Market Economy"

Kenneth KOFORD, The Jerome Levy Economics Institute and University of Delaware—"Why the Ex-Communist Countries Should Take the 'Middle-Way' to the Market Economy"

Saturday, October 26th

8:30 am - 10:15 am    SESSION IV

  Macroeconomic Reform: Financial Institutions, International Trade

Chair: Jeffrey B. MILLER, University of Delaware

David KEMME, Wichita State University—"Reform of Banking and Credit in Eastern Europe"

Linda GOLDBERG, New York University—"USSR Foreign Currency Markets: How Much Flexibility in Flexible Exchange Rates?"

John BONIN, Wesleyan University and Istvan ABEL, Wesleyan University—"Nonperforming Loans and Trade Credit: Implications for Monetary Policy in the Transition"

DISCUSSION

James LEITZEL, Duke University and Hoover Institution
Jeffrey B. MILLER, University of Delaware
10:15 am – 10:45 am  BREAK

10:45 am – 12:30 pm  SESSION V

Soviet Union: Social Elements of Reform

Chair: Richard C. WILES, Bard College

Vladimir SHLAPENTOKH, Michigan State University—"The Mythology of Privatization—A New Phenomenon in Russia"

Donald S. KELLERMAN, Times Mirror Center for the People and the Press—
"The Times Mirror Survey: Eastern European and Soviet Views of Economic Reform and Social Change"

DISCUSSION

Kenneth KOFORD, The Jerome Levy Economics Institute and University of Delaware
Sanjib BARUAH, Bard College

12:30 pm – 1:30 pm  LUNCH

1:30 pm – 3:00 pm  POLICY FORUM

How Can /Should the U.S. Help?

Chair: Dimitri B. PAPADIMITRIOU, The Jerome Levy Economics Institute and Bard College

James LEITZEL, Duke University and Hoover Institution
David COLANDER, Middlebury College
Igor NIT, Economic Advisor to Boris Yeltsin, President of the RSFSR
Cezary JÓZEFIAK, Senator—Polish Republic
LIST OF PARTICIPANTS

ISTVAN ABEL, Ph.D, Budapest University; Associate Professor, Budapest University of Economics, currently visiting Wesleyan University. In 1988–1990, he was economic advisor for the Hungarian government. Founding member and, from 1991, Executive Committee member of the International Society for Inventory Research. From 1978 through 1987, he was researcher in the Hungarian Ministry of Finance. Research topics: behavior of regulated enterprise, macro inventory models, monetary and fiscal policy in transforming economies. He has published in International Economic Review, Acta Economica, Engineering Costs and Production Economies, Jahrbuch der Wirtschaft Osteuropas.

SANJIB BARUAH, Ph.D, University of Chicago; Associate Professor of Political Studies, Bard College and a Research Associate of the South Asia Center, Syracuse University. Dr. Baruah has also taught at the University of Wisconsin–Madison, and Syracuse University. He is the author of articles in Asian Survey, Cultural Survival Quarterly, Development and Change, Socialism and Democracy and South Asia Bulletin. Dr. Baruah is a contributor to economic journals, newspapers and magazines and appears on National Public Radio programs, including All Things Considered, Morning Edition and Weekend Edition.

JOHN P. BONIN, Ph.D, University of Rochester; Professor of Economics, Wesleyan University. He was chair of the Economics Department from 1987 to 1991. Visiting appointments at Yale University, University of California, University of British Columbia, University of London (U.K.) and University of Washington. His field work has been in Hungary with current research collaborator, Istvan Abel. His publications consist of five books (four translations from French with his wife Helene of books in mathematical economics), over twenty-five journal articles, and several book reviews. Fields of research interest are the theory of worker management, incentives in non-market systems, and the economics of transforming countries. He has published in the American Economic Review, Economica, the Journal of Comparative Economics and other journals. Currently he is working on a long-term project concerning the transformation with Istvan Abel. With two other colleagues, he has completed a review article on producer cooperatives for the Journal of Economic Literature. He has been invited by the State Secretary of Economic Reform in Romania to visit the country and prepare an advisory report for the government next spring.

