

English Summaries

DAN GRINDEA and HENRI J. VARTIAINEN*: *General Scheme for Transition from Centrally-planned to a Free-Market Economy.*

The proposed »General scheme» suggests a programme of action for policymakers in the previous Communist countries. It is designed to transform the economy in logical sequence to a market economy, and to provide prospective foreign investors and international financial organizations with a frame of reference for judging the risks and maturities involved.

The main objectives of the transition should be political democratization from bottom to top, rapid replacement of the old state apparatus with new open-minded people who have nothing to lose when old privileges are dismantled; privatization of economic infrastructure and creation of a new investment environment based on real incentives; creation of liberal and rational labour legislation, trade and accounting practices, framework of rules for price system, banking and finance; promotion of the capital market; convertibility of currency; new approach and receptive attitudes towards market fetures to attract population to entrepreneurship and motivated work effort.

Interrelation between privatisation and liberalization of prices is important. Liberating prices without an extensive private sector to produce and sell will lead to excessive monopoly prices and renewed claims for Government intervention. Conversely, privatization without

efficient consumers' markets leads to unemployment and frustrations. It may be impossible to avoid high inflation and unemployment — the plaques of many a western country — but the right timing of measures will make the adjustment less painful. There is much to be said for the »shock therapy» but results, produced mainly in Poland by the Sachs experiment, are not entirely convincing. Liberalization of prices has in the first place favoured big state enterprises, who have been able to raise prices in face of insufficient competition. It is difficult to apply shock therapy on an economy-wide basis, as large state-owned enterprises cannot be privatizing overnight. But small and medium-sized firms producing consumer goods should be privatized rapidly, contributing to the creation of a competitive environment.

Our programme assumes the use of a mix of instruments combining shock and gradual therapy with »mini» and »maxi» privatization models. The mini-privatization focuses on agriculture, services and consumer goods, and can be combined with a programme designed to stimulate migration of the labour force from huge state enterprises to smaller ones and from cities to countryside, given appropriate incentives. Another programme should be designed to attract the excess monetary liquidity of the system by auctions, attractive saving schemes or various bonds tied to multiple functions, or monetary reforms with multiple exchange rates.

The maxi-privatization aims at restructuring big state-owned enterprises in various ways: shutting down obsolete factories, breaking big plants into small and medium-sized efficient companies attractive to investors, issuing shares for companies to be privatized, and setting up a special fund for privatization purposes. The fund could tap the following sources:

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auctioning state property, selling shares of privatized companies, absorbing temporary surpluses generated in the banking system or saving schemes, investable reserve assets of pensions and insurance plans, budgetary savings, and finally venture capital from abroad. An essential component is the convertibility of currency, for which some recurring auctions are only a pale substitute.

Three major stages are outlined in the report. The first period should take no more than half a year and it entails establishing the groundrules: building up correct information systems on the real state of the economy and introducing Western standards of accounting practices and national accounting. Guidelines of economic strategies should be explored for the options of privatization, continuance or closing of producing plants, and the main rules for foreign investment should be laid down.

The second period, that of mobilizing internal resources, is divided into two steps. During the first one, the following goals should be pursued: restoration of full private ownership in agriculture, trade and services; careful handling of some economic and financial instruments such as credits, taxation, small business promotion etc.; restructuring of the state budget to conform to modern budgeting principles; banking and monetary reforms giving the central bank an independent role in formulating money supply and interest rate policies, and devising an attractive foreign exchange rate mechanism linked first to different purposes (trade, profit or capital repatriation, tourism) and gradually to be unified to single exchange

rate, as well as incentive systems to make banks more effective in allocating capital and absorbing excess liquidity from the market; privatization of the infrastructure system, especially transportation of consumer goods. Further recommendations include creation of free zones with appropriate fiscal incentives and enactment of new labour laws consistent with a free-market economy and modern welfare state.

Policies of the second step concentrate on privatization of large state enterprises. Creation of private banks and insurance companies including foreign ones is encouraged. Capital markets should be developed to cater for increasing variety of capital market instruments. Competition should be encouraged also by liberalizing imports.

The third period would see the consolidation of the fragile and active market mechanism. We would see a revival in real growth of productivity, more efficient distribution of the labour force, increasing competition, lower inflation and improvement in people's standard of living. Gradual integration to the world economy reactivates former ties with the Western economies, gives rise to cooperation with international economic integration and increases the creditworthiness of the emerging market economies as borrowers in the international financial markets. But a creative participation of the human mind is an essential factor for the transition process to be successful, and this a real challenge for the new governments still seeking to establish their credibility.

JUHA KETTUNEN: *Re-Employment and Labour Mobility of Unemployed Workers.*

In the search theoretical literature it has been generally argued that unemployment insurance has a disincentive effect on re-employment. This article studies the incentives of unemployed workers towards re-employment using the results of search theory and semiparametric

econometric methods based on individual data on unemployment durations. The econometric study is based on a microeconomic data set including 2077 unemployed workers. The sample has been taken from the persons becoming unemployed in 1985. Every hundredth individual was picked from the flow into unemployment. The individuals were then followed until the end of 1986.

Referring to the search theoretical results it is argued that the re-employment probability can be increased substantially by offering re-employment bonuses to the unemployed persons. Other means of encouraging workers to take jobs are to remove the protective mobility rules of the Finnish Unemployment Insurance Act and to reduce the benefits after a

fixed period of unemployment. Using econometric models it is shown that these measures would be effective in increasing the re-employment probability. Politically these kinds of changes may be difficult, but on the other hand the welfare of all the unemployed persons can be increased by removing the waiting period of benefits.

<p>Kansantaloudellisen aikakauskirjan palvelukortti</p> <p>Asiakasnumero _____ (numerosarja osoitelipukkeesta)</p> <p>Muutan osoitettani ____/____ 199 ____ alkaen</p> <p>Vanha osoite</p> <p>_____</p> <p>Sukunimi _____ Etunimi _____</p> <p>Jakeluosoite</p> <p>_____</p> <p>Postinumero _____ Postitoimipaikka _____ Puhelin _____</p> <p>Uusi osoite</p> <p>_____</p> <p>Jakeluosoite</p> <p>_____</p> <p>Postinumero _____ Postitoimipaikka _____ Puhelin _____</p>	<p style="text-align: center;">Kirje- maksu</p> <p>Kansantaloudellinen aikakauskirja c/o Tuula Torvi Valtion taloudellinen tutkimuskeskus PL 269 00531 Helsinki</p>
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