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Monetary Aspects of Recent Developments in Eastern Europe*

A Summarized Assessment by
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1. Introduction: The Context of Problems

The centrally planned economies (CPEs) of the former socialist countries shared a common trait: they were predominantly based on a *barter, i.e., nonmonetary system.*[1] Production planning — which goods have to be manufactured in which quantities? — was made by means of the so-called *balance-sheet method*, confronting real goods against one another: which production factors are available and which ones are required in order to attain a specific market-supply target? In final analysis, every economic system has to cope with optimal procedures to overcome shortages of certain goods. For this very reason, the economic system must be capable of signaling or visualizing such shortages.[2] The *shortage concept* underlying the functionality of the CPEs refers to balances or "balance sheets" indicating the difference between available and required production factors.[3] The system is in a state of *equilibrium* whenever the *balance sheets* do not show any *excess balances, i.e.*, when they are perfectly balanced. If such an economic order is implemented in its "pure form," it practically *would not need any monetary sector.* Monetary values or figures are not intended to exercise any effect or influence on the overall planning of the economy. Money, *i.e.*, means of payment in general, has the sole purpose of rendering possible economic transactions, which in their turn reflect planning priorities; the monetary sector in a CPE plays thus to a large extent a *passive role.*

In the voluminous works of Karl Marx, this basic idea is expressed in several passages in a *close to visionary form.* "When there is a socialist mode of production, the monetary capital is eliminated. Society at large distributes labour and means of production on the various business lines. In my opinion, the producers...may receive allocations permitting them to withdraw from the stocks of goods for consumption a certain quantity equal to their work."[4] Or in another passage: "The workers get allocations as evidence of the work they did perform and as entitlement to obtain goods for consumption."[5] These two quotations lead to the conclusion that in a *communist economy* the distribution of goods on the basis of pecuniary income and of prices would not in any way be *justified.* Markets as institutional embodiment of a specific economic control and steering principle[6] — where the monetary sector is assigned an *active part* — are instead replaced by a system of *overall economic planning.*

In spite of the above mentioned quotations of Marx being somewhat hazy and scarcely precise, their essential content can be interpreted as advocating introduction of a *rationalization and allotment system* and simultaneously of a *nonmonetary economy*[7] — a procedure certainly in tune with the functional logic of a centrally planned system which might also be defined as an *allotment economy* or *allocation economy.* In such areas, where this principle has not yet been fully implemented in the system, failures and disruptions must therefore occur. As an example, this is indeed the case with distribution of consumer goods by means of "administrative" prices, which necessarily deviate from prices determined by an equilibrated market and which can readily be identified as a major cause of the disequilibrium prevailing in the markets for consumer goods (queues, black markets, underground economy). Substitution of these "administrative" prices by *direct allotment* of goods would certainly have corresponded far better to the economic system's inherent logic. The socialist literature specializing in the CPE-theory qualifies such shortcomings, *i.e.*, incompatibilities, as necessary drawbacks during a *transitory period* of coexistence between socialist and "capitalist" elements in the economic framework; these drawbacks have to be put up with until full implementation of the communist social system.

Well, this vision has not been concretized, as everyone realizes. It is true that the monetary sector has been *very much restricted*, depriving it at the same time — not entirely, but to a large extent — of its economic functions. To be sure, this sector continued to play a certain part, although often an unpleasant one for being extraneous to the system itself.[8]

For example, centrally planned economies used to establish monetary targets formally resembling those of a market economy, but with an entirely different overall economic background:

- *Stable evolution of monetary income* accruing to private households.
- *Stable value of money*, determined by the domestic purchasing power of the monetary unit on the national market as well as of its external value, *i.e.*, stable exchange-rate relations.[9]
- Stable *money circulation.*[10]
- In terms of institutions, these monetary targets were achieved by means of *a banking sector of monopolistic structure.*[11]

In socialist societies, monetary stability is a prerequisite for medium- and longer-term planning, a fact already realized by Lenin.[12]

Once reforms thoroughly oriented toward a free-market economy or at least

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market-related economic systems are initiated, a policy which we might term *economic remonetization* becomes a *foremost task*. Which problems will arise in this context? As the organizers of this conference have limited the time at my disposal, a suitable didactic method for dealing with this topic consists in the application of the *spot-light method*. The following exposition and discussion of certain *theses* will not fully clarify the totality of all problems involved, but it will at least elucidate some key aspects.

