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Vodka and Pickled Cabbage: Eastern European Travels of a Professional Economist*

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Abstract

One of the most amazing ‘events’ of the last 15 plus years has been the complete transformation of the countries of Central and Eastern Europe and the former Soviet Union, their transition from communist rule and central planning to various forms of market-type economy. Ten of the countries have now joined the EU as full members, and for them this accession marks the real end of the Cold War, the end of the postwar divide between East and West. As a professional economist - initially as a PhD student, eventually as an economics professor based in Scotland - I have worked on the region since the late 1960s, travelling to diverse places in many countries, getting to know the people, observing the economic system both under central planning and as it was transformed to a market system. Finally, in 2006, I decided to write a book about my experiences in the region. The result is not a technical academic work of the sort I normally write. It is a mix of economic history; short accounts of what I do or have done as a professional economist working in an endlessly fascinating part of the world; and travel tale, since my work has taken me to some quite obscure and not at all well known places. Everything in the book is based on my own observations and experiences, supported in places by extensive background knowledge and reading.

Keywords: travel, Eastern Europe, economics of transition, EU accession, research funding

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* The views expressed in what follows are entirely those of the author and nothing said in the text should be interpreted as an official policy of any of the governments or international organisations mentioned. All errors remain the full responsibility of the author.

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Preface

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As a professional economist - initially as a PhD student, eventually as an economics professor based in Scotland - I have worked on the region since the late 1960s, travelling to diverse places in many countries, getting to know the people, observing the economic system both under central planning and as it was transformed to a market system. Finally, in 2006, I decided to write a book about my experiences in the region. The result is not a technical academic work of the sort I normally write. It is a mix of economic history; short accounts of what I do or have done as a professional economist working in an endlessly fascinating part of the world; and travel tale, since my work has taken me to some quite obscure and not at all well known places. Everything in the book is based on my own observations and experiences, supported in places by extensive background knowledge and reading.

Several factors came together in the last few years to encourage me to write this book.

First, it becomes more evident every year that our undergraduate students know absolutely nothing about the postwar history of Europe, and are mostly unaware that half the continent was behind the 'iron curtain' from the late 1940s until at least 1989. Hence they have no idea what the transition process has involved for the countries of Central and Eastern Europe, as these countries transformed themselves from old-style central planning and comprehensive state ownership of most of the economy into modern, market-type economies. Eight former communist countries in Europe joined the EU in May 2004 (and two more in January 2007), thus completing what has been one of the most important shifts in Europe's centre of gravity since 1945, but again, most of my students barely registered the significance of this event.

And to be fair, why should they? Most are aged 19 or 20, so in 1989 they were not even in primary school; and in 2004, therefore, they had little appreciation of the significance of the EU accession process.

The result, though, is that a period of recent history that my generation lived through has practically vanished, except for a residue of 'problems' in South Eastern Europe, also not widely or well understood other than by academic specialists. Thus there is a need for a book on Central and Eastern Europe that is not too technical or academic, rather aimed at the intelligent general reader, to bring the region 'back to life'.

Second, my students and other people do from time to time ask me, 'what do economists do?' Of course, people know that I teach my students, and some are also aware that I take part in various research projects and write papers and reports for different organisations. When people ask the question, though, what they are really asking concerns what I do when I visit various countries, either to do some research or to give policy advice. Much of my career has been spent studying Central and Eastern Europe, my involvement in the region extending from 1969 through to the present day, and my activities in the region have included a very wide range of interesting policy issues.

Third, my visits to Eastern Europe have taken me to many little known and infrequently visited places across the region, and my travels have given rise to an amazing range of amusing and bizarre experiences; many of these, I hope, will also interest the reader.

Moreover, over the years, I have seen truly massive changes in many of the countries I have visited, and sketching some of these also helps to illustrate what building a market-type economy is all about. In developed Western countries we often take for granted what a market economy ought to 'look like', and rarely even think about the institutions that make it work. Working on Central and Eastern Europe has helped me to understand what big gaps there are in our usual understanding of the market economy. While filling the gaps might well turn out to be a major research programme, my own experiences have at least enabled me to outline a selection of the issues that need more attention.

Last but not least, right at the start (back in 1969) I was attracted to work on Eastern Europe because on my early visits I liked the people I met, and enjoyed the region's diverse and unusual food and drink. These are not exactly sound 'academic' reasons for working on an area, but they are not trivial ones either, since it would otherwise have been extremely hard to work on the area for so long, and so enjoyably.

In writing this book I have been helped by several friends and colleagues who read, and sometimes commented on various chapters, especially the early ones. Their efforts have helped me to avoid some mistakes, but I naturally take full responsibility for remaining errors. I particularly want to thank Susan Shaw, Conan Fischer, Richard Stoneman, Alec Wersun, Peter Wilson, Xavier Richet, Ernő Zalai, Mikhail Lugachyov, László Csaba, Helgard Wienert, Josef Brada and Tony O'Rourke for their encouragement. Most of all, though, my wife Cindy has supported me throughout this project, reading and commenting on everything, and providing the sort of calm, loving environment that authors need. Our numerous animals also contributed to this aspect of the 'project' in their very individual ways.

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Chapter 1. How it all Began

It all began in Vienna in August 1968. I was there for a month-long German language course, before becoming a student again. I was due to start postgraduate studies in economics at Oxford that October, following a fascinating year working in the chemicals industry in northern England as a mathematician.

Vienna itself was already familiar, as two years earlier I had passed through while hitch-hiking south to meet friends in Italy. But at the language course there was no one I knew, and I found myself sharing a room in a hostel with a Czech student, Karel, a little older than me. Of the other students, I got to know some Belgians, including a couple with a car who planned to visit Hungary during the course.

Karel spent much of his spare time anxiously listening to a small radio in our room. It was the year of the 'Prague Spring' and the new leader, Mr Dubček, was already daring to open up Czechoslovakia (as it then was), both politically and economically. New liberal thinking was in the air, and there was talk of economic reforms, including radical steps like abandoning old-style central planning and adopting market-type principles. However, the situation in the country was evidently quite tense - though I must confess to understanding rather little about it all at the time - since there were fears that the Soviet Union might intervene to stop the liberalisation and reinstate the former hard-line communist leader, Mr Novotny. To me, this sort of intervention was just what was to be expected behind the 'Iron Curtain', but meeting Karel made the whole thing more personal, and in some ways more frightening.

The course went well and we all learned a lot more German and spent some time wandering around Vienna as good tourists should. For my taste, Vienna was always a bit too clean, tidy and formal, albeit stunningly beautiful in places, such as the Schönbrünn Palace. Music by Mozart or Strauss was often playing in the parks and gardens, and many Austrian women wore their traditional dress. On the other hand, Vienna is the place where I've had most trouble with the police, with three reprimands on a single afternoon on one occasion - twice for crossing the road while the traffic lights showed ‘red’ for pedestrians, once for sitting on the grass near a sign clearly forbidding such boldness. My efforts to pretend that I hadn’t understood the sign didn’t help me at all.

My Belgian friends took me to Budapest for a weekend towards the end of the course. In those days, a visa was still needed and to get one it was necessary to change a modest amount of UK money into Hungarian currency, forints. There was a queue at the border, as people waited for documents to be checked and stamped, but otherwise the journey to Budapest was quite uneventful and we found a reasonable official campsite just north-west of the centre of town.

So finally I was behind the ‘Iron Curtain’ for the first time, curious and a little apprehensive. Our little group spent hours wandering around town, starting in the Castle District (the *Var*) on the Buda side of the river, with the amazing Fishermen’s Bastion from which you could look down to the Danube, its line of bridges, and over to Pest on the other side. Walking south, we came to the former Habsburg royal palace, now partly a library and partly the Hungarian National Gallery. In later years, as I got to know Budapest as well as anywhere, this became my favourite place in the city, even more so when it was beautifully restored in the 1980s. Returning to 1968, however, we progressed further to reach the Gellért Hill, and then down to the river, beside which is the famous Gellért Hotel, a good place to stop for coffee and cakes as we quickly discovered.

What were my first impressions of this strange new place? For a start, much of it was quite grubby and neglected, badly needing renovation and even some basic repairs. That said, many of the older buildings in the city were simply breathtaking, and the setting, straddling the Danube and with a line of hills on the Buda side, was truly majestic. The bridges across the river were all different, and each interesting in its own way. At each end of the older bridges were large black-and-white pictures of the bridges as they were at the end of the War, destroyed by bombs and shelling - a bleak memorial. Many buildings still bore the marks of the 1956 uprising against communist rule that had been brutally suppressed by the Soviet Union - bullet marks were clearly visible everywhere.

But the people were incredibly friendly and welcoming, and unlike Vienna, police were not much in evidence. Having had to change some money, we soon found that there was little to buy and that prices were really low compared to what we were used to. Public transport was good and almost free, and cafes and restaurants were very cheap. Hence we found ourselves in the unexpected position of having to eat in some of the best restaurants in town (such as the *Matyas Pince*; now, I'm told, rather too touristy) in order to be able to spend our forints; this was not a great strain, it must be admitted. Hungarian food was lovely, but rather a minefield at that stage when I knew not a word of the language, and most restaurant menus were only in Hungarian (though a few also offered German). Street and shop signs were quite mysterious then as it was impossible to guess what words might mean, so different was everything from English or German. Ever since, I've always tried to learn a little of the relevant language when visiting places so I can at least get around and understand a few basic things.

Returning to Vienna, the situation in Prague was reaching crisis point and Karel was increasingly upset about the unfolding situation. Then one night the Warsaw Pact forces invaded the country, ostensibly at the 'request' of the self-styled legitimate government, but no one really believed that. Tanks and infantry were soon in all the major cities including Prague, hundreds of people were arrested, the liberally inclined government of Dubček overturned, and a very hard-line form of communist order was quickly restored. This survived until the final collapse of communism in 1989.

