The International Economic and Finance Organisations in the CEES

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The past two decades witnessed three key major changes in the geopolitical ‘bloc’ of east-central Europe. One has been the gradual political and economic implosion of the Soviet system, which started at the time Mikhail Gorbachev became the secretary general of the Soviet Communist Party. Obviously proper causal links are hard to extricate in this paper. The second change was the falling apart of the Soviet ‘satellite’ countries in Central and South-East Europe from the command economy and their warm welcome both to democratic systems and the jump into the ‘market wagon’. Third, the dissolution of Tito’s Yugoslavia and the formation of five independent states. In this new context new challenges have been permeating the region, although further economic developments are the most pressing result to achieve.

Whatever are the developments in each of these countries, this new broad scenario induced the ‘working’ mission of certain international economic organizations since the early stage of transition. In the light of a high degree of trust in these institutions, major international political actors have accredited them to be of help and guide to these new market economies. Moreover, since the early efforts made by Gorbachev to let his own country join economic and political fora, the international organisations have been becoming strategic in shaping political economy in every transitional country. This involvement proved unusually extreme in the degree and intensity of policy prescriptions and this despite the loan subsidy amounts provided to recipient countries. This type of financial involvement kept low when judged by global GDP standard but about domestic political economy ‘ownership’. Young domestic reformists and policymakers

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inspired by what came under the heading of ‘Washington consensus’ inaugurated a new strategy of doing ‘transitional economics’.

On top of this ‘intrigant’ scenario it came up confidence that this new ‘consensus’ would have been favourable to the entire region of east-central Europe, which many actors transformed in the second ‘lab’ of orthodox policies (the first ‘lab’ was the experience of Latin America countries made some period before). In fact, it has been the cause of some concern and the IMF’s backing could have produced better economic outcomes. However, while I will be arguing that standardised techniques failed in effectiveness when carried out in transition countries, the involvement of an international institution working as a lender of last resorts may retain some credible value as long as it comes under reformulated circumstances of more coordination between international and domestic actors.

The logic of a new consensus

In interpreting the internal logic that is continuing to shape all-important decisions made by these organizations across the region, reckoning the performance of international organisations in a general perspective is important. In doing so, it proves important to consider the past decade’s profound political and economic restructuring occurred in the region, although the major case study is South-East Europe, where there coexist deep asymmetries in the formulation of the building of nation and state, political stability and economic recovery.

The outcome occurred across the region was not painless, however. On one side, formerly Yugoslavia imploded into five new independent states: they are now either on top of recovery or keep clashing on the ethnical sphere. On the other side, the countries that were not belonging to formerly Yugoslavia underwent a much smoother passage from prior paternalistic state policy to market, despite economic and social fields have been nearly in every place unfortunate.

Having said that, the forsaking of the socialist-based economy – although it was showing economic distortions to varying extent (see, among others, Sergi,2 2000 and 2001) – had impacts on the methods of production and social consequences. Not taken into account the poor economic performance, the region was entirely amalgamated into the West as for trade and investment flows. The economy in the region rebounded at the turn of the century while proving able to tame inflation to some extent.

These achievements were supported by the West too. As reported in table 1, some twenty billion euros were given to the region over the previous three years both for reconstruction, macroeconomic and stabilisation supports, and for humanitarian assistance. The IMF provided

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2 In his papers it is offered a comprehensive analysis of the distortions inherited from past paternalistic political economy and how the role of new consensus-type architecture can properly suit the development of this region.
financial assistance up to $1.8 billion as of the end of the year 2000 while the World Bank has provided advices, grants, loans and a total financial assistance to date totalling $2.4 billion³.

| Table 1 - Assistance obtained by South-Eastern countries |
|--------------------------------|-----|-----|-----|
| Reconstruction and economic development  | 1999 | 2000 | 2001 |
| Humanitarian assistance                  | 1,344 | 405  | 440  |
|                                             | 2,681 | 4,683 | 4,835 |

Note: The amount of assistance is calculated in million euros on a commitment basis.

