

# Foreword

**W**orld Development Report 1996, the nineteenth in this annual series, is devoted to the transition of countries with centrally planned economies—in particular, Central and Eastern Europe, the newly independent states of the former Soviet Union, China, and Vietnam—to a market orientation.

This transition, which affects about one-third of the world's population, has been unavoidable. The world is changing rapidly: massive increases in global trade and private investment in recent years have created enormous potential for growth in jobs, incomes, and living standards through free markets. Yet the state-dominated economic systems of these countries, weighed down by bureaucratic control and inefficiency, largely prevented markets from functioning and were therefore incapable of sustaining improvements in human welfare. Although these systems guaranteed employment and social services, they did so at the cost of productivity, overall living standards, and—importantly—the environment, which has been severely damaged in some countries by distorted prices, inefficient use of natural resources, and antiquated plant.

Necessary as the transition to the market has been, it has not been easy. Some countries have been considerably more successful than others in implementing the key elements of change. Above all, the transition has had and will continue to have a profound impact on people's lives. In some of the countries undergoing transition there has been a short-term drop in living standards; in others human welfare has improved dramatically. Everywhere it has changed the basic economic rules of the game and has irreversibly altered the relationship between people and their political and social, not to mention economic, institutions.

This Report is devoted to exploring the experience of economies in transition, to identifying which approaches work and which do not, and to pinpointing the critical elements of success. It does not overgeneralize. It recognizes that the countries it examines represent a diverse array of national histories, cultures, and political systems; in fact, it explores the linkages between these non-

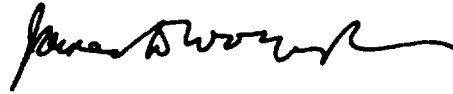
economic factors and economic outcomes. Yet it makes a number of general points that provide valuable information to all reforming economies and to those who care about them. It drives home the utter necessity of both liberalizing economies through opening trade and market opportunities and stabilizing them through reducing inflation and practicing fiscal discipline—and then of sticking to these policies consistently over time. It discusses the necessity of reforming enterprises and expanding the private sector, while restructuring social safety nets to deal with the social impact of the move to the market. And it makes the vital point that, in the long run, clear property rights and widespread private ownership are needed for markets to perform efficiently and equitably.

The Report also makes a major contribution in discussing the institutions that make a market-based economy work. It describes how public agencies, legal systems, financial institutions, and education and health systems can all enhance the success of market economies. These are the institutions that help set and enforce the rules that allow market transactions to proceed in a climate of confidence, that decrease the opportunities for corruption and crime, that mobilize and allocate resources, and that build human capital. And it discusses the need for transition countries to carry through with measures to integrate themselves further within the global economy. Integration into the institutions of the world trading system is an important way to help these countries nourish and sustain the reforms they have undertaken.

Beyond these essential technical and institutional elements of transition, this Report is about *people*. It is about how people can be protected from the loss of security and income that can accompany transition, how they can be helped to cope with the increased mobility and know-how required of workers in market economies, and how their children must receive the education and health care that will allow them to contribute to the prosperity to which their countries aspire. This brings us back to the very reason for transition in the first place, and the reason why this

Report is needed. It is about how to unleash the enormous talents and energies of these countries' populations, and how to help them achieve their vision for a future of opportunity and well-being for all their citizens. In the

end, we will gauge the success of transition not merely by statistical measures of national wealth, investment, or productivity, but also by the quality of life of the people who live in these countries.



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This Report has been prepared by a team led by Alan Gelb with principal authors Nicholas Barr, Stijn Claessens, Cheryl Williamson Gray, Peter Harrold, Françoise Le Gall (IMF), John Nellis, Zhen Kun Wang, and Ulrich Zachau. The team was assisted by Annette Brown, Gregory Kisunko, Tatiana Proskuryakova, Sarbajit Sinha, Stoyan Tenev, and Triinu Tombak. Gilles Alfandari and Laszlo Urban also contributed to the Report. Stephanie Flanders was the principal editor. The work was carried out under the general direction of Michael Bruno.

Many others in and outside the World Bank provided helpful comments and contributions (see the Bibliographical Note). The International Economics Department contributed to the data appendix and was responsible for the Selected World Development Indicators. The production staff of the Report included Amy Brooks, Kathryn Kline Dahl, Joyce Gates, Stephanie Gerard, Cathe Kocak, Jeffrey N. Lecksell, Brenda Mejia, Hugh Nees, Beatrice Sito, and Michael Treadway. The design was by the Magazine Group. Rebecca Sugui served as executive assistant to the team, and Daniel Archison, Elizabeth V. De Lima, and Michael Geller as staff assistants. Maria D. Ameal served as administrative officer.

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