2. The Necessity of Currency Reforms

Thesis No. 1:

> As regards countries with a significant excess money supply (suppressed inflation), monetary reform is unavoidable in case the key aim of reforms is a true fresh start of a newly reshaped economy.

Most countries of Central and Eastern Europe are afflicted by a phenomenon termed *suppressed (or repressed) inflation* in the relevant literature. This is an exclusively *monetary phenomenon* evidencing quite clearly that the unfinished, *i.e.*, hybrid form of the CPE, as it developed under the existing "real" socialism, underwent certain monetary influences in spite of its basically nonmonetary nature. A situation of suppressed inflation is assumed to exist when — while there is a given price level, unable to fluctuate due to its having been firmly set by administrative measures — an excess liquidity develops in the form of money issued by the central bank or by way of bank deposits or money deposited with other paying agents. Goods offered to the market are insufficient to absorb the demand embodied by the excess liquidity. The manifest symptoms of such a situation are queues, black markets, an underground economy and compulsory saving.

Virtually all of the former socialist countries are afflicted by this ailment.[13] The mechanism provoking suppressed inflation is roughly the same one in all involved countries: budget deficits are "monetarized"[14] by casting the central bank in the role of "financier."[15] Excess money supply is additionally triggered by *inaccurate planning of the monetary income* earned by private households; actually, the latter should not be allowed — just like in a free-market economy — to grow faster than the supply of goods (national product). However, in the socialist countries, special systems of incentive premiums have been practised, which caused a disproportionate increase of the monetary income when compared to the improved performance which allegedly should have been brought about by them. Formation of savings has, therefore, greatly increased.

In view of such a situation, implementation of a *meaningful price reform* (abolition of subsidized consumer goods and introduction of freely fluctuating prices)[16] is obviously made very difficult if not impossible, because after

deregulation the single prices would most probably skyrocket wildly, with their thrust derived from two boilers under overpressure:

1. unbalanced (distorted) markets, and
2. a giant excess demand, as mentioned.

If under such conditions prices would suddenly be deregulated (shock therapy), *serious social unrest* would be a distinct threat, and this would rather mean an adverse influence on the general reform atmosphere. This is why the question looms large: *how to neutralize* the excess money supply? In this respect, three options do exist:[17]

1. Absorption of excess liquidity through the *issue of government securities*. The money thus returning to the government must be *immobilized*. In this way, the excess money supply is converted into *long-term public debts*.[18] The crux of such a procedure must be recognized in the *high costs* being thereby burdened on the state.[19] The final outcome would consist in a giant avalanche of debts paying interest at high rates.

2. Another option would be to *sell public property to private parties* (reprivatization). Apart from the fact that distribution of the "people's property" to private parties is in itself a rather questionable procedure, the economic situation is in this case, too, similar to the issue of public securities: there is money returning to the government totaling exactly the sum of all sales made. But it is safe to assume that, in reality, the assets offered by the government (enterprises, buildings, real estate) would turn out to be only modestly attractive investment opportunities.[20] As regards this variant, during discussions and in literature it is often — and probably justly — emphasized that these sales should be accompanied by an *economic policy* concentrating on creating such a *favourable environment* which would truly stimulate successful growth of business enterprises.