DAVID COLANDER, Christian A. Johnson Distinguished Professor of Economics, Middlebury College. He has written many books and articles, including Macroeconomics, History of Economic Theory (with Harry Landreth, Why Aren't Economists as Important as Garbagemen? and MAP: A Market Anti-inflation Plan (with Abba Lerner). His introductory text, The Art of Economics, will be published in 1992. He is currently working on a book entitled The Third Way, an exploration of economic systems that are neither capitalist nor socialist.
RYSZARD FRELEK, specialist in international relations; formerly Poland's Ambassador to the United Nations (1980–1981). Professor Frelek is the former director of the Polish Institute of International Affairs and professor at the University of Warsaw Faculty of Journalism and Political Sciences. He was a member of the Board of the Institute for East-West Security Studies in New York from 1981–1991 and is the author of novels and plays. He is currently a Resident Scholar on a grant from the Bard Center of Bard College.

EGOR T. GAIDAR, graduated from the Moscow State University in 1978 and took his post-graduate studies in the School of Economics of Moscow University specializing in microeconomics. He received his Ph.D. degree from Moscow University in 1980 and joined the All-Union Institute of System Analysis the same year. He participated in a number of research projects on problems of economic reforms in the socialist countries, and received his Doctor of Economics for research in this area in 1989. From 1987 till 1990 he worked as an editor in the section of economic policy in a magazine with nationwide circulation. Since the end of 1990 he has been the Director of the Institute of Economic Policy of the USSR Academy of National Economy and USSR Academy of Sciences.

LINDA S. GOLDBERG, Ph.D, Princeton University; Assistant Professor of Economics, New York University and Research Fellow of the National Bureau of Economic Research. Professor Goldberg’s main area of specialization is in the field of international finance, with an emphasis on the implications and sustainability of alternative exchange-rate systems. Her current work focuses on the exchange-rate regimes in Eastern Europe and the Soviet Union, and the effects of alternative regimes on production patterns, trade flows, investment flows, and black-market activities.

CEZARY JÓZEFIAK, member of the Senate of the Polish parliament from the Solidarity movement, with which he was strongly linked from the beginning. Professor of political economy at the University of Łódź, formerly dean of the Economic Faculty of this university and director of the Institute of Political Economy. Author of many books and publications in this field. At present, director of the Institute of Economic Sciences of the Polish Academy of Sciences in Warsaw.

DONALD S. KELLERMAN, Director, Times Mirror Center for the People and the Press. This Center has recently directed a major survey, "The Pulse of Europe: A Survey of Political and Social Values and Attitudes."
DAVID M. KEMME, Ph.D, Ohio State University; Professor of Economics and W. Frank Barton Faculty Fellow in the Barton School of Business at Wichita State University. Prior to his appointment he was Pew Scholar-in-Residence at the Institute for East-West Security Studies in New York from 1989–91. He was a Fulbright Lecturer at the Main School of Planning and Statistics in Warsaw, Poland in 1981–82. Dr. Kemme has published extensively on the economics of the Soviet Union and Eastern Europe in journals such as the *Journal of Comparative Economics, Soviet Studies, Economic Systems* and *Economics of Planning*. He has edited three books and has recently published a monograph *Economic Transition in the Soviet Union and Eastern Europe: Issues and Strategies*.

MICHAEL KEREN, Ph.D, Yale University; Professor of Economics, Hebrew University, Jerusalem, Israel. He worked for six years in the Israeli development planning bureaucracy and has, for many years, researched the ex-GDR economy, in particular the East German reform experiments since the early 1960s. Recently, Dr. Keren has been studying the structure of, and incentives in bureaucracies, of which the Soviet-type planning hierarchy is an example. He has also worked on transition problems in Eastern Europe.

KENNETH KOFORD, Ph.D, UCLA; Associate Professor of Economics and of Political Science at the University of Delaware and a Resident Scholar at the Jerome Levy Economics Institute of Bard College for 1991. His recent research has concentrated on economic models of legislatures, where he currently has a research grant from NSF, and incentive plans to reduce inflation and unemployment. His project at the Levy Institute applies such incentive plans to develop policies for the move to a market economy in the ex-communist countries.