Karel himself was deeply torn. Should he go home and risk arrest? Should he try to stay in Austria or go to Germany to seek work? He opted for the latter, and I soon lost touch with him. I hope he did well, and perhaps by now he has returned home to his now democratic country. Before that month in Vienna, I had never met anyone who had had to face such a dreadful choice, and still find it hard to imagine what my own choice might have been in similar circumstances.

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My next spell in Eastern Europe came along two years later. I was then a PhD student at Oxford University studying some fairly technical aspects of Hungarian economic planning (just how irrelevant can you get to the modern world?), and had a British Council studentship to enable me to spend four months in Budapest, based at the Karl Marx University of Economic Sciences (now re-named the Budapest Corvinus University). It turned out that the Council were pleased to find a social scientist wanting to go out to Hungary, as most of their visitors then tended to be musicians or artists and they were keen to diversify.

My accommodation was a small room in a flat with a nice Hungarian couple, near Moscow Square (*Moszkva tér*). By present day standards the room was extremely basic, with no TV, no radio, no music, certainly no computer as PCs were not yet invented, no phone. In fact phoning anywhere except local calls within the city was not easy, and on the few occasions when I phoned home it was necessary to book a call at the main post office, then wait in a queue until the call came through; sometimes it simply didn't! This sort of experience rapidly convinced me that I would never have made a good socialist, Eastern European style, since my tolerance of queueing seems to be rather low. Luckily, Hungary was the right country to be in since most everyday items were in plentiful supply and shops were generally well stocked. However, that's not to say there were no shortages at all. There were long waiting lists for cars, with buyers often having to pay months or years in advance; getting a new telephone line installed could take months or years; and the supply of housing was very limited, again with queues and waiting lists for any half-decent new housing that was produced.

My hosts spoke not a word of English (nor any German, for that matter), so when there I was compelled to communicate using Hungarian. Luckily, before going to Hungary I had had weekly lessons for some months so had at least learnt the basics, enough to appreciate what a beautiful language it is, with a uniquely fascinating structure - the only downside was the lack of words that bore any resemblance to English or any other language I had learned previously. For readers who might be interested, Hungarian is not an Indo-European language and its grammar has some curious features not found in our more familiar languages. Unlike English, it is heavily inflected - that had the implication, I soon noticed, that even quite slangy or vulgar Hungarian had to have the right endings, or no one would understand a thing. Interesting. I also greatly liked the old fashioned courtesy of the language, so that when entering an office it was usual to address the receptionist or secretary by saying, “I kiss your hand” (*kezét csókolom*).

For my research for the PhD the University allocated me a desk in a shared office, and I was supported there by a young lecturer - who soon became, and has remained ever since, a very close friend - Ernő Zalai. Ernő taught mathematical economics and was interested in the same planning models that formed my research topic. This meant that he could help me to meet other economists interested in such topics, including such figures as János Kornai who later became very well known internationally; and another young economist, Miklós Németh, who later became Prime Minister of Hungary. At times, too, I also managed to meet senior officials from various ministries. Of these it proved hardest, frustratingly, to meet people from the Planning Office itself. The Planning Office building was always heavily guarded and it seemed that foreigners rarely gained entry. In my case, it proved necessary to meet officials in a nearby café, one which by an amusing coincidence was called the Plan Café.

Without exception, I think, the academics and officials I met during this lengthy visit to Hungary were welcoming and helpful, perhaps pleased to find that someone from outside was seriously interested in what they were doing. It took a while for me to get used to the fact that when referring to their colleagues, the usual designation was Comrade X, or sometimes even Comrade Professor X - this was, after all, a communist country, though in many respects it didn’t feel like it. In the University itself, I was introduced to lots of relevant articles and books on my theme (all in Hungarian), and many people gave me official papers to read - probably nothing ‘top secret’, but certainly internal ministry documents marked ‘for official use only' (*hivatalos hasznalatra*). There was never a sense that there was anything to hide, and all discussions I took part in felt free and open (unlike some of my subsequent experiences elsewhere in the region, where the prevailing 'culture' made it impossible to criticise anyone senior, or to see official papers).

During this period I got to know Budapest very well, and also visited a few other places, notably Eger - famous for its 'Bull's Blood' wine, Lake Balaton, and places north of Budapest along the Danube such as Szentendre, Visegrad and Esztergom (the last, puzzlingly, twinned with the area where I now live, Midlothian, though I have no idea what the connection is). Especially at weekends I used to enjoy taking the number 56 tram from Moscow Square out into the Buda Hills that run along the western edge of the city. While walking there I have once seen a woodpecker (though more often heard them), and also once saw a family of wild boar quietly minding their own business.

On the social and cultural aspects of life, both the British Council and friends in the British Embassy invited me to various events, both to meet other visitors from the UK (though I didn't spend much time with any of them) and to meet various Hungarians from the worlds of culture and business. Ernő also introduced me to his family, at that time just his wife and their baby daughter (later on, they also had two sons), and we were often together. With his family's help, I learned a good deal about Hungarian food and how to cook it, especially famous dishes like paprika chicken (*paprikás csirke*); in return, a friend at the Embassy helped me to get hold of some Indian spices and we introduced Ernő's family to Indian cuisine (I had learned to cook it while an undergraduate, and later while sharing a house for a year with a couple of Indian engineers). Before leaving Hungary, I bought a Hungarian cookery book which proved fun, though in places a bit daunting, as some recipes began with such encouraging instructions as 'take three suckling pigs.....'

At that time it was not uncommon to see people buying live hens in the market and walking them home (or taking them on buses or trams), presumably to pluck and gut before cooking them in the usual way; similarly, people often selected carp from large tanks in the market, and they would be flapping in their wrapping while being taken home for cooking. Needless to say, this guaranteed that the resulting food would be fresh and tasty, though I'm afraid most people in the UK nowadays would be too squeamish (and would probably lack the basic skills), to cope with such 'fresh' food. Still on the food theme, though I mostly ate in the pretty basic University canteen or at various cheap, self-service restaurants scattered around the city, I did sometimes eat in nicer places and enjoyed treats like a very spicy fish soup (*halászlé*), goulash (*gulyás*) and the unusual pike-perch (*fogas*). Though never much of a drinker, and no expert on spirits or wine, I did nevertheless get to like apricot brandy (*barackpálinka*), and some of the traditional Hungarian wines such as *szürkebarát* (grey monk). Unfortunately, such old, familiar names have become harder to find in recent years as many wines have been rebranded, relabelled and subject to 'modern marketing' to meet the needs of the international market.

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During the 1970s and early 1980s, my research on Hungary continued, with funding for visits usually not hard to find. The resulting articles were on such topics as pricing and price regulation; investment and industrial policy; and the general process of economic reforms, which at that time were far more advanced in Hungary than anywhere else in Eastern Europe. Sometimes my interviews in government departments and especially in companies could prove a little 'stressful', as it was then common practice to be given both coffee and apricot brandy at the start of a meeting (even at 9am!). On the odd occasions when I had four interviews in rapid succession, by early afternoon I would be quite 'jumpy' from all the strong coffee, offset by the drowsiness (and unsteadiness?) induced by the strong spirits. Nowadays, I think, it would be quite rare to be offered alcohol in an office, so times have changed. However, I am told that in Serbia and in a few other places, these traditional practices have not yet changed much.

One trip ended badly. After a few weeks spent collecting information and articles on Hungarian industrial policy and investment planning I was on the point of catching my plane at the main airport in Budapest (*Ferihegy* 1, the old airport) when I was taken aside and quizzed about my reasons for being in Hungary. My explanation that I was an officially approved academic visitor supported by the Hungarian Academy of Sciences cut no ice at all. My bags were taken off the plane and the flight departed without me. By then I was being interviewed in a private room by someone more senior. The process was polite but quite forceful, especially when a large pile of papers and reports was taken from my suitcase, some clearly marked *hivatalos hasznalatra* (official use). Not surprisingly, I was somewhat nervous about the proceedings, not least because it was very unclear what was expected of me. Each official document I had should apparently have been stamped with a permit allowing me to use it (as I knew perfectly well), but the institute where I had been based had told me not to worry about such bureaucratic details - however, it seemed they had been too relaxed.

In the end I was made to write out a statement (which I think of as my ‘confession’) about what I had been doing in Hungary. Though the interview had been conducted in Hungarian, I chose to write this in English. That did not go down well, but it was accepted and finally I was put onto a later plane and ‘ejected’ from the country. On returning home I immediately wrote a detailed letter of protest about this incident to the UK Foreign Office. I never received a reply and have no idea what was done, but a few months later, to my immense surprise, everything that had been confiscated at the airport turned up at my office in a large package. So the planned article did finally get written.

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Late Spring 1981 saw my first trip to Bulgaria, for a conference on public sector economics held at Varna on the Black Sea. To keep the costs down, it turned out to be most economic for me to go out there for a two-week holiday package, based at the Golden Sands resort not far from Varna. On the direct flight out there from Glasgow, I met some of the Scottish holiday makers heading for the Black Sea, and was intrigued to learn how much of their holiday would be financed - many of them had suitcases packed with tights and jeans that they planned to sell on the beach, and the proceeds were expected easily to cover all their local outlays. While obviously illegal at the time, these informal traders were merely satisfying some of the pent up demand in another socialist economy beset by shortage. I suspect I was the only academic on the flight, and this trading opportunity had never occurred to me.

The conference went well, with some interesting papers mostly from the western participants and some exceptionally dull ones from the socialist countries. For the most part, economists in the region still received what we would generally regard as rather poor training, with an over-emphasis on Marxism-Leninism, and probably the latest speeches by Brezhnev (leader of the Soviet Union until his death in 1982) and other socialist leaders. Usually, they were well versed in mathematics and statistics, but the political constraints under which they worked limited what they were allowed to say, especially at an international forum with western participation.