3. However, as the probably most realistic variant, a *currency reform* ranks foremost, *i.e.*, a *currency cut* annihilating a part of the excess demand. Cash money and bank deposits are reduced down to a volume ensuring *requirements for transactions*, but eliminating on the other hand to a large extent price surges entailed by excess demand. On a strictly technical level, various possibilities are imaginable in order to determine the conversion rates, which may certainly also include social considerations.[21] But even this method does not absolutely guarantee the prevention of a "residual adjustment inflation." By contrast, this method is capable of effectively reducing the "menacing potential" ensuing from the adjustment, contributing thereby to a smooth passage from fixed to market-related prices (as shortage indicators) without causing intolerable infla-

tionary distortions and disruptions. Such a passage will even under these relatively favourable circumstances still prove to be rather painful, amounting even during certain periods to a kind of drastic purge, given the alarming imbalances in certain markets of the former socialist countries which have to be eliminated. In addition, currency reform requires from its subjects payment of a high social price. But it is safe to say that this sacrifice cannot be avoided. The question may be asked: which solution is better, horrors coming soon to a definitive end, or a long-drawn inflationary agony destroying also property, but entailing sizably worse conditions for a new economic take-off.

3. A New Monetary and Financial Policy is Required

Thesis No. 2:

Remonetization requires the former socialist countries to adopt a modern monetary and financial policy, aiming first of all at stability.

Monetary reform is not an end in itself, but a means in order to create the key prerequisites facilitating the implementation of a *price reform* (decentralized pricing). Thereby, the monetary, credit and financial policies assume entirely *new roles* within the economic system, as the same are precisely those factors which primarily ensure a *stable price level.*[22] Today, it will hardly be doubted that such a target can best be attained by means of a *monetary-supply policy chiefly inspired by monetarism.* Condensed to basics this would mean: the money stock in circulation should *not* be increased, on a yearly average, in excess of the economy's growth in real terms. Responsibility for respecting this rule is vested in the central bank. By reverting again to monetarism, the importance of money for the economy has — according to the opinion of *Paul A. Samuelson*[23] — been rediscovered, because this theory views money supply as the key determinant of the nominal gross national product and/or of economic growth; the paramount macroeconomic factors — overall production, employment and price level — react to money supply. Within the program of the monetarists two characteristic features rank foremost:

1. A preference for a *minimum governmental influence* exercised on the economy[24] is coupled with a firm belief in free markets.[25]
2. *Containment of inflation* is emphasized as a high-priority target.

These tenets are based on the anticipation that thereby the objective of a *balanced economic development* (absence of serious instabilities) may best be pursued and achieved.[26]

On the strength of experience gained in Western Countries, problems connected with a money-supply policy aimed at stability concern *three key areas:*

1. The *central bank must be independent.* The central bank must be able to

carry out its tasks without being influenced in some way, especially by political priorities of the government or of parliament. This prerequisite so far is not assured in any of the former socialist countries, except the special case of the German Democratic Republic (DDR). In fact, even under the old regimes, there were instances of the central bank trying to pursue, if not an independent, but at least an *oppositional monetary planning* in those specific situations when the planning and/or finance ministries embarked on an expansive course endangering stability. The former "monetary conscience" of the Czech central bank and today's finance minister of CSFR, Vaclav Klaus, describes such a situation in a both readable and instructive essay.[27] In this essay, Mr. Klaus warns first of all against the textbook model of picturing the (former) socialist planning procedure as a gear system, with all individual cogwheels meshing in a frictionless manner. By contrast, in the case of CSFR there existed virtually *three separately drawn-up and thus independent plans*: the "standard state plan" of the Planning Commission (1), the governmental budget plan of the Finance Ministry (2) and finally the monetary plan (money and credit supply for the national economy) of the Central Bank. During the planning phase itself, harmonization of the three plans used to degenerate as a rule into a "bargaining process" between the participating institutions, with the central bank holding, if not de jure but in actual fact, a relatively *strong position*, thus being able to defend in an effective manner stability arguments.[28] In actual fact, the planning economy's failures in the CSFR are on a rather *moderate level* as compared with other socialist countries. Consequently, the macroeconomic prerequisites for an economic reform must be assessed to be considerably better than in other such countries.