JAMES LEITZEL, Ph.D, Duke University; Associate Professor of Public Policy Studies at Duke University in Durham, North Carolina; and a 1991–92 National Fellow at the Hoover Institution at Stanford University. Dr. Leitzel's research has generally involved applications of microeconomic theory to issues in contracting. He is currently engaged in a year-long research project on Soviet economic reform at the Hoover Institution. The research focuses on the interaction of informal economic activity with reform measures. Dr. Leitzel and his frequent research collaborators on Soviet economic reform, Professor Michael Alexeev of George Mason University and Dr. Clifford Gaddy of the Brookings Institution, have written "An Economic Analysis of the Ruble Overhang," which is forthcoming in *Communist Economics and Economic Transformation*.

S JAY LEVY, Chairman of the Board of Governors of the Jerome Levy Economics Institute of Bard College, began his economic career in 1946 when he and his father, Jerome Levy, started an economic forecasting business for a limited number of clients. In 1949 they inaugurated *Industry Forecasts*, which today is the oldest paid circulation letter devoted to economic forecasting analysis. S Jay Levy has been a consultant to major industrial and financial corporations and has lectured and written widely on economic matters. He is the co-author, with David Levy, of *Profits and the Future of American Society*, 1983.
JOHN LITWACK, Ph.D, University of Pennsylvania; Assistant Professor of Economics, Stanford University. Dr. Litwack is a specialist in the Soviet economy, the theory of property rights in socialist economies and the reform of ex-communist countries.

WILLIAM E. LUNT, Ph.D, Stanford University; Associate Professor of Economics, Vassar College. Dr. Lunt's current research interests include unit roots and cointegration in macroeconomic models, and chaos in financial models. He has also examined the merits of alternative economic systems.

JEFFREY B. MILLER, Ph.D, University of Pennsylvania; Associate Professor of Economics, University of Delaware. Dr. Miller has written in both in both macroeconomic and comparative economic systems. His published papers include the analysis of managerial incentives in organizations, especially dynamic systems. With Kenneth Koford, he has organized a large A.I.D. project to teach market economics in Bulgaria.

JANET MITCHELL, Ph.D, Northwestern University; Assistant Professor of Economics, Cornell University. Dr. Mitchell has a research grant from the National Science Foundation, "An Economic Analysis of Bankruptcy Laws and Financial Institutions in Reforming Socialist Economies," and a grant in 1988–89 from the National Council for Soviet and East European Research, "The Economics of Bankruptcy in Reforming Socialist Economies." She has worked in Yugoslavia, Hungary and Tunisia. Dr. Mitchell's publications include "Managerial Discipline, Productivity, and Bankruptcy in Capitalist and Socialist Economies," Comparative Economic Studies and "Perfect Equilibrium and Intergenerational Conflict in a Model of Cooperative Enterprise Growth," Journal of Economic Theory.


DENNIS C. MUELLER, Ph.D, Princeton University; Professor of Economics, University of Maryland. He also taught at Cornell University. He was a Research Fellow and is former Director of the Berlin International Institute of Management (part of the Science Center Berlin). Professor Mueller is a former President of the Industrial Organization Society, Public Choice Society, Southern Economic Association, and E.A.R.I.E. (European Association for Research in Industrial Economics). His publications include the books Profits in the Long Run, The Modern Corporation, Public Choice and Public Choice II, and many articles. His current research is a book entitled Constitutional Democracy.
EGON NEÜBERGER, is Professor of Economics and former Chair, Dean and Vice Provost at SUNY – Stony Brook. He has taught at Amherst College, UCLA and the University of Michigan. His research examines the interplay between theoretical and empirical investigations of economic systems, with special emphasis on the Soviet Union and Eastern Europe (long before this became fashionable). He specialized in this area as an intelligence analyst in the Department of State in the early 1950s and at the RAND Corporation in the 1960s. He served as Economic Officer at the American Embassy in Moscow in 1952–53. Dr. Neuberger's contributions have been recognized by inclusion in Who's Who in Economics and Who's Who in America, and by election as President of the Association for Comparative Economic Studies. He has recently published articles on economic reform, planning, socialist firms, privatization, and joint ventures in the Soviet Union and Eastern Europe. He is currently collaborating on a monograph on Comparative Economics, and is preparing courses on "Transition Economics" in the Soviet Union and Eastern Europe to be given next spring at the Central European University in Prague and as a Chattaqua course at Stony Brook.