The mention of Brezhnev just now reminds me of my first exposure to Russian. This was back in 1971-2 when I had a temporary lectureship at the University of Birmingham; while there I followed, just for fun, the MSc-level course in 'Russian for Social Scientists'. This was not a great way of learning to speak Russian since the vocabulary was quite specialised, to put it mildly. In fact the very first Russian word I learned conveys the right flavour; this was *sovershenstvovanie* which means 'further improvement', the idea being that under socialism everything is already pretty good, so that all we have to do is make it even better. Later, in the weekly Moscow-based economics paper, *Ekonomicheskaya Gazeta* (Economic Newspaper), we got to read speeches by Brezhnev about fulfilling the latest five-year plan and the like. Every few paragraphs there were little phrases in brackets which, translated, meant 'applause', 'stormy applause' and sometimes even 'prolonged stormy applause' - amazing! Overall, this was a very demanding but highly entertaining course, which was superbly taught.

Back to the Bulgaria trip, once the conference was over I was on my own for a week and a half for my 'package holiday'. My plan was to look around a little, but mostly to get on with my own work, drafting a couple of chapters for a book on planning that I was writing with a colleague (the book duly came out in 1982). In those days, writing meant exactly that, writing by hand (for my secretary to type up on my return home), since there were no laptop computers yet, and I certainly hadn't lugged a heavy typewriter out to Bulgaria. Most days I would have an early swim before the sun got too hot, then work in my room, then later walk around the resort and find a restaurant where I could use my meal vouchers. Most restaurants had quite varied menus but in practice, if you wanted dinner, you simply took what was available that day (and ate it rapidly in case it vanished again!) - most items on the menus were not available.

On the tourism side of things, I did look around Varna, which at that time had little to recommend it; and the resort itself badly needed a facelift to modernise it - but it was clean everywhere, people were nearly always friendly and welcoming, and the sea was lovely. One afternoon I joined a group visiting a local collective farm where we were shown what I suppose has to be considered 'socialist tomatoes', though they tasted just like the usual 'capitalist' ones. More interesting was a small private winery we visited. Tasting the wine in a courtyard partly covered by the vines themselves, the air scented by late summer flowers, provided a welcome break from writing about central planning. Even then, the Bulgarians understood that small-scale private wine-making was the way to get a quality product, though most production of everything else in the country was then state owned.

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A few months later, in early 1982, I visited Poland for the first time, as a result of an exchange programme agreed between Stirling University (where I then worked) and the University of Silesia at Katowice in southern Poland. The timing wasn't ideal as the strikes by the (illegal) Solidarity trade union (*Solidarnos*č) had not long before been suppressed by the declaration of martial law and the assumption of power by General Jaruzelski.

Ostensibly, this internal military action was supposed to forestall the much nastier option of possible Soviet intervention, still seen as a real threat at the beginning of the 1980s. Perhaps this was indeed a correct judgement, we shall never know for sure; but it didn't make General Jaruzelski very popular, and it was a very uneasy calm that settled over Poland for the next few years.

To get to Katowice, I first flew to Warsaw, then took a train south, a long trip of six hours or so. Boarding the train, I was jostled by three young men leaving the train, but thought nothing of it (other than to judge them quite impolite). A few minutes later, with the train already heading south, I realised that my wallet had vanished, so I looked into the corridor and spotted it lying on the floor. "How lucky", I thought, and didn't even bother to look inside to check it. After a couple of hours, I went down to the restaurant car to order a meal, but before I could sit down and eat it, I had to pay. Only then did I discover, to my huge embarrassment, that there was no Polish money in my wallet - it had evidently been stolen when I boarded the train, and in my innocence that possibility hadn't even crossed my mind! Instead of dinner, therefore, all I could pay for (with a few *zlotys* in my pocket) was a coffee, so I had to make do with that. Hence it was a hungry journey and an unpromising start to my Polish trip. My host meeting me at Katowice station was very upset to learn of my bad experience, but quickly remedied my most pressing need by providing food and a beer.

Visiting Katowice in early February was not a great idea, since it coincided with the maximum level of coal burning to provide domestic and industrial heating, as well as for electricity generation and other industrial uses. The result was the worst industrial pollution I have encountered anywhere in the world, with my throat sore and eyes stinging for much of the visit. Only much later did I learn that this region was part of Europe's so called 'black triangle', a major pollution hot spot in the continent. Katowice was poor and fairly grimy, not helped by the constant drizzle for most of the visit. Shops were not numerous and not well stocked, offering a shocking and rather sad contrast to my earlier experiences of Hungary - this was a real shortage economy. When something did come into the shops, long queues would quickly form, as I saw one day snaking outside the largest department store in town. I still don't know what had suddenly become available. It was vital always to carry two particular items when walking around town: a shopping bag - in case some desired item appeared, or possibly not even a desired item, since it might simply be something that could be informally traded or bartered later; and toilet paper, since this was never available in the truly dire public toilets, or even in toilets in public buildings such as the University.

My official work in the University was quite straightforward and went well. My agreed task was to deliver a couple of lectures on economic reforms, mostly drawing on what I had learned in Hungary. Only knowing a mere handful of Polish words, my lectures had to be translated from English which always slows things down and limits what can be said. At the lectures themselves there was little discussion, just a few half-hearted questions, though afterwards private discussions were a lot livelier. What I realised was that most people were trying to keep their heads down, maintain a low profile, and not attract attention (not something I've ever been very good at). Many people were genuinely afraid of losing their jobs if they said 'the wrong thing', whatever that was, so it was usually safer to say nothing at all. Again, privately, I was told that the new political authorities in Poland were trying to force out of office most democratically elected Rectors from the country's universities and replace them with (approved) political appointees. No wonder the University felt such an uncomfortable place.

Katowice also had an Academy of Economics, an institution that appeared to undertake more research and operate at a higher academic level than the University itself. My talk at the Academy was therefore much more technical, something to do with mathematical modelling of planning systems, given my interests at that time. On technical topics, too, I have always found that discussion in politically repressed societies can be much more animated, as proved to be the case at the Academy. Presumably people found it easier to argue about technical matters, since even if there was some 'spy' in the audience reporting back to the authorities (as was quite likely), the chances are that he or she would have no idea whether the arcane subject matter was politically questionable or not. In that sense, mathematicians have always been a bit 'safer' in such societies.

Katowice is not far from both Krakow and Auschwitz, so I took the opportunity to visit both places. The beauty of Krakow's central squares and narrow medieval streets shone through decades of grimy pollution and neglect under socialism - this neglect since largely rectified as the city underwent major restoration during the 1990s. For centuries, with its strategic location on a bend in the Vistula River, Krakow was Poland's capital and many of the country's monarchs are buried there in the stunning royal castle on Wawel Hill. Krakow is also the site of one of Europe's most famous early universities, the renowned Jagiellonian University, founded by authority of the Pope in 1364; it was only the second university in Central Europe, following Prague (founded in 1348). In the late fifteenth century, Nicolaus Copernicus was a student there, later renowned for his radical and then highly controversial notion of a heliocentric solar system; perhaps not surprisingly, the best hotel in town nowadays (though not back then in 1982) is the Hotel Copernicus. More recently, in the 1950s and early 1960s, Karol Wojtyla was an associate professor in the University's theology faculty. He later went on to become Pope John Paul II and the city's main airport was recently named after him.

In contrast to the wonders of Krakow, a visit to Auschwitz, close by the little town of Oswiecim, cannot be other than a dismal and extremely depressing experience. Part of the Nazi genocide, over a million innocent people were put to death in the Auschwitz gas chambers. For a visitor like me, familiar with the history of the Second World War but not really understanding its deeper meaning, Auschwitz was probably the biggest shock of my life. It's one thing to know, intellectually, that millions of innocent people were killed, but to see where it happened, in all its cold, orderly, bureaucratic formality is something else again. People were literally taken apart and sorted - piles of hair in one place, gold fillings in another (that thought always frightens me, as I have two gold fillings myself), leather suitcases in a third, then shoes, and so on. Everyone was photographed and listed. This was no random killing of unknown people, but systematic, highly organised and totally deliberate mass murder. And given this, the German sign over the main entrance, *Arbeit Macht Frei* (Freedom through Labour), was simply chilling.

Part of the reason why we fought the Second World War was to stop such atrocities, though their full horror was not widely understood until quite late in the day; initially, we had actually entered the War in response to the German invasion of Poland in 1939 (our government had agreed with the Polish government that an attack on Poland would be treated as an attack on the UK itself). However, towards the end of the War, as Soviet troops were advancing through Poland and towards Berlin in 1944, the Polish Home Army rose up in Warsaw, expecting to be quickly supported by the Soviet forces. Instead, the Red Army paused on the other side of the Vistula and allowed the Warsaw Rising to be defeated, at massive cost in terms of dead, injured, and damage to the city. Not surprisingly, this event seriously soured relations between Poland and the Soviet Union after the War. How shaming then, given our initial promises to Poland in particular, that we allowed the War to end with the Western Allies conceding Central and Eastern Europe to Stalin's 'sphere of influence', soon giving birth to the Cold War. For countries like Poland, the Second World War was not truly over until the country was able to rejoin Europe, that is to say join the European Union, in May 2004; but more of that later.

Overall, then, this first visit to Poland was both stimulating and illuminating. Unfortunately, the academic side of the trip did not result in longer term links of any sort, partly for funding reasons, partly because at that time I simply did not meet anyone particularly interested in developing a research partnership. But the visit taught me a lot about the darker side of life under communism, and about its economic failures.

