

World Development Report 1996: From Plan to Market

World Development Report 1996: *From Plan to Market* steps back from the extraordinary array of recent events and policy changes in 28 former centrally planned economies—those in Central and Eastern Europe and the newly independent states of the former Soviet Union, along with China, Mongolia and Vietnam—to ask what we have learned about the key elements of any successful transition and how they should be pursued.

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THE WORLD BANK

Between 1917 and 1950, countries containing one-third of the world's population launched a vast experiment to centralize control of economic resources and allocate them by planning. Recent years have seen another fundamental transformation, as the same countries change course, seeking to rebuild markets and reintegrate themselves into the global economy. Their transition from plan to market has reached a point at which it is worth taking stock of their achievements. How securely have market processes and institutions taken root? What lessons do the short but turbulent reform histories of the vanguard countries hold for those following them? And what does transition mean for the rest of the world, including the many countries whose market economies rest on weak foundations?

This nineteenth annual *World Development Report* steps back from the bewildering tumult of events and policies now transforming economies in Central and Eastern Europe, the newly independent states of the former Soviet Union, and East Asia and assesses the progress and prospects of these economies in transition.

The assessment takes the form of two complementary sets of questions. First, how have countries grappled with the initial dilemmas of transition? How do they free prices, markets, and market participants from state control without giving free rein to inflation? How do they set appropriate incentives—to encourage efficient responses to market signals—while creating an effective social safety net that does not abandon the losers in the marketplace to destitution? The Report also examines how countries' histories and starting conditions affect the approach to transition and its speed and progress. The bottom line—and the Report's central conclusion—is that despite these very different points of departure, sound policy, wherever firmly and consistently applied, has yielded rich benefits.

Second, how can countries best consolidate these initial reforms, creating institutions that can support a thriving market economy? One essential institution is well-crafted legislation and the rule of law. Another is an active financial system, no longer the passive repository of state-channeled funds but an efficient intermediary between savers and investors. Also needed are reformed education and health care systems, capable of preserving and retooling these countries' rich reservoirs of human capital and, perhaps most important, a rightsized government with the strength to be effective in a market economy.

The answers to these questions must be incomplete, but their broad dimensions are already taking shape. And the answers, even if preliminary, matter—not just for the countries concerned but for many others that are making similar, if less pervasive, reforms toward wider markets and deeper international engagement.

This Report includes, in a newly revised format, selected World Development Indicators, offering current data on some 120 indicators of social and economic development for more than 130 countries and territories, with basic indicators for some 70 more. The Indicators are also available on diskette. An appendix to the Report provides additional statistics on economies in transition.



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