Sources: World Bank and European Commission.

Why the West has been involved in the Eastern evolution? Under a mere trade and flow of capital reason it was strictly linked to secure stability. But there was more than an unquestionable reason for why the IMF was judged to be the most suitable organisation to operate in transition. The Soviet bloc was to integrate into the world economy and this apart from the abandonment of the bloc’s trade system, which in fact occurred in 1989 when several member countries started breaking away. This would have opened local markets to goods and investment from the West as it took really place although the West firstly privileged the countries of Central Europe and recently Russia and other former Soviet countries oil exporters. Moreover, the balance of payments could have threatened world stability by creating waves of contagion from one country to another in the region – and rather not only in the region – if these countries were unstable. And the instability was likely to become the primary outcome should effective responses not be taken. At that time the world economy could not bear the consequence of a ship adrift, even if in 1997-1998 the Asian crisis and the rouble crash come out⁴.

Thus, political risks were so immense either and the IMF turned in the sole important institution to have technicalities and ‘core competencies’ to manage the Russian case. But in fact it was the very first step of broader involvement in the whole region. It was the beginning of the ‘Washington consensus’ applied to post-Communist economies. Political and economic efforts from the West to help officially Russia started in the eighties under Gorbachev, then scattered across the region although at different points in time (see Table 2). The IMF started signing loan and conditionality agreements with every country in the region but FR of Yugoslavia and Turkmenistan⁵. Only recently in June 2001, FR of Yugoslavia was assigned an assistance programme after an Emergency Post-Conflict Assistance Programme. In the end, the IMF’s economists were becoming the most involved and powerful in European transition matters.

³ These figures are sourced from Demekas et al., (2002).
⁵ See Stone (2002) for an additional discussion.
The IMF logic has shaped policies in nearly all transition economies through conditionality policy, advises and indirectly by ‘alien textbooks’ (the definition belongs to Simonia, 2002). This has taken into account the evolution of domestic events too. A series of arrangements regarding south-eastern countries are listed in Table 2.

Table 2 - IMF Lending to South-East Countries, 1990-2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Stand-By Arrangements</th>
<th>Extended Arrangements</th>
<th>Poverty Reduction and Growth Facilities (Facility2) Trust Fund</th>
<th>First and Last Year of Arrangements</th>
<th>Amount Agreed</th>
<th>Amount Drawn</th>
<th>Amount Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>1</td>
<td>-</td>
<td>3*</td>
<td>1992 – 2002</td>
<td>135,400</td>
<td>93,225</td>
<td>61,888</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6</td>
<td>1</td>
<td>-</td>
<td>1991 – 2002</td>
<td>2,213,000</td>
<td>1,682,760</td>
<td>773,783</td>
</tr>
<tr>
<td>Croatia</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1994 – 2001</td>
<td>618,560</td>
<td>41,860</td>
<td>23,983</td>
</tr>
<tr>
<td>Hungary</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>1990 – 1996</td>
<td>1,877,390</td>
<td>741,305</td>
<td>0</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1</td>
<td>1</td>
<td>1+2</td>
<td>1995 – 2000</td>
<td>111,310</td>
<td>52,452</td>
<td>30,152</td>
</tr>
<tr>
<td>Slovenia</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>FR Yugoslavia</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>2001 – 2002</td>
<td>850,000</td>
<td>300,000</td>
<td>300,000</td>
</tr>
</tbody>
</table>

Note: In thousands of SDRs. *) One of the loans to Albania was made available under the Enhanced Structural Adjustment Facility Trust Fund in 1993.
Source: International Monetary Fund.