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Hungary, Bulgaria, and finally Poland; these were my early experiences of the region 'behind the Iron Curtain'. These countries were obviously part of Europe. The visitor could see it in the buildings, in the cafes and restaurants, in the culture, in the people. Everyone considered themselves to be Europeans, and in conversation they mostly felt that way. Indeed, sometimes when visiting the US, that country has seemed more 'foreign' and 'strange' than anywhere I have been in Central and Eastern Europe. But if the people I met in Hungary, Poland and Bulgaria were Europeans, they were also very different from my friends and colleagues back home.

Their governments were all communist controlled, and if there were elections they were stage-managed affairs within the Party Central Committee, or general elections with a single candidate approved by the ruling communist party. Central and Eastern Europe came under communist control as part of an agreement between the Western Allies (the United States, the UK and France) and the Soviet Union at the end of the Second World War. Not that placing the region within the Soviet ‘sphere of influence’ was ever intended by the West to have this effect. But Stalin thought differently, and by the late 1940s every country had fallen under communist government. Initially highly repressive, civil liberties were drastically curtailed, thousands of people spent years in labour camps or worse, and many people managed to leave to escape the hated political controls. Indeed, so great was the outflow of people that in 1961 the Berlin Wall was erected to stop people leaving East Germany for the West. And along the entire border between Eastern and Western Europe was a line of fencing, barbed wire, checkpoints and watch-towers, forming the so called *Iron Curtain* (a term first popularised in a speech by Winston Churchill delivered in Fulton, Missouri in 1946). Over the years, hundreds of people were shot or imprisoned for trying to escape from Eastern Europe to the West.

The economies of Central and Eastern Europe were all centrally planned, albeit with the beginnings of market-type liberalisation starting to take root in Hungary; and most of their foreign trade was with other ‘socialist’ partners, notably the Soviet Union. For most people in the developed Western countries, the very idea of central planning is wholly unfamiliar, and for young people in particular there remains surprisingly little awareness that such a large part of the world was operated by means of such an ‘alien’ economic mechanism. Under central planning, virtually all productive assets were in state ownership, meaning here all farms, firms in all sectors of the economy, shops, restaurants, and so on. What a firm produced was determined as part of the annual and five-yearly planning cycles, as were input requirements and even selling of the output - firms were normally told to whom to supply their products. Thus the system offered firms great security, and for a time managed to generate quite fast economic growth rates, but by the 1980s the central planning system had become sluggish and moribund, growth rates and living standards were lagging behind those of more developed countries, innovation was slow, and shortages were widespread.

Finally, again with the limited exceptions of Hungary then, Yugoslavia (where travel had always been very liberal), and Poland before long, most people were not free to travel to the (nasty capitalist) West, and so most younger people had little knowledge of the West except through a few imported books, and unofficial radio channels such as Radio Free Europe and Radio Liberty (now based in Prague, interestingly; and whose daily reports on the region I still receive by e-mail), and the BBC World Service. For a generation, not many people spoke English or other West European languages, everyone was required to learn Russian. There were also a few Western TV programmes, mostly American and British, shown on the local TV stations. By the 1980s, these included such popular American soaps as Dallas and Dynasty, conveying a slightly misleading impression of universal Western opulence (and perhaps a less misleading one of Western decadence). At that time there was nothing like Sky with its multi-channel offerings via satellite. In the cinemas, there was a limited selection of Western movies (given subtitles in the local languages or, less often, dubbed), including some James Bond movies, a bit surprisingly.

By specialising on Central and Eastern Europe in my research, I was choosing a field that was such a minority interest in the UK as to be practically invisible. In career terms, one could argue that it was not a very smart choice, something more in the mainstream of economics might have been better, or certainly more lucrative. But it has proved endlessly fascinating. As I explain more later, I have made many good friends in the region and love its food and drink, and these are far from the worst reasons one can give for studying a region. And back in the 1970s and early 1980s, who could have predicted the momentous changes that were just around the corner? Certainly none of the economists I know predicted what would happen at the end of the decade, though we generally understood that the Soviet-type model for running an economy had run out of steam and badly needed to change - we just didn't know how or when.

The changes that came along from 1989 onwards not only led me to work on some new and important economic issues, but also took me to many unexpected places.

Chapter 2. Starting Transition

1989 was an incredibly exciting year, especially the last four months. This period saw the collapse of communist regimes in Central and Eastern Europe, falling one after another like dominoes. The collapse started with Poland, which took a cautious approach when it opted for multi-party democracy, initially reserving some seats in the Parliament for communist deputies. The country still feared possible Soviet military intervention to stop the democratisation process, even though the leader of the USSR at that time, Gorbachev, had stated that it was for each country to find its own way in the world. His words were not then especially credible, not surprisingly given Soviet behaviour in earlier decades.

Shortly after Poland, Hungary, under its last communist Prime Minister, Miklós Németh, decided on multi-party democracy, but this time without any guarantees of communist seats in the Parliament. Gorbachev had visited Budapest not long before this decision, and had apparently emphasised that Hungary was free to decide for itself about its internal political arrangements. Németh himself was never a communist of the old-fashioned Soviet sort; rather he was more in the Western social democrat tradition, with liberal economic ideas, liberal ideas about political structures. Hungary was fortunate, I think, to have a leader in place who was able to manage the transition to democracy so well; some other countries were a good deal less fortunate in this respect.

Many people from East Germany were then travelling to Hungary and trying to exit the country to the West, since they were usually prevented from travelling to Western Europe directly by the East German authorities. The East German government protested to Hungary and demanded that Hungary's border to the West be sealed to stop the flow of refugees. In response, Hungary had the courage to refuse, in fact going further by completely dismantling the barbed-wire fences along the border with Austria - Hungary's part of the Iron Curtain - and making clear that it would not be party to policies to stop citizens - either their own or those of neighbouring countries - from travelling freely. Before long, souvenir stands in Budapest were selling pieces of the infamous barbed-wire border fence to the tourists, though one suspects that much that was on offer had never been anywhere near the border. But it was, evidently, an irresistible business opportunity, at least for a short while.

Meanwhile, the combination of these dramatic changes in Hungary, the continuing flow of East Germans trying to leave their country, demonstrations in Leipzig and other places in East Germany, and warnings from Gorbachev about the need for reforms, finally forced changes in the East German leadership. The East German army commander in Leipzig had refused to shoot on the crowds, following discussions with local community leaders, and this added to the pressure on the government. It was becoming clear that old-style repression was no longer an option. The government lifted travel restrictions and, almost by accident, the Berlin Wall was opened at last on the evening of November 9th 1989. While being interviewed that evening, a government spokesman made a promise that the border would be opened, but without specifying when or how. However, a rumour that the Wall was open swept East Berlin, a crowd surged up Unter den Linden, and the handful of soldiers guarding the Brandenburg Gate were told by their superiors simply to stand aside.

Hundreds of thousands of people passed through the Wall in the next few days, many meeting relatives and friends they had been unable to visit for decades (since the Wall went up in 1961). By mid-1990, Germany was reunified. Hardly any of the Wall now remains, though one can still visit Checkpoint Charlie and one or two short sections of Wall preserved as a memorial.

In the closing weeks of 1989, and early in 1990, peaceful protests led to the end of communist rule in Czechoslovakia and Bulgaria. The only country where the communist government was toppled by force was Romania. The leader, Ceauşescu, had run a highly repressive regime since 1965, and declined to resign when Gorbachev advised him to do so; instead he planned to ride out the wave of liberalism and political reforms then sweeping across Eastern Europe. His security forces, the dreaded Securitate, wanted to arrest a Hungarian-speaking priest from Transylvania who had been delivering sermons deemed offensive to the regime, but this sparked off serious rioting and demonstrations. I was in Budapest at the time, and saw the events unfold on Hungarian TV. The end came when Ceauşescu ordered a mass rally at communist party headquarters just a few days before Christmas 1989. The crowds started to boo and jeer, previously unheard of in Romania. Security forces were ordered to shoot at the crowds to restore order, but they and the military quickly changed sides; soon army tanks were heading for the Central Committee building, and the regime fell in complete disarray. Ceauşescu and his wife escaped, but they were quicky recaptured, given a very perfunctory trial, and executed on Christmas Day (this was not Christmas Day in Romania, of course, since the country follows the Orthodox calendar for religious festivals, according to which Christmas falls on January 7th).

Thus in a few short weeks, the political landscape of Central and Eastern Europe was transformed, and the Cold War appeared to be over. Several of the new leaders (or interim leaders, pending the first democratic elections) had already spoken of their desire to 'return to Europe', to abandon central planning, and to build market-type economies. But what did that mean, and how could the West help the process of market building along? In answering this question, the subject of 'transition economics' was born.

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One day in late 1989, working in my office at Heriot-Watt University (where I was then Head of the Economics Department), a phone call came in from Brussels. "Could you come to Brussels tomorrow for a meeting to talk about aid for Poland and Hungary?" the caller asked. Apparently, similar calls went to about 20 or so economists scattered around various Western European universities, and most of us showed up in Brussels the next day, curious to find out what the Economic and Finance Directorate of the European Commission had in mind. We quickly discovered that the Commission knew virtually nothing about the new democracies emerging in the East, in fact as far as we could see, only one member of the Commission's staff had any specialist knowledge of Eastern Europe at all. Nearly all of us summoned to Brussels, in contrast, had already worked on one or other country from the region for many years. The Commission wanted two things from us: first, some background papers about the economies of Poland and Hungary; and second, initial thoughts about the sorts of aid that would help these countries to manage their transition to the market.

The discussions in Brussels that day were in some ways quite unbelievable. There we were, a bunch of professional economists working on a part of the world in which hardly anyone had any interest (and usually, even less knowledge!), and suddenly we were in demand. We actually had a chance - and a rather daunting responsibility - to make a real difference to people's lives, something that happens to most of us quite rarely. Undoubtedly we made lots of mistakes along the way, some of them mentioned later on; but I like to think that our efforts might nevertheless have made a difference for the good. We certainly tried very hard.