2. Central banks must be equipped with *modern instrumentation.* Here, I would like to just mention this aspect without going into specific details. In this context, a fact of considerable significance for problems connected with introducing reforms consists in the *complete lack of experience* of CPE-functionaries in charge of economic planning in respect of using tools and instruments required for the economic policy of a free-market economy. Above all, these functionaries have difficulty in comprehending the criteria of *market-regulation conformity*, derived from a liberal conception of market regulation and involving a specific axiology, which only now is reluctantly being accepted in Eastern Europe. Therefore, these countries continue to face the danger of lapsing again into *interventionist economic measures.* Consequently, central banks of countries undergoing reform — when faced with the introduction of a free-market economy — will first of all have to go through a very demanding *learning process* or *apprenticeship* in order to acquire the necessary skills for handling monetary tools and instruments.[29]

3. And finally, a predominantly technical problem has to be solved, *i.e.*, to find out which *monetary aggregate* (definition of money supply) *corresponds best* to which *national-product aggregate* in order to serve as reference value for the purposes of a stability policy. It can safely be assumed that the rather precarious condition of statistics in the former socialist countries will hardly make clarification of this question a pleasant experience.

And what is the upshot of all this? The path leading to a consistent currency, monetary and credit policy will be both steep and stony!

The complex pattern comprising currency, monetary and credit policy needs a further complement: *financial policy*. In a system whose assets are predominantly owned by the state and which assigns top priority to planning, the governmental budget and the financial policy act as central *redistribution tools* in order to implement what could be termed *planned redistribution* of resources between regional authorities and bodies, sectors and geographic areas and/or between consumption and investments, between the private and the collective economic segments.[30] This task specification regarding public households or the financial policy is, of course, no longer justified in a free-market system, as the allocation of production factors — in conjunction with primary income distribution — is arranged by market factors, being corrected by public households or by the financial policy "merely" according to certain objectives, predominantly connected with social policy. Above all due to the theories of Keynes, even Western industrial nations have admittedly developed into *income distribution pumps* (transfer households) of considerable size. The overexpansion of public households caused by the "fiscalists" has, however, met already some time ago its *financing ceiling* — thereby initiating a *rethinking process*.

Provided the economic policy's objective aims at a development ensuring the highest possible degree of *stability*, modern theory recommends an approach known as "fiscal-monetary mix."[31] The problematic aspect of such a policy when concretized is beyond this context. Suffice it to say that an optimal stability policy should use its key tools, *i.e.*, the monetary and the financial policy, so that results complement one another instead of reciprocal contradiction, as often happens. The inherent drawbacks of this procedure consist in monetary policy being the province of an independent central bank, which may shape it autonomously in accordance with legal provisions, whereas the financial policy normally has to be subjected to the whims of parliamentary process. This is why a true-to-theory implementation of these policies is more the result of a lucky coincidence than the result of accurately targeted policy measures.[32] But there is hardly a chance that the former socialist countries will succeed in implementing speedily an optimal monetary and financial policy as above outlined.

4. Convertible currencies?

Thesis No. 3:

A freely convertible currency is an absolutely vital component of every well-functioning free-market economy. Only a freely convertible currency offers a chance that economic relations with foreign countries may continuously adjust to the scale of economic-optimality criteria. At the same time, the domestic economy's efficiency is confronted with a permanent challenge, as its performance capability must continuously keep up with the international competition.

In socialist countries, discussions have already been going on for *a long time* as to whether *partly or fully convertible currencies* should some day be introduced. Back in the sixties, this topic had already been included in agendas of Comecon meetings. But until the recent movements toward reform, nothing at all did happen in this area. There is an obvious reason for this failure to do something: the prerequisites absolutely necessary for the introduction of freely convertible currencies would have implied a complete *abolition of the basic principles underlying a CPE*, requiring thus actually that the system be changed. Where are trouble spots located?