Nevertheless, also the World Bank, NGOs and independent economists were not less immune from having exercised a variety of institutional ‘tutelage’ or scientific guidance. For instance, when it has been dictated Polish authorities not to issue direct, subsided industrial loans under a World Bank loan agreement. Also Western NGOs tried to cultivate liberal values through Russia where millions of people are daily preoccupied with basic needs of food and the ‘alien textbooks’ advanced wizard devices that in fact do not correspond with transition realities. Not to say that already at the time of the ‘grand bargain’, Gregory Yavlinky and other six Russian economists fluttered to Cambridge, Mass., in order to discuss an economic reform plan with the economists at Harvard University. Several economists were appointed as independent consultants. It follows that whatever is true for international organisations is true for independent economists!

As a matter of fact, despite a wide variety of views our learning of economic transitions is still inadequate and perhaps if we were back to 1990 we would find hard to set up a painless transition despite the knowledge we have gained through to our days.

6 For a discussion of IMF conditionality, see Tabb (2002), especially pp. 57-70.
Nevertheless, in order to put my analysis under a correct angle, I ought to think logically about the manner the Western institutions helped and advised. In doing so, I introduce the notion of ‘Western activism’, use Stone’s (2002) analysis that distinguishes between small and large countries and point to certain criticism moved to IMF. Nevertheless, not less decisive proved the domestic conditions of instability and missing institutional building, which can explain a relevant part of the failure occurred over the nineties. The engagement of international organisations and domestic state of affairs make noticeably a general criticism to make sense of past failures.

‘Letters of intent’ and the conditionality policy
The IMF underwent various focusing stages after the Bretton Woods meeting in 1944 where is was created as the global institution responsible for looking after the world economic stability. The idea was to commit all participating countries to a fixed exchange rate arrangement, where the US dollar was pegged to gold and other currencies to the dollar. But in the sixties the system ran into problems and collapsed in the early seventies. The core mission is in fact unchanged, that is, to maintain a stable global financial system, but the fixed exchange rate was no longer deemed suitable to the collective action problem in monetary policy. Prescriptions and policies advocated by the IMF soared in line with the indebtedness of Latin America countries in the seventies and the economic crisis in the eighties. Outstanding debts of member countries to IMF went close to $30 bn by 1980, more than doubled by 1985, and kept high in the following years. Mexico, Korea, Indonesia and Russia are instructive examples in both halves of the world. These countries were helped with large loan packages (sometimes large in domestic GDP too) characterised by numerous ‘conditions’ and very detailed ‘letters of intent’ that were specifying both structural benchmarks and dates. However, whereas until the eighties the ‘conditionality’ policy was largely considering macroeconomic variables such as domestic credit expansion and the degree of public deficits, the IMF diversified conditions (spanning from monetary and fiscal policies to labour markets, enterprises governance, etc.), this also contingent on the criticism that the Fund was narrowing its ‘monitoring’ to the stability of the system without caring of the real growth of countries. That is, critics were pushing the IMF to acquire an active and complex role, in which the balance of payment equilibrium is one a component of more structural policies advised by the IMF to borrowing countries. In fact, such kind of ‘special’ consultancy role is also offered to all countries through its renowned research department.

In recent times, it is underway a refocusing of conditionality policies. It was launched especially short after the new IMF Managing Director, Horst Köhler, took power in the year 2000. The new focus of activity is to (a) distinguish between what is relevant but not critical to the objectives of a programme and (b) improve the division of labour between the IMF and the
World Bank in a way that they share the conditionality policy (see, among others, Ahmed et al., 2001). This evolution rests on an improper economic rationale, at least according to my point of view.

**Western activism**

What I call ‘Western activism’ has been extensively used in the analysis of transition countries in the evaluation of national domestic policies. The concrete involvement could be to break down into the two major hypotheses as advanced recently by Stone (2002). The case in which one country is not small and thereby exerting influence upon international decisions (one instructive example could be Russia) and the smaller countries that have the least economic and political influence instead. Thus, the countries belonging to the latter group have scarce influence upon the international conditionality loans and fall beneath the pure orthodoxy of inedible ‘equilibrium policies’ and ‘incoherent’ hasty policies as dictated by the ‘Washington consensus’.