On departing from Brussels, most of us had papers to write, to a very short deadline. Contrary to popular opinion, many academics do a lot of their writing to fairly tight deadlines, and mostly meet them. In fact a very simple incentive system operates. If we fail to meet a deadline and either don't deliver or deliver something very late, then the organisation concerned will simply take the view that we are unreliable, and will normally not offer work in the future (and if the submitted work is of a poor standard or delivered too late, we might not even get paid the first time). Hence if we are interested in a given topic and want to do more work with the organisation currently hiring us, then we simply have to deliver good quality work on time. It may sound a tough system, but it's fair, and mostly operates extremely well.

My first Brussels paper was on enterprise reforms and the beginnings of privatisation in Hungary, the tricky business of disentangling business from the state apparatus, and getting firms to think more commercially. Soon, the same group was back in Brussels to talk about more countries, with more papers being commissioned. In the second round, I worked on and co-authored two more papers, one on industrial competitiveness and restructuring, the other on early privatisation in Hungary, Czechoslovakia and Poland. All three of my papers were published in due course by the Commission.

Meanwhile, the Commission itself had prepared initial papers on the new aid programme it proposed for Poland and Hungary, to be called the PHARE Programme. The Programme's name has nothing to do with my own name, it should be emphasised; rather, the initials are a French acronym, and form the French word for a 'lighthouse' or 'beacon'. Though set up for Poland and Hungary, PHARE was soon extended to take in other transition economies, with a correspondingly enlarged budget. The Programme provided much technical assistance in areas to do with market-building and market institutions, lots of it unavoidably boring and technical. For instance, how do you make the reform of business accounting standards sound exciting? Or setting up a property register to facilitate the operation of property markets? And so on. Later, in a sub-Programme called ACE, the PHARE Programme came to include research in economics, supporting projects with teams from East and West; more on that later. PHARE also financed some market-related infrastructure projects, and many other things.

People were already thinking hard then about what the transition process would entail. Part was already pretty obvious, since it was clear that the mechanisms of old-style central planning would quickly disappear, including state price fixing, state control over foreign trade, and the like. In most countries, a high degree of price liberalisation and trade liberalisation were among the earliest measures adopted in the move towards a market-type economy. Given the widespread shortages and pent up demand, it was also not surprising that in many countries transition began with a burst of inflation, sometimes quite severe, so the need to bring that under control was also quite well understood. Much harder was the question of building a private sector, involving both privatisation on a massive scale, the closure of many failing firms, and creating the conditions for starting thousands of new businesses. Even after over a decade and a half, some countries have still not successfully managed that formidable task.

Last, there was the whole business of building up the institutions needed for a market economy, an aspect of the transition that was remarkably poorly understood both by those in the newly emerging countries, and by their numerous external advisers. It was made even harder by the fact that shifting from central planning to a market-type economy also required large changes in people's mentality, on their ways of thinking about economic relationships. Essentially it was a shift from planning, control and dependence upon the state, to reliance on markets and prices, much greater autonomy for firms and households, and less dependence on the state. A massive change indeed.

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Gradually during 1990 it became clearer that there would be massive amounts of new work to be done on the economies of Central and Eastern Europe. The UK's main social science research funder, the Economic and Social Research Council (ESRC) was starting to think about a new grant programme to support new academic research on the region, the UK Government was quick to establish a so called 'Know-How Fund' for Central and Eastern Europe, and organisations like the World Bank and the International Monetary Fund (IMF) were beginning to take an interest in the new developments. It was also rumoured that a new specialist development bank might be set up to support the transition - this actually happened in 1991, with the formation of the European Bank for Reconstruction and Development (EBRD), based in London.

Given all these developments, and the research opportunities they were opening up, it began to seem a good idea to set up a research centre at my university. At the time, I was the only economist at Heriot-Watt with any interest in Central and Eastern Europe and my personal research network was a widely scattered group based at many other institutions, across several countries. Hence it was quite surprising, really, that Heriot-Watt University supported me to establish a centre, CERT (Centre for Economic Reform and Transformation). I directed CERT for its first seven years, and pulled in enough grants and contracts to support several researchers working full-time, plus a full-time administrator. We quickly became one of the leading centres in the UK for the economies in transition, and have remained so.

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Vodka and Pickled Cabbage by Paul Hare

In mid-1990, President Gorbachev of the Soviet Union submitted a remarkable request to the G7 countries at their Houston summit, seeking advice on economic reforms. The summit agreed to ask the IMF to coordinate what became known in the trade as the 'Four Institutions Study' of the Soviet Union, the four institutions being the IMF itself, the World Bank, the OECD (Organisation for Economic Cooperation and Development, based in Paris), and the EBRD. A slight problem was that the EBRD did not then exist as a distinct institution, though it was already at the planning stage. However, the person lined up to be the EBRD's first Chief Economist, John Flemming, was then Chief Advisor to the Governor of the Bank of England. He was also a Fellow of Nuffield College, Oxford, where I had been a postgraduate student, and we had kept in touch now and again over the years. This is how, in Autumn 1990, I found myself in Russia for the first time, joining a group of people mostly from the World Bank, officially working for the (not yet existent) EBRD, and holding a contract issued by the Bank of England. A very odd position to be in, but it all worked out in the end.

Moscow had very little hotel space in 1990, and none of a modern, western standard. We had a project office in the Intourist Hotel (since demolished, mercifully) just a short walk from the Kremlin, but most of us ended up staying in a hotel on the Moscow river, a boat-hotel, almost at the end of one of the city's Metro lines, and involving a short walk through a riverside park to reach it. On each side of the boat were lines of tiny, cramped rooms, with a narrow corridor in between, and a modest restaurant and bar near the front. Food was basic, and except for breakfast we usually tried to eat elsewhere, though that turned out to be unexpectedly hard then. To get into town for meetings we sometimes took the Metro, though usually I was the only one who could read the Russian signs and their lack of Russian made some of our team a bit anxious about travelling anywhere on their own. Alternatively we went by car, quickly discovering that a US dollar or two and a packet of Marlboro cigarettes would get us almost anywhere. We just flagged down virtually any car.

Our team's remit was to study business behaviour and new business forms in Russia - other teams went to other Republics within the Soviet Union, and studied a huge range of other issues. We had to try to find out how the central planning system was changing as the country began to reform, and to do this we had meetings in *Gosplan* itself (the key, top-level, central planning body), various sector ministries, and lots of individual enterprises. *Gosplan* saw itself as gradually withdrawing from the detailed product-by-product planning for which it was best known, and increasingly focussing on broader, longer-term strategic economic issues. This seemed to make good sense, but the revelation came to us as a surprise, and was one of many indicators of the old system's disintegration. The ministries told us quite diverse stories. Some saw no reason to change anything much and expected to be taking part in the next round of plan calculations just as usual. Others were convinced that old-style central planning was 'finished', and were quite unsure what role the sector ministries could even have in the future, except possibly as somewhat glorified trade associations. The picture we built up through these sessions was not that of a self-confident world superpower that knows where it is heading, but more that of a huge, amorphous colossus, still being carried along by its own momentum but deeply unsure in which direction to turn next.

The enterprises we visited exhibited, if anything, even greater diversity than the ministries. Several understood that the economic system was changing and that they might no longer be told what to make and to whom to supply it. Thus the more enterprising ones were already looking around for new business partners, both in Russia, and sometimes abroad; they were also investigating possible new products, something that Soviet firms were not prone to do unless instructed by a higher level of the planning hierarchy. However, at some firms, the managers just shrugged and said, "What can we do ourselves? We can't do anything without instructions either from our ministry or from *Gosplan*." It would be interesting to know which of these firms still survives, in the tougher market conditions that soon emerged.

Taking advantage of recently passed laws on cooperatives and on leasehold enterprises - representing the start of an official private sector in the Soviet Union - several of the firms we visited had already set up such entities. Assets of the state-owned firm could be used in these new, off-shoot businesses, wages could be higher than normal, and if good products (or products in short supply) could be made, most of the resulting profits could be retained in the business; they would not all be taxed away. So for the first time, it had become legal in the Soviet Union for people to start enriching themselves through quasi-private business activity, albeit still operating within the interstices of the all-embracing state sector. A heavy engineering firm might start to make gardening tools, for instance; a chemicals firm could start to make much needed household chemicals and cleaners; and so on. Lots of ideas sprang up with remarkable speed, showing that under the heavy weight of state bureaucracy there were at least some elements of a more enterprising culture.

One quite large firm we visited was just outside Moscow. It made computers, though not, we thought, under the clean-room conditions that would be more usual in a western computer factory. Some old models we were shown looked as though they had been thrown together almost at random, with odd bits of wire sticking out the back. But most interesting was the factory's main product, a model several of our group recognised, namely the already almost out-dated IBM PC-AT (I had one on my office desk back home, at the time). How did this factory come to be making such a model, especially as the US (and the NATO countries, more generally) at that time maintained a stringent high technology embargo against the Soviet Union? When we asked the managers this question, they looked a bit sheepish. Quite quickly, we realised that the technology they were using had simply been stolen, presumably from an IBM factory somewhere in the West.