a) Convertibility denotes the *free convertibility* of a currency into another one.[33] Being the value of a specific currency expressed in terms of another currency, the exchange rate is set in accordance with supply and demand prevailing on *currency markets*. Supply and demand result from the multitude of cross-border transactions of a certain country, reflected over a certain time-span by that country's *balance of payments* (in a wider sense the foreign exchange account). Exchange rates making economic sense, governed over the medium and long term by purchasing-power parities, can only develop in countries with a *predominantly free-market pricing system*. A prerequisite for the introduction of the convertibility is here again a *change of the pricing system* (abandonment of administrative price formation).[34]

b) The Comecon foreign trade system still continues to be primarily based on *planned foreign-trade relations*. A country's export plans must be in accordance with the import plans of trading partners (necessitating the harmonization of the foreign-trade plans during the phase of drawing up plans). Comecon countries are interested in avoiding foreign-trade surpluses, because they are tantamount to non-interest-bearing *credits* unusable for the purchase of other Comecon-supplied goods (tied goods, nonconvertibility of goods). No Comecon country can be interested in offering to another country non-interest-bearing credits via unbalanced foreign-trade relations. Consequently, this system is subject to a compulsion toward *bilateral compensation or clearing*[35] of the traffic in goods and services between the countries engaged in trade. The administrative exchange rates have either no part in this system as regards the shaping of the flow of goods, or their role is only an indirect one.[36] The passage to free convertibility consequently presupposes the *abolition* of central planning in the area of foreign trade, replacing it by a decentralized foreign-trade responsibility (authority on company level). Only such a procedure should allow smooth transition from a bilateral to a *multilateral system of settling accounts*.

c) On the institutional level, it will be necessary to set up a *foreign-exchange market*, meaning that the central bank has to set up foreign-exchange reserves. Furthermore, a banking system — largely independent from the central bank (abolition of the monopolistic banking structure) — has to be established. This implies a very thorough *reform of the banking system.*

d) How to proceed? An obvious first step could consist in implementing *partial currency convertibility within the Comecon.*[37] However, it is doubtful whether today this can be deemed a realistic prospect at all, as the Comecon's capability of action appears today to be extremely restricted and as Eastern Germany (DDR), due to its having assumed the currency system of the Federal Republic of Germany, will "skid" into an exceptional status, which certainly will not make the creation of a Comecon-wide currency system any easier.

There are two varieties imaginable in respect of "foreign-exchange management."

1. *"Auction sales"* of foreign exchange by central banks according to supply-and-demand conditions.[38]
2. *Companies* may keep a certain portion of their foreign-exchange earnings, *trading these currencies among themselves at contractual prices* (depending on market conditions).

Both variants would free the exchange rate from its lethargic condition; it would start to play an *active part* in shaping and channeling the exchange of goods. However, such an effect will materialize only provided the number of bilaterally planned trade relations will steadily decrease and finally stop altogether. Moreover, the *system of multiple exchange rates* should be abandoned.

These "auction sales," or the domestic trade in foreign exchange, during a period of transition, could at least provide some clues as to the range within which a *realistic exchange rate* would probably oscillate.

In any case, the *function of the central bank* in the currency market has to be redefined: it should delegate daily foreign-exchange transactions to indepen-

dent commercial banks and confine its own operations to global interventions. In other words, the *central bank* must necessarily accumulate *foreign-exchange reserves* rendering it capable to intervene in times of financial turmoil. Once a Comecon-wide convertibility does exist, such an intervention capability should not be too difficult to achieve, since the ruble will quite naturally play a leading part on account of the Soviet Union's immense size and its economic importance. It is quite conceivable that within the Comecon a foreign-exchange structure will take shape, *i.e.*, a kind of "Comecon currency," which might even be modeled on the currency and monetary system of the Integrated Common Market of Europe:

— Exchange-rate adjustments to be implemented each time individual currencies are affected by crises or whenever the balance of payments shows drastic disequilibriums.

— Cooperation between the various central banks.

Meeting the prerequisites necessary to achieve Comecon-internal convertibility will also prepare *transition to a convertibility with the "remainder of the world."* Basically, these prerequisites imply implementation of a currency reform, abolition of bilateral trade (implementation of free convertibility of goods), of foreign-trade planning, setting up a price-formation system corresponding to a free market and finally an appropriate reform of the banking system.

