

Systems Research Institute, Polish Academy of Sciences

Preprints

TRANSITION TO ADVANCED MARKET ECONOMIES



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SESSION 3

OWNERSHIP CHANGES

TAXATION AND THE OPTIMAL RATE OF PRIVATIZATION IN CENTRAL AND EASTERN EUROPE

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This paper analyzes the optimal speed with which a command based economy should carry out privatization of state controlled enterprises. I begin building a model which captures the trade off between the long term gains that are likely to result from privatization and the short term transitional losses. I then posit a welfare function and compute the optimal privatization rate as the economy approaches the new steady state.

Losses occur as workers face increased unemployment along the transition path. In response, the government offers an unemployment benefits package paid for by taxes on either labor or capital income. A central part of the analysis is the role that different tax regimes play in affecting the privatization process.

The last part of the paper considers simulation results of the optimal transition path. Here I consider the role that "market support institutions" play. These institutions facilitate the smooth operations of markets and consist of, among other things, banking, legal, and regulatory system, as well as capital markets. Resources will have to be expended to create these institutions and an important question is whether the development of the private sector should precede or follow the development of these institutions.

PRIVATIZATION, INFLATION, AND SUPER-OPTIMUM SOLUTIONS: IN RUSSIA AND EASTERN EUROPE

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The changes that are occurring in Eastern Europe and in many other regions and nations of the world provide an excellent opportunity to apply systematic policy analysis to determining such basic matters as how to organize the economy, the government, and other social institutions. Super-optimum solutions refer to public policy alternatives that can enable conservatives, liberals, and other major viewpoints to all come out ahead of their best initial expectations simultaneously. The problems of privatization and inflation can illustrate what is involved in super-optimum solutions.

PRIVATIZATION IN POLAND: CONFLICTS, NEGOTIATION AND POLICIES

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In 1990 there seemed to be a consensus in Poland as to the need of rapid ownership changes within the economy. Two years later this goal still remains at the top of political agenda, but the picture is less clear-cut. It appeared that there are inconsistencies of interests among various sections of the society, what has been reflected in designing and implementing the privatization processes.

In the paper we shall consider the problem of ownership changes, taking into account the existence of conflicts of interests. Such situations can be conceptualized and analyzed as games. The aim of such an analysis is to obtain insights into the nature of decisions made by various groups of interests. We can distinguish, for instance, the interests of employees, state treasury, managers, consumers, domestic and foreign investors, etc. A basic step in our approach is to identify the goals of particular groups, which seems to be a trivial task but is not - the goals that drive a group's activity may be short- or long-run, they also may be based on real interests or they can result from public campaigns or prejudices. An important thing is also the information structure, i.e. who knows what and when. This, in turn, allows us to think of feasible sets of strategies of particular actors. The usual way of making key decisions concerning such issues as privatization suggests that the process can be thought of as a bargaining game. Trying to formalize the problem in that way implies drawing our attention to aspects that are not always noticed when talking of privatization processes.

DEMONOPOLIZATION AND PRIVATIZATION IN THE POST-SOVIET ECONOMY

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The level of production concentration is very high in the previous Soviet economy. There are many large enterprises and a few medium/small sized ones in industry. Almost each relevant market has only one or two producers/sellers. State property covers the huge part of the economy. Barriers to market entry are very high. But the goal of the reform is the transition to the market economy. Free and fair competition among enterprises serves as the main regulator for such type of economy. So we need to demonopolize our economy as soon as possible.

Creation of sufficient number of producers and sellers in relevant markets is one of the most important directions of anti-monopoly policy. It may be done through:

- opening of new enterprises (medium and small),
- diversiture of large amalgamations and enterprises,
- diversification of production within operating enterprises,
- bidding of large enterprise assets.

Scholars know two major means of privatization. Fast - proportional distribution of state property among all citizens of the country. Excess diffusion of property may be bad result of such actions. Slow (British variant) transition of state enterprises into stock companies is done under control of state holdings (commercial banks) and after sanitation security must be sold to private persons at market price. It is more probable that we shall have mixed privatization strategy in the USSR.

Nowadays it is clear that demonopolization can not be done without privatization of the whole economy. Several state enterprises at relevant market can not solve the monopoly problem. Competition among them is impossible because of rigid bureaucratic control and limited prices. So the main means of demonopolization is privatization of state enterprises under diversification, divestiture and opening of new independent units.

EFFECT OF PRIVATIZATION ON THE PERFORMANCE OF ENTERPRISES. A CASE STUDY

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Ownership transformation are the prerequisite of creation and efficient functioning of a market economy. The Privatization of the state enterprises is of particular importance in the process of privatization of Polish economy, due to the very high share of public sector in creating gross national product (over 85%). Capital privatization is of the greatest importance among the methods of transformation employed, due to its function of creating a capital market.

The object of the paper is to attempt evaluation of the effect of privatization on the changes in performance and efficiency of an enterprise. Former studies of privatization showed different degree of adaptation of the privatized enterprises to the rules of market economy. The paper includes analysis of the factors deciding on the success of the privatization case under research. Identification of the new variables is extremely important in the circumstances of the new rules of the economic system and considering the size of the recession in the Polish economy. We shall concentrate on the description of the behaviour of the enterprise, and we shall especially wonder to what extent they are characteristic as the patterns of reacting of the state enterprises, and to what extent they are new in quality, closer to the behaviour of the private entities in the market economy.

PRIVATIZATION AT THE ENTERPRISE LEVEL

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Realisation of the market economy in Poland creates the necessity of the so called commercialization of many enterprises and other establishments owned by the state. The problem is not limited to the change of state property to the private one. Proper solutions have to take into account many aspects which are connected with the type of an enterprise, with social problems, with managing problems and others.

Proper solutions have to be different for various enterprises. The discussion of the matter is based on some examples.

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