While the effectiveness of such activism may be put under a sort of ‘critique’, I argue that although the ‘conditionality policy’ has been the cause of some concern especially on the side of stabilisation and recovery, it still retains a great value. Yet it has to be ‘shared’ with domestic actors. In order to puzzle out my proposal, it helps the ‘controversy’ advanced by Joseph Stiglitz about IMF economists. Stiglitz is a worldwide famous economist, winner in 2001 of the Nobel Prize in economics, but especially former World Bank deputy president and chief economist. In his recent *Globalization and its Discontent* (2002), he moves an unusual attack to the way transition has been made, that would have brought to these countries an unprecedented poverty. Moreover, he states that Russian transition would have been engineered by the domestic international economic organizations in contrast to China’s experience where all the process was a truly fact of domestic designers. But Stiglitz also argued that the economists working at IMF are frequently third rank, although from first-rate universities. This is a first ‘insider’ strike to IMF’s respectability, to a much lesser extent to World Bank’s. In addition, he stated that the economists working at IMF would often be not as good as the better-trained local economists. This is not a strike *per se* to IMF, but it serves instead as the ground of my pragmatic analysis.

But let me explore the IMF’s own prospective. Conditionality would be implemented thorough programmes designed at monitoring whether agreed policies are implemented in a timely and effective manner. For such agreed policies the IMF intends these programmes that come out

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9 This critique was quoted in Tabb (2002), p. 62, and sourced from Stiglitz’s article ‘What I have Learned at the World Economic Crisis’, *The New Republic*, 17 April 2000.
after a compromise between the country’s officials and the IMF’s. Along this line moves Stone (2002) who maintains the hypothesis that the IMF would have abandoned the attempt to enforce rigorous credible policies in Russia (a large country) already by 1992 in favour of a series of compromises. Thereby, in certain cases the IMF’s programmes resulted of scarce effectiveness, as the IMF commitment was not credibly carried through. But if the IMF shares the implementation of some programme entirely with domestic authorities, this comes at odd with Stiglitz’s views and what articulated in this paper. Nevertheless, this can be a paradox, especially round the term of ‘compromise’.

In contrast, I am not convinced at all of Stiglitz’s view that the economists working at IMF are frequently third-rank. Them together the better ‘trained economists’ in the transition economies could envisage workable and ‘demythologised’ economic strategies. That is, neither a compromise nor deviate from IMF conditionality policy of the type described earlier. Reconciling conditionality and country ownership to make use of the Khan and Sharma (2002) paper title can only result effective through a sort of three-dimension governance of international functionaries, domestic experts and domestic policymakers to give rise to a enduring transition could be feasible. What we have to reinterpret neither are the exact boundaries of the IMF’s letters of intent (that have not to be substituted by reports written by independent economists that may contain the same faults) nor sharing conditionality with World Bank, but instead to qualify the role of the international institutions in a way that they become joint partners in the recovery. That is, we could read the Stiglitz second statement as follows: the economists working ‘nationally’ could think about ‘transition economics’ perhaps better than those working at IMF headquarters and at other involved international institutions, as they have knowledge of both scientific tools and domestic social and economic markets and realness.