It is unlikely that the countries on the road to reforms will be able to achieve all these objectives in a short-term perspective. First of all, these nations will for many years continue *to excessively favour importations*, whereas they will only slowly be able to improve their highly *insufficient competitiveness* on the Western markets. Otherwise expressed: they continue to be permanently threatened by balance-of-payment deficits, entailing a permanent *devaluation risk.* And what's more, a well-functioning foreign-exchange market can only thrive in the very set of macroeconomic conditions described under section 3. The functional logic of a free-market system leads to the assumption that the implementation of a successful reform should preferably be completed by currency convertibility as the final copestone.[39] To be sure, no miracles can be expected in this area.

5. Indispensable Reform of the Banking System

Thesis No. 4:

A remonetization of the economies in Central and Eastern Europe is necessarily linked to a fundamental restructuring of the banking system. An optimal utilization of scarce financial resources is only possible by means of a money and capital market run by a banking system which is institutionally independent of the state.

In a centrally planned economy, the banking system acts merely as a *helpman* in implementing and monitoring governmental plans. For this very reason, it did not at all keep up with the dizzying development pace of Western money and capital markets during the past years. Both its infrastructure and its performance standards in terms of quality are on an alarmingly low level.[40] The specialized literature of socialist countries treats the banking system as a kind of Cinderella, which clearly evidences the low esteem shown by socialist economists toward banking.

Reform of the banking system concentrates on *two fields*:

1. Setting up a *banking structure which is fully independent of the state*, and
2. *Training facilities for banking personnel.*

The reform measures so far implemented reveal that the former socialist countries experience considerable *difficulties* while endeavouring to restructure their banking system according to free-market standards. As of now, an independent banking system still seems a long way off, and neither have the central banks as yet been converted into institutions with true *central-bank functions*, as they continue more or less to be attached to a *centralized umbilical cord*.[41] So far, the reforms merely yielded organizational changes (new patterning of the division of labour), but did not abolish the monopolistic nature of the economic system itself. It is quite obvious that under such conditions *no* genuine money and capital market is likely to develop, *i.e.*, a market capable of transferring funds precisely to the place of their most efficient utilization.

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Remonetization? Returning to an economic system, where money plays an active role, is absolutely unavoidable if a substantial *improvement of the overall economic efficiency* is accorded top priority among the reform's objectives. Countries such as the German Democratic Republic (DDR), Poland, CSFR or Hungary apparently are aware of this. But if they really will succeed in implementing the indispensable measures through legislation is quite another matter. As is known, even in Western countries, it is very often rather difficult to have basic changes affecting the economy's structural pattern ratified by the parliaments.

Thesis No. 1:

As regards countries with a significant excess money supply (suppressed inflation), monetary reform is unavoidable in case the key aim of reforms is a true fresh start of a newly reshaped economy.

Thesis No. 2:

Remonetization requires the former socialist countries to adopt a modern monetary and financial policy, aiming first of all at stability.

Thesis No. 3:

A freely convertible currency is an absolutely vital component of every well-functioning free-market economy. Only a freely convertible currency offers a chance that economic relations with foreign countries may continuously adjust to the scale of economic-optimality criteria. At the same time, the domestic economy's efficiency is confronted with a permanent challenge, as its performance capability must continuously keep up with the international competition.

Thesis No. 4:

A remonetization is necessarily linked to a fundamental restructuring of the banking system. An optimal utilization of scarce financial resources is only possible by means of a money and capital market run by a banking system which is institutionally independent of the state.

ENDNOTES

[1] Cf. Osers, Jan: "The nonmonetary socialist economic models and their critical evaluation (Die naturalwirtschaftlichen sozialistischen Wirtschaftsmodelle und ihre Kritik)," published in the *Yearbook of the Eastern European Economies* (Jahrbuch der Wirtschaft Osteuropas), Volume 11, Munich, 1985, p. 91 *et seq.*

[2] In a market-oriented economy, the competition-derived price acts the part of the most important indicator of shortage and/or scarcity. Based on the price quoted by him, the supplier may find out whether he has under- or overestimated the absorption capabilities of the market at that specific price level. This is a market-related scarcity concept.

[3] Therefore, this shortage concept does not contain a reference in respect of how to make optimal use of scarce resources (allocative efficiency).