Moscow as a place was in some ways quite grim and solid, its wide avenues lined with three or four storey buildings, a mix of offices, apartments and, at ground level, lines of unappealing little stores. Around the edges of the city stood mile after mile of badly built apartment blocks, but nearer the centre one could hardly fail to be impressed at the majesty of Red Square and the adjacent Kremlin, the Moscow River flowing along one side. At the southern end of Red Square lies the world-famous St Basil's Cathedral, its multi-coloured onion domes in classic Russian style. On the east side of the square was GUM (*Generalniy Universalniy Magazin*), then Moscow's largest store. Back then in 1990, wandering around GUM was a real eye-opener, revealing the limited range and truly shoddy quality of most goods available in the Soviet capital. By now (2007) it has been totally transformed, with a thorough renovation inside and out, and lots of the shopping space occupied by well known western names, as well as some much improved Russian ones - tough competition has had some highly beneficial effects on Russian production of consumer goods.

As we rushed from meeting to meeting all over the city, food and drink proved to be a serious problem. For a capital city, we found that Moscow had surprisingly few restaurants and cafes, and most that we tried were 'full' or 'closed for the staff lunch break' (I'm not joking!), or 'closed for renovation'. It seemed to us that the socialist approach to service provision had not been a big success in the Soviet Union. Even our base at the Intourist Hotel usually had little to offer, since most of its cafes were closed when we needed them. The only western restaurant in Moscow then was a newly opened branch of McDonald's on Pushkin Square (just up the road from our base), but this was proving so unbelievably popular that we never had time to join the huge queues waiting patiently in the Square. Some days, therefore, we managed little to eat from breakfast through to early evening, by which time we were almost collapsing.

In the evening, we would head for one of the main hotels, to get dinner in their main dining room. When we stepped into the almost empty room and requested a table, we were told, usually not very politely, "No free tables, we're full tonight". This was so patently untrue that we always argued, and normally found - just as with the cars - that a dollar or two plus some Marlboro cigarettes got us a table (I don't think I've ever bought cigarettes in my life except for that trip to the Soviet Union). Getting a beer and some bread to start us off was straightforward, but the long lists of appealing dishes on the menus were nothing more than a chimera. The best approach was simply to request dinner and eat whatever turned up. For me this is usually not a problem, since I like, and can happily eat almost anything, and if need be can tolerate very poor quality offerings.

So we all survived a hectic week or so in Moscow, then took an overnight train to Leningrad (as it then was) for our second week, which followed a similar pattern to that which had kept us so busy in Moscow. We stayed in the Leningrad Hotel (now the St-Petersburg Hotel) on the northern bank of the River Neva, just a short walk from the Finland Station, the place where Lenin had arrived back into Russia at the start of the Revolution in 1917. The engine that hauled Lenin's train is on display at the station. The hotel was what I would characterise as a typical socialist-era hotel, with services at the most basic level imaginable (or simply non-existent!), not very friendly or welcoming staff, and a really horrible building. However, the hotel did manage to feed us, and it did enjoy the one redeeming feature of an absolutely stunning view over St Petersburg.

Not only did we visit diverse companies, some of which were showing great initiative in tying up investment deals with foreign partners (and we were unsure whether this was yet legal), while others were doing little more than quietly decaying, but we also had a fascinating long meeting with senior officials from the Leningrad City Council. The first surprise was that of the new business-related laws that had been passed, we often had better knowledge than our hosts. We usually had the official Russian text plus a fairly good translation into English, whereas if Council staff has missed the relevant issue of *Pravda* (the Party newspaper) or *Izvestia* (the official Government newspaper), and if the Council's Communist Party Secretary had not chosen to highlight a particular new measure, then the Council, in effect, knew nothing about it. The second surprise was that even if they knew about a new measure, the Council might not bother to implement it, or if they did, it might not be in the manner envisaged by the Government. For instance, the Council disliked some of the new business forms, or told us that 'other councils' did, and this could mean the imposition of fees to allow a firm to start up (no mention of such fees in the law), a refusal to make any premises available for new businesses, or various other obstructions.

At the end of our meeting, the officials asked us what economic reform we would recommend for Leningrad. We perceived that they wanted us to recommend a stock exchange, but to us this seemed a foolish notion, as there were not (yet) any assets to trade on such an exchange. Instead, we suggested they set up a court to handle business disputes between private parties, since private business seemed to us the likely future. The officials reacted as if we had just landed from another planet, and it was apparent that our advice would not be taken.

However, what the Russians learned to their cost, in the ensuing years, was that this institutional vacuum would not go unfilled - business disputes would arise as private business blossomed, and means would be found to settle them. Sadly, the means - for a few years at least - was often a bullet. The Russian murder rate rose dramatically in the early 1990s, and part of the rise was due to the business community settling disputes - not very nice, but no doubt effective! By now, the situation has settled down a good deal and rather more civilised means for handling business problems have gradually evolved.

One evening, three of our group decided to be bold and try one of the new restaurants that were starting to spring up. We didn't know any names, but simply asked the taxi driver to take us to a good 'co-operative restaurant' (*kooperativny restoran*), this being one of the new business forms then allowed in the Soviet Union. The taxi driver took us along one of Leningrad's many canals (hence its designation as the 'Venice of the North') to a new restaurant, and this proved a big success. The food was much better than anything we had hitherto been eating, and the service was good as well. Thus we formed the impression that under the right conditions, businesses could deliver good quality and good service, features that, sadly, we did not encounter very often.

Aside from the meetings, what was Leningrad like as a place to visit? From a distance, almost everything about it was spectacular, from the River Neva itself, to the green-painted Hermitage Museum, the Nevsky Prospekt (the main central avenue), the Peter and Paul Fortress, and numerous other features in the central areas of town. But as soon as the visitor approached anything closely, the legacy of neglect was palpable. Nearly every major building needed renovation, all the way from basics like a coat of fresh paint and new window frames to replace old ones that were often slowly rotting away, to large-scale structural repairs. Almost everything was cracked or otherwise damaged. Sadly, this merely reinforced my impression from other places, that socialism is not a great system when it comes to such basic services as maintaining the urban fabric, even in world-famous cities like Leningrad. Visiting St Petersburg (as it had then become) a decade or more later, this universal neglect had been repaired or touched up in a few places, but mostly it was still there for all to see. Quite shocking, really, and disappointing.

The Hermitage Museum itself was an incredible place, and such a warren of corridors and rooms that over two visits my routes hardly overlapped at all; the main difficulty was usually to find a way out, as the signage back then was almost non-existent. Both my visits were fairly short, as they were fitted in between meetings, but they were enough to convey a feeling of the past grandeur of the Czars' Winter Palace, though they also revealed the need for a massive restoration project (much of which, by 2004, when I next went there, had been done, and to an impressively high standard). The range of mostly European art was outstanding, both in quantity and quality, and it's no surprise that the Hermitage has always proved such a magnet for visitors to the city.

On the Sunday that we were in Leningrad, I persuaded one of the team, John, to take a trip out of town to one of the old Czarist palaces. So we took a train a little way south east of the city to Pavlovsk. The palace, built in the 1780s during the reign of Catherine the Great, was set in an extensive park and gardens, overlooking a small lake and near a river, so the setting was idyllic. Though rather neglected and forlorn, when the sun came out the palace looked quite lovely, and is probably even better now following restoration. This particular palace was quite easy to get to by train as the park is just a short walk from the Pavlovsk railway station. And it was a delight to get out of town, even if only for half a day.

The last few days of the visit were spent back in Moscow. We got there by plane, on a flight which, I was told, cost us a mere one dollar each. That price was barely enough to pay for the snacks provided en route, but then, many aspects of pricing in the Soviet Union were not particularly rational in those days. Once back in Moscow, we had a few more meetings, but also had to talk among ourselves to figure out how we were all going to report our various findings, including the teams that had gone to other places. It was agreed that we would each submit a paper reporting our findings, and that an editorial team from the Fund (when economists talk of the Fund, they generally mean the International Monetary Fund, or IMF) and the Bank (likewise, we usually mean the World Bank. Both the Bank and the Fund are based in Washington, DC). So we all went home with a remit to submit our reports within three weeks, which I imagine we all did, given the importance of the project.

Getting home was an interesting experience in itself, since I travelled by Aeroflot (the Soviet international airline, now the Russian airline) to London. In Moscow I checked in as normal, and got a non-smoking seat reservation, only to discover as we boarded the plane that no one paid any attention to the assigned seats, it was just a free-for-all. I found myself in the middle of the smoking section of the plane, so I pointed out to the rather unfriendly air-hostess (who looked not unlike a retired rugby player!) that I had a non-smoking reservation. "Oh, no problem, Sir, you don't have to smoke in that seat." And that was that. One hopes that Aeroflot service standards might have improved somewhat since those dire days.

In our various reports, many of us (including me) not only described what we had learned from the various formal meetings we had attended, but also tried to convey our impressions of where the Soviet Union was going, how events might unfold in the political sphere. Some of the Baltic States had already taken initial steps towards declarations of independence from the Soviet Union in mid-1990, so there were clear signs of an impending break up of the Union. Moreover, to our surprise it did not appear any longer as if the Soviet Union possessed the will to snuff out such tendencies using military force. Hence our reports tried to envisage what the region might look like 'post-Soviet Union', and to sketch out economic and political reforms that would help prepare for such a multi-country future.

Needless to say, all our attempts to describe this possible future were excised from our reports by the official editorial team working in Washington, since I suppose it was not deemed to be in accord with the normal protocol of international economic relations to advise a government seeking help that it should prepare itself for a time when it would no longer exist. As a result, what President Gorbachev got in early 1991 was a thoroughly edited three-volume report of description, analysis and findings, along with a 50 or so page executive summary. I still think that much of the advice on reforms that we put forward then was quite sound and made good sense; if anything, in the light of rapid reforms undertaken elsewhere, we might even have been over cautious, but in most respects we were on the right lines. But we were simply overtaken by political events, as so often happens.

Perhaps some of the needed political discussions took place 'behind the scenes', I don't know. All I can say is that when the Soviet Union did finally disintegrate at the end of 1991 - following a failed coup attempt against Gorbachev in August 1991 - most of the international community appeared to react as if the whole thing came as a big surprise. By then, it should not have been much of a surprise at all.