The IMF’s policy tutelage and domestic ownership

In principle, the IMF conditionality policy tutelage can be a substitute for entrenched domestic institutions, thereby monitoring compliance with stabilisation programmes and offering rewards and punishments enough to trust the system of a full-committed credible policy. Simply it mattered to credibility, but the IMF may have acted differently. For example, when Yeltsin reelection was in danger, the Fund’s managing director flew to Moscow to announce that an extended $10 billion loans was to be released soon. Also in 1992, ten days before the Group of Seven meeting in London, the IMF’s managing director flew to Moscow to smooth the differences between the Fund and Moscow over the conditional inflation target to be included in a $ 24 billion package announced by Bush. In contrast, in the early and mid nineties the IMF constrained the choices of other central European states. Examples are the governments of central Europe (Poland, Czechoslovakia and Hungary) forced to abandon plans to purse non-liberal economic programmes. Other examples were the currency boards set up in Bosnia and Bulgaria. Their establishment was decided during the 1996 ‘negotiations’, when it was explicitly
tied the continuing receipt of financial support to the establishment of currency boards. In sum, a complex net of relations and policy tutelage arose out of this new approach. However, this is not to say that the abstract ‘Washington consensus’ and the administrative ‘policy tutelage’ are wrong per se. Instead, they are as they should be read in advanced and strong economies. In contrast, it was somewhat unfair in transitional economies where these market characteristics were not in place. Another misunderstanding has been unambiguous: the kick-off of transformation and the next government-type needed some special guiding principles. In fact, I have proposed an ‘Eastern consensus’ first and then a ‘Bruxelles consensus’ as an alternative to the ‘Washington consensus’, where a larger role to the European Commission would be welcome (see Sergi, forthcoming).

**Domestic or external failures?**

In the light of what I said earlier, the IMF began exercising power on these economies shaping part of domestic economic choices. It exerted significant influence over these economies’ balance of payment strategies as in fact in its core charter policy. As well, in the sphere of fiscal and monetary policy the IMF acted as a distinctive advisor, being it understood as in its own autonomy to operate conditionality. The numerous interplays contemporaneously shaping economic variables could not led the functionaries working at the IMF to look after the balance of payments without exercising a ‘tutelage’ on the complexity of the phenomenon. These previous facts are matters of facts. However, it has a certain value that the IMF cannot threaten to impose lengthy punishments in large countries and countries that receive substantial amounts of foreign aid from the US (Stone, 2002). Whereas in small countries the IMF is a very important actor in establishing credibility for stabilisation policies, this did not take place in Russia. In the specific transition case, the IMF was thought to be responsible for qualitative and quantitative developments. Indeed criticisms were generalized in such a way as to include all the outcomes occurred in the region in the ‘diplomatic bag’ of the IMF. It is true that the IMF has been facilitating a refocusing of ‘conditionality’, where the number of structural benchmarks decreases and comes under coordination with the World Bank. This could probably prove an important step but in itself is not sufficient. But still critics are numerous, although defenders are not a few (see Chari and Kehoe, 1999, for an overview of the various positions in the literature). As concerns the

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10 Stone (2002) reaches econometric evidence by employing monthly economic and political time series for twenty-six countries over the nineties. On one side, one of Stone’s criticism was that most of the previous studies are based upon a narrow number of observations, which in fact explains the insignificance and inconsistency of the weak evidence encountered on saving, growth, investment, balance of payments, current account, real exchange rate, inflation, government deficit and consumption. On the other hand, previous studies that employ annual data (note that only a few of them use quarterly data and none monthly ) result less sensitive than Stone’s one. Stone (2002), too, carefully surveyed the literature on the effectiveness of the Fund’s policies, chapter 3.
transition countries, two views are particularly interesting. One was advanced by Welfens (1999) who made the resolute statement about the role played by the IMF seen as responsible for the Russian transformation disaster “which probably is the first case that an international organization instead of solving a major international problem actually reinforced it”\textsuperscript{11}. Under a different angle, Simonia (2002) argues that the IMF prompt the Russian bulk of foreign debt first to cover its budget deficits and to support the rouble within a set of foreign exchange rates. The inefficient use of credits and loans flew into Russia since the eighties and continued in the nineties. Then, when this situation had brought Russia to default, the necessity justified additional borrowing to save the ill-starred rouble. In fact a financial pyramid of foreign debt, which resulted in all foreign debt as high as some 55 percent in GDP in 1998 (Simonia, 2002). Contrary to expectations, I believe the IMF has played an important role also in Russia where the first economic programme went into effect at the beginning of 1992. Yet they only partially enforced the IMF’s conditions, and they made several mistakes not in calibrating certain policies locally\textsuperscript{12} or in adopting policies that were not imposed by the IMF as Russia’s pegging the rouble in 1995: transition economies did not ‘coherently’ complied with the logic of the Western consensus. There also counted a politic ineptness of young reformers. Nevertheless, internal culpability of misguided policies and misuse of IMF funds affected capital flight also find strong evidence of corrupt leaders and great incapacableness to set forward appropriate policies. Neither internal culpability nor foreign advisers can gloss over their responsibility for the failure of announcements and policies minded delivering a rapid recovery\textsuperscript{13}.