IGOR NIT is the Chief Economic Advisor to the President of the Russian Republic, Boris Yeltsin.

MANCUR OLSON is Distinguished Professor of Economics at the University of Maryland, and in 1990–91, a Distinguished Fellow of the U.S. Institute of Peace. His published books include The Rise and Decline of Nations and The Logic of Collective Action. He is Principal Investigator under a Cooperative Agreement between the US AID and the University of Maryland on Institutional Reform and the Informal Sector.


STEFAN PETRANOV, Ph.D, is a Research Associate at the Institute of Economics, Bulgarian Academy of Sciences, Department of "Analyses and Forecasts". He is also a consultant at the Central Statistical Office and the Bulgarian National Bank. His scientific interests include economics of transition and economic forecasting. In 1986 he won the First National prize for young scientists in Bulgaria in the field of social sciences. He was President (1987–90) of "Club Economics 2000"—a non profit organization of scientists and practitioners in the field of economics. Currently Mr. Petranov is studying monetary policy in Bulgaria under an Alexander Hamilton Fellowship at the University of Delaware.
FREDERIC PRYOR is Professor of Economics at Swarthmore College and the author of seven books on various aspects of the economies of communist nations. His latest book, The Red and the Green: The Rise and Fall of Collectivized Agriculture, covers the economies of Marxist regimes in both East Europe and the Third World and will be published by Princeton University Press in early 1992. In the last few years he has travelled extensively in various Marxist nations and many of his recent articles on decollectivization have been based on materials gathered during these trips.

VLADIMIR SLAPENTOKH was a Senior Fellow in the Sociological Institute in Moscow before emigrating to the U.S. in 1979. He has published ten books and many professional articles about Soviet issues. Since 1982 he has worked as a consultant to the United States government, regularly reporting on social processes, ideology and public opinion in the Soviet Union. Dr. Shlapentokh is currently a Professor in the Departments of Sociology and Community Health Science at Michigan State University, where his research interests include comparative studies of health systems and services in the U.S. and the Soviet Union. His latest publications include: Snapshots of Life During Perestroika: Monitoring Events in Moscow Between 1984 and 1991, forthcoming (Praeger) and Soviet Intellectual and Political Power (Princeton University Press, 1990).

MARTIN C. SPECHLER, Ph.D, Harvard University; After teaching at Harvard, he joined the faculty at the Hebrew University of Jerusalem. At present he is Professor of Economics at Indiana University (Indianapolis). He is the author of a book Perspectives in Economic Thought and of more than forty articles and chapters on comparative economics, economic history, and socio-economic theory. During 1990–91 he studied conversion of military enterprises to civilian purposes as a guest of the USSR Academy of Sciences Institute of Economics in Moscow. He recently returned from Sweden, Poland, and Germany and is working on a paper about US, West and East European experiences with conversion.

STANISLAW WELLISZ is a Professor of Economics at Columbia University. Before joining the Columbia faculty he had a tenured post at the University of Chicago Graduate School of Business. His visiting positions include the London School of Economics; The University of the Bosphorus, Istanbul; the Stockholm Institute for International Economic Studies; Warsaw University and the Catholic University at Lublin, Poland. Dr. Wellisz has worked on numerous consulting assignments for the World Bank, the IMF and for other agencies in Asia, the Middle East, Africa and Latin America. Since the formation of the Solidarity-led government he took an active part in discussions on the formulation of Poland's reform program. During the 1990–91 academic year he was an Adviser of the Polish Minister of Finance, a member of the Advisory Council to the Prime Minister, and of the Supervisory Council on Mass Privatization. He is an author of a book on the Economics of the Soviet Bloc and of numerous articles on development and on international political economy, and co-author, with Ronald Findlay, of a forthcoming book on Small Open Economies.
RICHARD C. WILES, Ph.D, Clark University; The Charles Ranlett Flint Professor of Economics, Bard College. Dr. Wiles is a contributor to Economic History Review, Review of Social Economy, and Eighteenth Century Studies, and published "The Development of Mercantilist Economic Thought" in Lowry (ed.), Pre-Classical Political Economy. He is the Director of Hudson Valley Studies at Bard College and Faculty Director of Bard College Libraries.