[4] Marx, Karl: "Das Kapital," Volume 2, Vienna 1933, p. 359 *et seq.*

[5] Marx, Karl: "Criticism of the Gothar Program (Kritik des Gothar Programms)," contained in Marx-Engels Werke, Volume 19, Berlin 1972, p. 20.

[6] Viewed from the angle of Marxist system-oriented economists, this is tantamount to the "Anarchy of Markets."

[7] During the period of "War Communism" (1917-1921), the abolition of money had been attempted.

[8] Cf. Brüll, Maria: "International Capitalist Monetary System and the Socialist Countries," published in the *Yearbook of the Eastern European Economies*, Volume 10, Munich 1983, p. 175 *et seq.*
Pindak, Frantisek: "Inflation under Central Planning," published in the *Yearbook of Eastern European Economies*, Volume 10, Munich 1983, p. 93 *et seq.*

[9] In Western parlance, the term "target conflict" would be used in this context.
[10] The amount of money in circulation may only increase at the same pace as does the real growth of the economy (national product), which is the only way to avoid inflation. To be sure, this is not actually an objective, but a means to achieve the goal of stability.
[11] This circumstance alone highlights the fact that, contrary to a free-market economy, the aim did not consist in optimal allocation of scarce monetary resources, but rather in rendering possible transactions which had already been planned beforehand (for example connected with investment policy).
[12] Cf. Lenin, W. I.: "IX. All-Russian Soviet Congress," contained in W. I. Lenin's Works, Volume XXXII, p. 164.
Hartwig, Karl-Hans and Thieme Hans-Jörg: "Monetary Goals, Targets, and Indicators in Centrally Planned Economies: The Example of the GDR," published in the *Yearbook of the Eastern European Economies*, Volume 11, Munich 1985, p. 173 *et seq.*
[13] Prof. Oleg Bogomolov, Director of the Institute of Economics of the World Socialist System of the Soviet Academy of Sciences (Moscow), mentions, with respect to the Soviet Union, a monetary surplus of round about 450 billion rubles. Cf. Bogomolov, Oleg: "Perestroika and East-West Economic Interaction," published in "Glasnost and Perestroika — der Sozialismus im Wandel." Publisher: Schweizerisches Institut für Auslandsforschung, Volume 19, Grüsch 1990.
[14] Kagatovsky, Konstantin: "The Pressing Problems of State Finances in the U.S.S.R.," published in Communist Economies, Volume 1, No. 4, London 1989, p. 447: "For many years state budget expenditure grew faster than revenue. As a result a budget deficit has appeared, undermining the stability of the rouble and the whole money circulation, generating inflationary processes and retarding the socio-economic progress of society."
[15] This amounts to a process of creating money.
[16] Detailed analyses of problems connected with the arising of monopolistic and oligopolistic markets are dispensed with in this context. As is known, these types of markets prevent to a large extent the free formation of competitive prices.
Cf. Linder, Willy: "Basic Tenets of Reform Policy (Grundpositionen der Reformpolitik)," published in Aussenwirtschaft (Foreign Trade), issue III/IV, St. Gallen 1989.
[17] Cf. Paquém, Karl-Heinz: "Die Erblast der zurückgestauten Inflation (The Hereditary Burden of Repressed Inflation)," published in NZZ, No. 10, p. 33 *et seq.*
[18] Should foreign countries cooperate in such a venture, this would cause an influx of capital — easing the strain on the balance of payments and pegging the exchange rate — which in its turn would increase the foreign debt.
[19] As a debtor, the state does not enjoy a particularly good reputation; that's why it has to offer its bonds, etc., at very good conditions (below par), which on the other hand means high interest rates.
[20] Their value, expressed as the sum total of discounted revenues, must usually be assumed to be rather modest.
[21] A practical example of this type is the exchange program of Eastern DM against Western DM within the framework of the monetary union between the German Democratic Republic (East Germany) and the Federal Republic of Germany (West Germany).
[22] Defined as the internal value of a currency.
[23] Samuelson, Paul A.: "Volkswirtschaftslehre (Economics)," Cologne 1987, p. 153.
[24] It will not be easy for the former socialist countries to meet this particular requirement, as the CPEs used to encourage the belief in the feasibility of an integral control and guidance of the economy on the part of its protagonists.
[25] This concept is opposed to the model of a "regulated economy," as envisaged — for example — by the Soviet Union. In such a type of "mixed economy," a consistent monetary policy is out of the question.
[26] Cf. Samuelson, as per footnote 23, p. 510.