However, can I attribute reform failures to either domestic conduct flaw or external bad advises and unbearable sequencing of the whole economic strategy? Still, the role of foreign advisers and IMF was due not on the enforcing rules as such, but on the total absent knowledge of local markets and social state of affairs. Perhaps, the failure of some reforms was not avoidable in the light of the demanding transformation. In some cases, when circumstances were right, the IMF did exactly what the model predicts: it tipped the balance of incentives in favour of a long-run strategy of fiscal and monetary restraint, and partially reinforced the credibility of governments that were not all on the truck of wise political economy. But the point was the missed domestic response through economic stimuli. Nevertheless, and as well put by Easterly (2001), people respond to incentives and the international organisation involved in the process of transition were at fault when interpreting growth without responding to this basic principle. What these incentives are? Although referring to developing countries, appropriate incentives in the style of Easterly could be assured by keeping inflation down, abhorring high government deficits, no restriction on free trade, etc. Still, however, this negative interpretation does not deny the very role of such international organizations.

\textsuperscript{11} Welfens (1999), p. 134.
\textsuperscript{12} See Tabb (2002) for a through discussion of these issues.
\textsuperscript{13} For a similar insight, see Braithwaite (2002).
**Simplistic economic architecture**

Together the Russian experience, which is the most visible, and the other transition countries cannot lead to dismiss altogether the very role that international organizations may play in the future. The place to start is to distinguish carefully between the basic strategy of transition and the specific tactical choices made in Russia, as well in other transition countries. One an instructive example is Kyrgyzstan. This country embraced market reforms, hurried the privatization process, and endorsed the structural adjustment programme of the IMF through healthy public finances and monetary stability. Nevertheless, this country’s economy continued to fall. Another example was that the Czech economy, which by mid nineties ranked as the most advanced in the transformation and after that changed prospects to some extent. But what I do not found fitting this setting is the observation that IMF ‘mistakes are sealed’ as expressed, among others, by Tabb (2002). Although many important details of what the Fund does are not available to any outsiders and the IMF does not believe in the transparency it urges on others14 – recent refocusing of the IMF’s conditionality policy goes the right direction, however – the intimate logic that steers IMF activities cannot be ‘sealed’ as mistakes in the effectiveness of prescriptions and policies advocated by the IMF are no secret over time.

What all of us have to ponder are the effective choices made by the IMF, other international organisations and independent experts. The operational decisions – whatever the ideological source – were all based upon few economic principles, which have provided straightforward counseling, such as the best ways of targeting exchange rates, the ideal method of privatization, and the optimal sequence of structural reforms. Therefore, the IMF supported programmes in countries that chose a wide range of approaches to these issues, while not avoiding submitting specific policies. They turned out very poorly, but contrariwise some voices that perhaps were outside the inner IMF circle, yet we do not know what form of economic strategy would have worked properly, if at all.