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By the end of 1991, therefore, we not only had Central and Eastern Europe (CEE) moving rapidly towards building market-type economies, but also the 15 new successor states that came out of the Soviet Union as it broke up. While the CEE countries had a history of operating market economies (at least in the inter-war period, if not for longer than that), and most had some experience of functioning as independent states, the same was not true of the 15 successor states, aside from the three Baltic States (Estonia, Latvia and Lithuania). All the state institutions of the Soviet Union were based in Moscow, as the capital of the 'empire', so it was natural for the new Russian state, much the largest and richest of the successor states, to take them over as the core institutions for Russia.

Even though the Soviet Union had at least notionally been a federation of states, the other 11 new republics (i.e. leaving aside the Baltics) possessed few of the state institutions that suddenly became necessary for them to operate in the world. The gaps were especially evident in the economic sphere, since virtually no one in these countries had any idea what a central bank was, let alone how it should be set up and run. The same was true for many other key institutions, so it is understandable that the first year or two of 'independence' should have been characterised by such severe economic turmoil. For virtually the whole region, inflation shot up to exceed 1000 per cent in the worst year, 1993, after which, with new currencies finally introduced everywhere, the new governments finally got a grip on the situation and gradually brought their economies under some sort of control. Russia and the 11 other non-Baltic successor states formed a new economic organisation to facilitate various forms of cooperation across the region. This was the CIS, or Commonwealth of Independent States. For the most part, though, the CIS has remained a remarkably ineffectual body, and may not survive much longer.

Up to this point no mention has been made of a part of Europe that was also under communist rule, namely South Eastern Europe. For present purposes I take this to mean Albania, a country that had been under extremely hard-line communist rule for most of the postwar period, and which was only just beginning to loosen up and think about reforms by 1991; and Yugoslavia, which most outsiders forgot was even communist because its policies had appeared far more liberal and market-oriented for at least a couple of decade prior to 1990.

After Marshall Tito's death in 1980, no new leader emerged able to weld together the disparate nationalities and ethnic groups that comprised Yugoslavia, and the economic situation deteriorated as failing enterprises were protected (especially in the Serbian parts of Yugoslavia) and inflation took off. Reforms introduced in 1990 might have helped the situation to stabilise, but by then democratic elections had taken place in each republic, with Slovenia and Croatia both strongly favouring independence from Yugoslavia. By early 1992, Yugoslavia was already breaking up into several separate states, and a new round of Balkan wars was well under way, spearheaded by the leader of Serbia, Milosevic. The Bosnian war was ended by the Dayton Peace Accords of 1995 that left Bosnia awkwardly split along ethnic lines, and ruled by an internationally appointed High Representative. Subsequently, NATO intervention was needed to stop Serb aggression in the province of Kosovo, and Macedonia experienced civil unrest between Albanians and the Slav population in 2001, ended by the Ochrid Agreement under which NATO troops served as peacekeepers for a time (later replaced by EU forces). The region remains politically far from settled, with the result that thinking about serious economic reforms mostly lags far behind the rest of Eastern Europe (except for Slovenia and Croatia, countries that avoided the worst of the fighting, though the latter was heavily engaged for a time both in Bosnia, and in its own contested region of Krajina, including the border town of Vukovar).

Political turmoil aside, all the former communist countries of Eastern Europe and the former Soviet Union had at least started the process of economic reform by the end of 1991, though as recently as the time of writing (2008), a handful of countries had actually not progressed very far. Some countries were just not very interested in economic reforms (such as Turkmenistan and Belarus), others have been too distracted by conflict (such as Serbia).

Chapter 3. Borders and History

Sitting comfortably in the UK or in the US, we usually think we know what we mean by a country, and we expect borders to stay the same from one year to the next, one decade to the next. This, after all, has been our experience for some centuries now in the UK, and for well over a century in the United States. Both in geographical and political terms, this is largely what the international community expected of the transition economies once they embarked on the complex process of building market economies, and when they got the chance, the main international organisations, such as the World Bank, IMF and EU, advised accordingly. Economists have never been terribly good at dealing with political change, so our starting point was usually to express the wish that there wouldn't be any - beyond the basic fact of the collapse of communism - so that we could simply concentrate on the emerging economic issues, which were challenging enough. But in many countries, it didn't work out that way.

The disintegration of Yugoslavia, accompanied by a serious scale of warfare and several instances of international intervention, was already sketched at the end of the last chapter. But it was not alone, though its breakup into separate states was certainly the bloodiest. In contrast, the breakup of Czechoslovakia into two states - the Czech Republic and Slovakia - from January 1st 1993 - was impressively calm and peaceful. At the time, the Czech part of the Federation wanted to rush ahead with further reforms while the Slovaks wanted to proceed more gradually. Failure to agree, and inability to reach a compromise, led to the split. Once it had happened, subsequent political changes led to both countries following fairly similar paths of development, despite continuing differences in reform rhetoric. Both countries acceded to the EU in May 2004, along with six other countries in transition (Estonia, Latvia, Lithuania, Poland, Hungary and Slovenia).

Everywhere in the region, history matters, and ordinary people are often surprisingly well informed about seemingly quite esoteric details of their history - though I suspect that what people 'know' will be heavily coloured by the political style of the particular country in which they happen to reside. For instance, once when visiting Hungary, the taxi driver who brought me into town discovered that I knew a little Hungarian, and immediately embarked on a lengthy diatribe about the infamous Treaty of Trianon. This Treaty was signed in 1920 at the Trianon Palace in Versailles, and marked the dismemberment of 'old Hungary' (i.e. the Hungarian part of the former Austro-Hungarian empire). Hungary lost territory to Romania (Transylvania), to Austria (most of the Burgenland, following a plebiscite), Yugoslavia (most of Croatia, and the Voivodina region of Serbia), and to Czechoslovakia (most of Slovakia). From the Hungarian point of view, the country lost well over half its territory and people, though what remained was far more ethnically homogeneous than the country had been before. The neighbouring countries saw the matter rather differently, since the Hungarians had not been especially popular rulers, and the neighbours all gained territory. Nevertheless, I was intrigued to find that the taxi driver felt so strongly that Hungary had been unfairly treated, and presumably this partly reflects the way in which the relevant history is taught in Hungarian schools.

In South Eastern Europe, further political change is very much on the cards. Not only is there the difficult question of settling the so called 'final status' of Kosovo, but in a referendum that took place in late May 2006, Montenegro narrowly opted to separate from its federation with Serbia and become a new independent state. This is Europe's first new state for some years, and one very likely to become extremely prosperous through developing its superb tourist potential, especially its wonderful coastline on the Adriatic, provided that the new government manages to avoid falling prey to the criminal gangs that are exerting such a damaging impact on that part of Europe.

The notion of independence was already in the air when I had occasion to visit Montenegro in the late 1990s, as part of study-team funded by the UK government. Our remit then was to study various issues to do with prices and markets, including the pricing policies of the public utilities (such as electricity), and proposals for privatisation. Montenegro was already moving more strongly towards creating a market-type economy than its neighbour/partner, Serbia, and had adopted the Deutsche Mark as its official currency (now the Euro). Later, though, its progress faltered for some years.

We stayed in Milocer down on the coast, though all of our meetings were in the capital, Podgorica, except for one lunchtime meeting at a lovely hotel overlooking the old town of Budva. In Milocer, our hotel was a former royal summer residence, almost on the beach but partly shaded by a variety of trees. So our days began and ended with a swim in the adjacent bay, and while swimming we had superb views of the famous tourist hotel-island of Sveti Stefan (which, unfortunately, I never managed to visit). After a swim, breakfast under the trees at the back of the hotel was a real treat. This was one trip when, for the whole visit, we were wonderfully well taken care of (unlike some other trips, to other countries, that I get to in later chapters). In Milocer, there is really nothing besides the hotel, so one evening we did venture along the coast to Budva, a sort of small-scale version of the much better known Dubrovnik (in Croatia, just a little further up the coast). We ambled around parts of the old town, found a nice local restaurant for dinner, and wandered along the new marina - less attractive than the older parts of town, but interesting to see, nonetheless.

Our official meetings revealed that in many respects Montenegro already understood quite well what building a market-type economy entailed, though it still had a good way to go with the privatisation of larger firms; and its public utility pricing, notably of electricity, still involved substantial subsidisation. These issues came together in connection with one particular project, namely the idea of privatising the country's major aluminium company. We were told that the government was keen on the idea, and was taking it forward by offering a commitment to keep the electricity price extremely low for at least a decade post-privatisation. For readers unfamiliar with the relevant technology, the standard process for making aluminium from the bauxite ore is an electrolytic process that is extremely electricity intensive. In fact, the aluminium company in Montenegro apparently consumed almost half the total electricity in the country! Hence the question of pricing that electricity was no trivial matter, indeed it was vital for the economics of aluminium production. Unfortunately, a careful examination of the costs of producing electricity in the region quickly convinced us that the proposed price was far too low. We estimated that if the privatisation deal had gone forward on the proposed terms, the electricity company would soon have been needing massive bailouts to stave off bankruptcy. Not surprisingly therefore, we recommended the adoption of more sensible pricing policies, and advised against the particular privatisation deal that was 'on the table'. A little more surprisingly, our advice was taken.

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It wasn't only the former Yugoslavia that experienced such political instability. Many of the 'new' countries that emerged from the Soviet Union as it fell apart also faced immensely challenging problems of state-building. This was less true for the three Baltic States since they had recent experience of operating as independent states, had a strong sense of national identity (though one that also made life quite complicated, shall we say, for each country's large Russian minority), and had supportive neighbours (especially Finland, in relation to Estonia). These factors all helped a great deal.

