THE NEED FOR AN INDUSTRIAL POLICY IN THE TRANSITION: QUESTIONS AND CHALLENGES

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Introduction

The size of the recession together with the financial and social costs of the ongoing transformations which characterise the economies in transition, following the disruption of the socialist system, requires a critical evaluation of the policies conceived and implemented, which have essentially concentrated on the macroeconomic level.

The underestimation of the specificity of the real sphere and the level of rigidities and inelasticity in response to the macroeconomic signals have had excessively adverse consequences on the supply side and the social fabric.

Undoubtedly the creation of new growth patterns and the dismantling of the previous system based on physical planned targets, require an unknown encompassing process involving not only the economic sphere but also the overall system of governance. The character of systemic change consequently implies contemporaneous needs in:

- structural adjustments to the new market requirements;
- the creation of new instruments of economic regulation;
- the establishment and enforcement of new rules (legal basis);
- the creation of new institutions for implementing structural reforms;
- adapting social behaviour to the ongoing modifications in the economic as well as the social sphere.

The size of the task inevitably bore the difficulties to adapt the single policy within a coordinated global framework by short and long term perspectives, and numerous trade-offs appear between each policy and the timing of its achievement: there are consequently objective technical difficulties in implementing and synchronising each policy. The boundaries between the objective difficulties and concern about the theoretically-based policy approach are difficult to draw, but this fact cannot diminish the necessity of evaluating the shortcomings that characterised the prevailing policy choices during the first years of transition, and the excessive expectations that have thereby been raised.

We want to focus our attention on the material sphere, emphasising the need to promote a specific policy with regard to microeconomic responses: an industrial policy conceived for transition.

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1. Trade-off between Macroeconomic Targets and Microeconomic Adjustments

The weight of the past legacy has proved to be more resistant to the changes that have taken place in the macroeconomic sphere, in particular as far as performance of the industrial sector is concerned.

(i) The level of structural distortions, in the former planned economies, is closely linked with the oversized industry and their adjustments to new market rules have primarily to establish new microeconomic foundations. The targets in the planned economies were based on the principle of the dominance of the physical accumulation of assets and industry was the core of such a model of growth. The economy of shortage was a consequence of the mode of functioning of the productive sphere and the macroeconomic regulation was carried out by the centralised distribution of resources, through the plan and its administrative tools (administrative prices, subsidies, centralised investments) based on the principle of control over the physical factors: the atrophisation of the monetary sphere and the subordination of the financial sphere to material targets, were the natural consequences of such a model. The financial flows were merely steered by the centralised administrative criteria of allocation. This deep-rooted past gave rise to such rigidities and imbalances that only in the long term perspective could new positive assets be restored – this process is inevitably time-consuming;

(ii) After the commencement of the new phase, macroeconomic policy with the employment of new market regulatory instruments, has been aimed at stabilisation in most of the countries, while on the structural side the main goal has been that of the disinvestment of the State from the productive sphere, through budget cuts and the launch of privatisation programmes, which represented the main target concerning the microeconomic sphere.

The stabilisation policies have achieved some initial positive results, as in Poland and in the Czech Republic, such as:

- the start in clearing prices, as first step for the removal of the repressed inflation that appeared beneath the state of shortage;
- the relative success in controlling inflation through tight monetary and fiscal policies, absorbing the monetary overhang (such as in Poland);
- the slow-down of the State Budget deficit by means of a sharp cut in expenditures (subsidies, central investments) and the introduction of the new tax system.

Those successful first results did not bring the expected adjustments in the microeconomic sphere where the initial adequacy to the new financial and monetary constraints had adverse effects on the supply side. The fall in industrial output may be partially ascribed to the excessive rigour of the fiscal and credit policies [Calvo A. and F. Coricelli, 1992] besides the external factors, such as the collapse of CMEA trade [Richter S. and L. Toth, 1993] in terms of supply-shock (loss of cheap supplies from the CMEA) and then demand-shock (the disruption of CMEA market outlets).