**Reshaping versus dismissing**

As it is not thinkable that the IMF could be dismissed, its action has to be moved into different phases and in different forms. That is, let to think on the logical sequencing of reforms and the exact involvement of actors. Yet without a close working relationship with domestic experts and policymakers it is difficult to reshape the IMF mission. One a mistake was a too oversimplified approach. This is not to say that the IMF’s experts were mistaken when thinking about the need of macroeconomic stabilisation, but in the absolute credence that Western principles would have worked in transition painless. The everyday life in a system that has shaped over many generations and the vastness and the complexity of the region would have required far more specific and ad hoc suited policies. Basic stabilization of prices and privatisation policy devoting to restructuring the complex industrial system went along a systematic encouragement

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14 Tabb (2002), advances this type of criticism as a strong point against the IMF’s conditionality policy, p. 61.
of all available dimensions of political economy, privileging in particular public finances and inflation. This does not mean that I reject the importance of macroeconomic stabilisation, but turning a blind eye on certain spheres of the markets has been an oversight. The proper timing and sequencing of reforms carry some weight and all institutional actors involved in this region together with independent experts failed. *Western experts on the region were not in bad faith but have miscalculated the exact extent of policy choices although the great strides towards the achievement of results.*

Therefore, the logic of the IMF to step in this field was to center the basic macroeconomic objectives on a counter inflationary strategy and macroeconomics stabilisation. Perhaps, these actors would have done better through a reasonable price stability policy and a fair process of privatization. This did not happen at all. Another mistake was to say – voiced from the experts who came later or were simply excluded from inner IMF circles – that the attempts worked poorly because were not focusing on the microeconomic side of the transformation and on the appropriate exchange rate mechanism. Yet, this requires to enlighten two points. First, the overall programme of transformation has caused some array of outcomes that no one could have forecast as it was no other experience of this kind around the world (apart from the Chinese case that retains its own peculiarity in the light of the strong communist party). Second, these countries do not need all but a new and comprehensive programme of recovery, including micro and macro reforms, reindustrialise the countries under a different perspective, keep pace with domestic markets, prepare the system and the working class to asymmetries between restructuring and investment, tackle the social aspects that determine at least a political consensus, and the like: *all these aspects were missing in the ‘letters of intent’ simply because the tactical choice of the international interference was the wrong one.*

After a decade of experience, in fact this was not the strategy best suited to underwent transition at no social costs. And from a pure political point of view, in Russia, nostalgia for the Brezhnev era was in the middle of the nineties somewhat reappearing, in other countries left-wing governments are reappearing as a reaction of past strategic failures. Inflation is only part of the story, and countries with either very low inflation or high inflation can be usually growth alike. Other aspect is about the wealth distribution that skewed upon inflation. It is true that the oversimplified IMF strategy appeared risky from the vantage point of the nineties (Stone, 2002). The transition experience had to be observed also in the light of the large underground economy, mafia and corruption phenomena, and the like. Although these aspects show up to different extent across countries, focusing the overall judgement of IMF on inflation is a bit hazardous. As well reducing the whole quarrel to shock-gradual therapy.

True, low inflation let countries suffer a smaller drop in output than those that continued to endure the ravages of inflation. They attracted foreign investment and began to grow, laying the groundwork for long-term prosperity and political stability. Economies that failed to tame inflation declined more precipitously and continued to decline long after the transition had been completed in the countries that were more successful. In addition, the low-inflation countries
maintained much less skewed distribution of wealth and income, maintained more social services, sustained a higher quality of life, and industrial restructuring.