[27] Klaus, Vaclav: "Monetary Policy in Czechoslovakia in the 1970s and 1980s and the Nature of Problems of the Current Economic Reform," published in "Communist Economies," Vol. 2, No. 1, 1990.
[28] Cf. Klaus, as per footnote 27, p. 62: "It would be an exaggeration to say that the monetary plan was really independent, but its sheer existence and the relative autonomy (and consequent undeniable degree of economic power) of the bank created a situation of another sort of bargaining — bargaining among the planners, treasury officials and bankers."
[29] For example, the inflation in the People's Republic of China is the result of an absolutely abortive monetary policy, *i.e.*, of a "mismatched" monetary concept. Cf. Linder, Willy: "China's Economy in the Inflationary Whirlpool (Chinas Wirtschaft im Inflationssog)," published in NZZ, issue No. 249, 1988, p. 35.
[30] Cf. Hedtkamp, Günter: "Finanzwirtschaft in der DDR (Public Finance in the German Democratic Republic)," published in HdWW, Volume 3, UTB, p. 211 *et seq.*
[31] Cf. Samuelson, as per footnote 23, p. 540 *et seq.*
[32] Of course, this applies also specifically to countries with a federalist pattern of public finance. In this context, compare "Schweizerische Stabilisierungs- und Finanzpolitik (Swiss stabilization and financial policy)," by various authors, Diessenhofen 1978.
[33] The IMF defines a convertible currency according to the following criteria:
— if it can be used without restrictions of a currency character whatsoever;
— if it can be exchanged for any other currency without restrictions of a currency character;
— if it can be used or exchanged at its par value, or at a rate of exchange based on the par value, or at some legal rate of exchange defined in any other way considered desirable.
[34] As a consequence of the entirely distorted price patterns in the socialist countries, no realistic and thus meaningful exchange rates can take shape.
[35] On the strength of simple foreign-trade matrices it is possible to prove that a bilateral clearing system is liable to entail comparatively lower foreign-trade figures as against the possibility of a multinational settlement of accounts (reduced growth, *i.e.*, a lowered standard of living); this in turn results in a comparatively low intensity of foreign-trade activities.
[36] Cf. von Brabant, Josef M.: "Eastern European Exchange Rates and Exchange Policies," published in "Jahrbuch der Wirtschaft," Volume 11, Munich 1985, p. 126: "...the exchange rate is a purely passive instrument among the traditional modus operandi for policy formulation in centrally planned economies."
[37] Cf. Daviddi, Renzo: "Rouble Convertibility a Realistic Target," published in Soviet Economic Reforms, Colloquium 1989, NATO, Brussels 1989, p. 193 *et seq.*
[38] This system has been put to the test in the economies of China and Bulgaria.
[39] As a consequence of the monetary union between the Federal Republic of Germany and the German Democratic Republic, the latter has given first priority to convertibility within the scope of its economic reform measure.
[40] Fedorov, Boris: "Reform of the Soviet Banking System," published in Communist Economies, Vol. 1, No. 4, London 1989, p. 455: "The computerization of the banking system is proceeding rather slowly, the number of bank branches, considering the size of the country, is negligible, and the share of the banking and insurance sector in overall employment — only 0.5% — is the same as 15 years ago, and wages are lower than the national average. The qualifications of the approximately 500,000 banking staff in many cases are definitely not up to the tasks set by radical economic reforms."
[41] Fedorov, as per above footnote 40, p. 455: "One of the difficulties of the present situation is that major state banks report directly to the Council of Ministers, which appoints their chairmen and issues orders."