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TRADE, INTEGRATION AND TRANSITION

INTERNATIONAL CONFERENCE IN MEMORIAM

BELA BALASSA

Edited by:

Roger Grawe and András Inotai

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DISCUSSION NO. 1

JÁNOS KORNAI

Unfortunately, this very interesting and exacting paper, almost 200 pages long, reached me too late to read it with the care and attention it deserves. So what follows is an account of my first impressions of it, which are rather mixed.

I was glad to see that the author and I agree on the most important conclusions. I find the train of thought convincing, and the introduction and consistent application of the twin notions of discipline and encouragement very effective. The dual approach helps in understanding a rather divergent set of problems and providing a well–organized account of them.

However, this division of the two notions sometimes seems to have been applied a bit too rigidly. It is certainly correct to analyze the old and the new companies separately, the privatized, formerly state–owned firms on the one hand, and the newly created, from the outset privately owned firms, on the other. What I did not find justified was to demand only of the former, old companies an observance of tight discipline and to turn encouragingly only to the latter. Some of the new companies are also trying to duck out of the constraints of market discipline.

The participants at this conference include people employed by the World Bank and, let me add, people who are friends of the Bank, myself being one of them. Precisely because we are among friends here, I would like to express myself very frankly about a few problems relating to the World Bank. I am a researcher not a diplomat, and I will not be guarded in what I say.

One problem that this paper prompts me to mention is the lack of institutional self–appraisal. In times gone by there have been debates on all the essential issues: privatization, macroeconomic stabilization, fiscal reforms and so on. More than ten years have elapsed since the first such debates. Looking back from this distance, it becomes possible to say something about who was right and who was wrong.

We are not weather forecasters, simply responsible for giving the right forecast but not for the weather itself. Everyone who gives advice to policy–makers is responsible for the advice given. The activity of those whose advice helped to point out the right road has been useful, but in the opposite case, it has done damage, even if unintentionally.

I do not suggest we become embroiled in mutual accusations. What I am calling for is self–appraisal. If you were right, you are justified in saying that time has proved your right. If you were not, you must acknowledge that, in accordance with the moral imperative of intellectual honesty.

I feel I have a right to emphasize the importance of self–appraisal, as I have done so time and again in my long career as a researcher. Not long ago, the World Bank published a paper of mine entitled "Ten Years After *The Road to a Free Economy:* The Author's Self–Evaluation",[1] in which I attempted to evaluate where I had been right and where I had been wrong. So far as I can see, my example has not really found followers ten years after the post–socialist transition began.

Certainly, the paper I have been asked to comment on avoids doing so. Nor are the present authors the only World Bank staffers to refrain from doing so. Only a few months ago, I read a lengthy study by Johannes F. Linn, Vice President of the World Bank, assessing the first decade of transition. I found no trace of institutional self–appraisal in it.

In my case, it was a personal self–appraisal. What I am referring to now is the absence of collective, institutional self–appraisal. The writers of today's papers may not have been World Bank employees ten years ago, but the institution existed and took part in the debates. Very much so! Its official views or the half–formal and half–informal positions its employees took were very influential, partly because they came from Washington D.C. and conveyed the consensus of opinion there, and partly because they were uttered by highly trained economists, who were greatly respected by less trained economists in the post–socialist region.

Let us take an example. *Now* the World Bank emphasizes the importance of the *new* entries, the outstanding role played by the newly created private companies. So far so good – but at least two observations should be added:

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[1] Annual World Bank Conference on Development Economics, 2000. Boris Pleskovic and Nicholas Stern, eds., Washington D.C.: The World Bank, 2001, p. 49-66.

1. This issue was pointed out right at the beginning by several economists, including myself. (My paper just quoted carries a list of those who took this view; see p. 52.)

2. This point of view, which later proved right, was taken at the time only by a minority of economists in the West. The overwhelming majority concentrated their intellectual attention and legislative and judicial capacity, on the swiftest possible privatization of the old state–owned enterprises. One of the main promoters of this majority view was the World Bank. World Bank economists dealing with the problem almost entirely ignored the opinion of the minority. Only recently has the former group begun to adopt the other view, with guileless expressions, as if it were a self–evident, trivial thought, which the World Bank had always advocated. That is unacceptable in my view.

The other problem I would like to raise connects with the first in several respects: the way the World Bank has related itself to the discourse on the economic reform and the transition taking place *within* the transition countries, in their political and academic arenas.

Let us acknowledge that there has been such a discourse. In many places and periods, it has been a very lively and heated debate indeed. There have been clashes of professional views, convictions, values and philosophies. These have been very important. The actual changes taking place in the transition countries were always preceded by a maturation of the intention to change, in the minds of politicians, economic experts and shapers of public opinion, and ultimately in the whole population of the country concerned.

The paper being discussed now makes no mention of this linkage. It is easy to check this statement by glancing at the list of references. People employed by the World Bank (or by the IMF and EBRD) primarily quote each other. There are a few citations of one or two well–known American academics. Hardly any references are made to Western European experts, and works written in countries formerly behind the Iron Curtain are totally ignored. In this study, the one exception, as far as I can see, is Balcerowicz.

This widespread routine within the World Bank is harmful from several points of view. It deprives World Bank analysts of very important sources of thorough knowledge of their subject. For instance, this paper gives rather a superficial account of the reforms of the pension system and health sector. It may well be (or at least, the sentences on the subject provide grounds for suspecting) that they were based solely on World Bank materials on these subjects, and ignore entirely the heated debates that have taken place on pension and health reforms in the transition countries. Such an approach by the authors of World Bank papers is an affront to the national intelligentsias of the transition countries. It hurts the professional sensitivity of economists, political scientists and sociologists there.

One of the authors, Dr Mitra, who is present here, is personally a very kind and modest man. But the paper, like many other World Bank studies, shows arrogance and disrespect when it ignores entirely the views of colleagues working in the transition countries.

Such disrespect is nothing new. It is a longstanding tradition. Although it is quite widespread, it is not the exclusive type of behavior shown. One shining example of a wholly different stance was Bela Balassa, who always sought to meet Hungarian economists representing a colourful political spectrum whenever he visited Hungary. Those meetings were not matters of politeness. Bela Balassa really listened to what was said. He paid respect to local discourse and set out to learn from the various arguments he heard. That shows the modesty of a true scholar, in possession of immense knowledge, who knew also that there is a lot to learn from others. I would like to see the World Bank experts of today increasingly following the example of Bela Balassa in this respect as well.