The evidence for the post-Communist countries is striking. In fact, in countries like Russia, on the other hand, potentially lucrative investments remained mired in political risk and economic uncertainty\textsuperscript{15} or stock bubbles in Central Europe. Hyperinflation occurred in Poland (1990), Yugoslavia (1990), and Bulgaria (in the fall 1996 and early 1997), high inflation almost everywhere in the region. The need for stabilization, and the ultimate financial arrangements of currency boards became essential in some economy\textsuperscript{16}. Currency boards would have served to prevent crisis from occurring and to stabilise the systems, but also to integrate domestic economies in the world markets, under which regain strategic alliances and make domestic markets more opened to foreign business community. High inflation leads to a skewed distribution of wealth. Similarly, high rates of inflation and access to subsidised credits for privileged persons led to the pervasive pattern of manager ownership, frequently called ‘nomenklatura privatization’ that has tarnished the legitimacy of Russian reform. Although they distributed most of the shares in enterprises to their workers, managers ended with controlling interests because they were able to buy up shares with cheap credits and repay the loans with deflated currency. Workers, on the other hand, had higher discount rates because they did not have access to subsidized credits, so they sold. While elites with political access gained in inflationary times, ordinary citizens suffered because with no access to arbitrage opportunities saw their savings eroded and their wages and pensions failed in real terms. In the post-Communist context, therefore, the first step towards establishing political legitimacy for reform was replaced on keeping an inflation process under check.

\textbf{Concluding remarks}

My main task is to advance fresh angles of reading the ‘conditionality policy’ of international economic organisations and reinterpret their intimate logic that guided economic conditionality, prescriptions, and so forth. In this paper, I have reinterpreted the ‘conditionality policy’ and ‘policy tutelage’ of international economic organisations.

My very first stage was constructed around the passage from one paternalistic economy setting to another, which could have produced instability and ‘contagion’ beyond the region: a broad stability and the least contagion were achieved. Then, I considered the function of the IMF, the World Bank and other special-purpose involved institutions for being statutorily engaged in providing help to these economies, and I argued that no observer can consider serviceable to turn down these institutions’ mission. The third point was constructed around a mixture of responsibility and culpability of ‘international’ officials, domestic policymakers and

\textsuperscript{15} For example, Russian banks made most of their profits in the early years of the transition by taking subsidised credits from the Central Bank of Russia, investing in foreign currency and repaying the credits after the rouble fell.

\textsuperscript{16} See the remarkable book edited by Zloch-Christy (2000).
independent economists. These international institutions have acted in a way that has prevented a factual and closer co-ordination between actors themselves. This logic was neither respective of domestic special economic conditions nor recognised that these economies were unable to comply with Western principles altogether: indeed in the short- and medium-term our reformulated logic would have been beneficial and not harmful. Domestic mistakes were not absent: a missing pre-emptive institutional building has distorted domestic incentives (the aspects that prove important in Easterly’s analysis) that have partially nullified the efforts made by the West. By creating stronger domestic institutions would have benefited twice because more stable domestic institutions and environment could boost incentives. Therefore, stronger domestic institutions and ‘national-trained’ economists can shape workable policies and realistic objectives with international ‘officials’ in that without having to stick to ‘alien textbooks’ proposition.

The point is that these countries have not to pay any price to international economic organisations’ logic in terms of domestic autonomy that comes under the view of ‘ownership’ but to reinvent their intervention to serve these countries’ interests. Nevertheless, my approach is indeed important and has dangers too, however. If a number of aspects that are arising from the experiences of the past decade suggest the need for a transition to be done at home and not imposed from abroad, it would also be unquestionable that without a strong internal stability and credibility no autonomy may achieve results.

And in an international context, it results true that capital markets will be playing an important role in enforcing bargain and highlight possible paradoxes. As the volume of international transaction increases, national governments became increasingly subjected to the power of markets. In the past, FDI punished Russia but not Poland, Hungary, Slovakia and Central Europe on the whole. Recent signals are of encouragement in selected Balkans too. In this context, credible domestic settings matter a great deal for establishing a working business environment.

Perhaps colleagues and practitioners with little enthusiasm will receive one aspect of my analysis or rather consider it in contrast with other views I have expressed elsewhere. However, while the arguments advanced in this paper do not contrast with my earlier ones, what this paper in fact advances is the importance to avoid both a continuous uncertainty over a definitive political economy stance and the definitive risk of falling between two stools: policymakers who adopt neither a viable economic stance made upon a three-dimension arrangement nor proper sticking to the diktat policies of international functionaries.

References