For many CIS countries, as noted earlier, their new-found independence from late 1991 came as a shock for which they were ill prepared. Some countries simply had a problem over believing that their independence was real, and here to stay. For instance, Ukraine had been divided and under the control of various foreign powers (notably Russia, Poland and Lithuania, the Ottoman Empire, and Austria) for some centuries before finally being incorporated into the Soviet Union in 1921. After independence in 1991, many people still expected that the Soviet Union would be restored, that independence could not last. One interview I had in Kiev (or *Kyiv* in Ukrainian) reflected this sort of thinking. My interviewee was a senior official from the Ukrainian Central Bank, an institution still visibly struggling to operate the nation's monetary policy, manage the currency, and so on. In the course of our discussion, I was told that Ukraine had continued to submit monetary reports to Moscow for at least a couple of years following independence, because it expected the Russian Central Bank soon to be back in control. For many senior officials it seemed to take several years for them to become accustomed to thinking of their country as fully independent, and hence to stop behaving in ways that reflected their former dependence on the imperial centre.

Elsewhere, some countries, such as Georgia, descended into a period of civil conflict, and even when the fighting stopped, the government could not claim any longer to control all the nation's territory. Armenia and Azerbaijan fought each other over disputed territories, generating streams of refugees fleeing the fighting. The two neighbouring nations are still not friends though the fighting ceased long ago, leaving part of Armenia lying in an enclave within Azerbaijan, part of the latter lying inside Armenia. Difficult neighbours also make for difficult trading conditions, and in this respect Armenia must be one of the most disadvantaged countries on earth: it is a small, landlocked country, and its neighbours are Georgia, Azerbaijan, Turkey (against whom there are still shockingly unacknowledged claims of genocide of the Armenian minority in Turkey during the First World War), and finally Iran. Iran is probably the friendliest neighbour Armenia has. Azerbaijan is better placed than Armenia, since it has large oil reserves which many western companies are now helping to extract from under the Caspian Sea. In that respect, energy resources make life just a little easier.

One of the more nightmarish independence stories is that of Moldova, which had not been a country in its own right for several centuries before it gained independence in 1991. The Principality of Moldavia became part of the Ottoman Empire in the 16th Century, then passed to Russia under the Treaty of Bucharest in 1812. It returned to Romania after the First World War, then part of it became a republic within the Soviet Union following the Second World War; this was Moldova as we know it today. Under Soviet control, many ethnic Romanians were deported, Russians were encouraged to emigrate to Moldova, and the people were required to write their native Romanian language (renamed Moldovan) using the Cyrillic alphabet.

Hence, not too surprisingly, one of the first acts of Moldova's first post-Soviet government was to pass a new language law, making Romanian (albeit still called Moldovan) the sole official national language (previously, both Moldovan and Russian had been recognised), and requiring it to be written in the more traditional Latin script. There was also early talk of a possible reunification with Romania. This combination of events alarmed the Russian-dominated eastern region of the country, which proceeded to declare its independence from Moldova to form the state of Transnistria along the east bank of the Dniestr River, with its capital, Tiraspol. Though not formally recognised by any power, Transnistria has enjoyed some military support from Russia and for a time, Ukraine, and there was a short, inconclusive war between Moldova proper and the breakaway republic in 1992, with shelling over the Dniestr River. Russian troops still remain in Transnistria, and for some years observers from the OSCE (Organisation for Security and Cooperation in Europe) supervised the cease-fire line between the two sides, notably at a major bridge over the river. Moldova and Transnistria have little option but to live together fairly peaceably as each side is economically dependent upon the other (Transnistria generates a large proportion of the country's electricity, for instance), but politically, the stalemate continues and there is no sign of a lasting solution on the horizon.

As if this wasn't enough, Moldova has another, albeit somewhat less serious political problem in the south of the country, again one that was in part precipitated by the language law. This was a declaration of independence by the Gagauz people (a Christian Turkish minority), based in a few counties around the town of Comrat. However, negotiations between the Chişinău (formerly known as *Kishinev*, in Russian) government of Moldova and representatives of the Gagauz people led to a settlement in which the latter enjoyed limited autonomy while recognising the Moldovan government.

Against such a complicated background, my first visit to Moldova in the mid-1990s promised to be more than a little fascinating. I was not disappointed. The occasion of the visit was a research project on the economics and politics of economic reform, in which our research group was investigating how and why economic reforms in the new states like Moldova would be much more problematic than in more established states such as Hungary. To study the political aspects in particular, I was accompanied by the project's political scientist, Judy. We were assisted by a Moldovan academic, Anatol, who helped organise various visits, trips and interviews for us. Of these, the most interesting were some meetings about economic and political reforms with officials and politicians in the capital, Chişinău, a trip down to Comrat, capital of the 'Gagauz Republic', and a more 'touristy' visit to a former 'socialist recreation complex' close to the Dniestr River. All of this took place in June, so it was already warm and sunny, with fruit, vines and other crops already doing well.

Chişinău is not a prosperous city, and many of its houses are poor and drab in appearance, as are many of the more modern, concrete 'socialist apartment blocks'. The entry to the country, via the international airport, involved passing through a hall not much larger, and no better equipped, than a large garden shed (though this might well have been upgraded by now). Once through the formalities, we were picked up and driven into town on a dusty dual-carriageway, then to our hotel along a narrower road that involved a lot of twisting and turning to avoid the major potholes - luckily the driver seemed to know where they were. Along the way, we saw a few brightly painted houses, some in traditional Russian styles, the occasional Orthodox church, and some less attractive modern government buildings. Most striking of all, though, was the huge amount of greenery, with trees everywhere and a good deal of public open space. This alone made the city a lot pleasanter than it initially appeared to be.

Walking around later, the confusion of signs was striking - with new street signs in Romanian in the Latin alphabet, older signs in the Cyrillic alphabet in either Romanian or Russian, and naturally, nothing at all in English. Also striking were the early signs of a country seeking to re-invent itself, to come up with an interesting and preferably heroic history. Thus the main street through the centre of town became Stefan cel Mare Boulevard (formerly known as Lenin Avenue), and a statue of Stefan could be seen at the corner of the Stefan cel Mare (Stephen the Great) park. Stefan was Prince of Moldavia, a region that took in most of present-day Moldova and a large chunk of Romania, from 1457-1504. By defeating the Turks in battle, he kept Moldavia free from Ottoman control, though it eventually succumbed under one of his successors. Stefan came to power in Moldavia through the influence of Vlad III the Impaler (otherwise known as Dracula, a name which means 'son of the Dragon', since his father had been a Knight of the Order of the Dragon), then a Prince of Wallachia. Stefan cel Mare is widely considered to have been one of the most successful rulers of the Principality.

Driving down to Comrat on the mediocre and often not very wide main road gave us a first chance to take a look at Moldova's rural areas. Much of the road south was lined with walnut and almond trees, with many of the adjacent fields set out as vineyards or orchards, all of which conveyed a slightly misleading air of (potential) prosperity. Comrat itself was a dry and dusty town, with no particularly noteworthy buildings as far as we could tell. We drew up to a building that turned out to be the government centre of the self-styled Gagauz Republic, a building that still bore the sign (in Russian), Moldovan Soviet Socialist Republic, left over from the former USSR. In front of the building was a large statue of Lenin, the only one we encountered in the country.

At our meeting there we learned that the Gagauz people resented the new language law as it was perceived as discriminating against them, since they spoke either a form of Turkish, or Russian, but not Romanian. However, they accepted that they were too economically weak to form a wholly separate state and had therefore been willing to reach an accommodation with the Chişinău authorities. This is one of relatively few instances in the region where the concerns of a significant minority have been addressed without resort to war, and Judy's interest in Gagauzia was partly for that reason. The handling of this issue also calls into question the widely discussed but conceptually fairly vacuous principle of 'self-determination for all peoples' (what exactly do we mean by a 'people' here?). When first enunciated by Woodrow Wilson prior to the Paris Peace Settlement that concluded the First World War, the principle was used to grant statehood to various ethnically defined groups. But even then the application of the principle was pretty arbitrary and led to such semi-artificial groupings as Czechoslovakia and Yugoslavia that have since disintegrated. And some groups that claimed statehood then, such as the sub-Carpathian Ruthenians, have never been heard of before or since; history has passed them by. Such was the more or less inevitable fate of the Gagauz people, too.

By way of relaxation, we headed down towards the Dniestr River one afternoon to visit what had been a 'socialist recreation centre' under the old system, a place where enterprises and ministries could send their staff for highly subsidised holidays and breaks. But what a disappointment it was, so neglected and run down, tennis courts overgrown and most buildings in need of repair, or at the very least some paint. In some ways it was reminiscent of one of the smaller British seaside resorts - but without the sea - now that seaside holidays are much less popular than they used to be, having lost out to package holidays abroad. We had a picnic lunch there, with various cold meats, pickled vegetables, bread and fruit, plus plenty of wine or beer. It was all fairly basic stuff, nothing special, but tasty and plentiful.

After sitting around for a while, we walked down to the banks of the Dniestr River, where I decided to have a swim in the river - by then it was quite a hot afternoon and I was more than ready for a dip. Our Moldovan colleagues advised against this notion. Partly, I think, they didn't consider it very dignified for a visiting academic to do such a thing; and partly they told me it might be dangerous, as not so long ago there had been shelling across the river during the short war between Moldova proper and the breakaway republic of Transnistria, and we were not far from the bridge were OSCE cease-fire monitors were still stationed. However, all I could see over on the Transnistrian side of the river was some fields and a few quietly grazing cows. The cows showed no sign of ill intent, so I elected to have my swim. The river was actually quite muddy near the bank, but the swim was very pleasant and I came out after a short while feeling much refreshed. Then we packed up and drove back to Chişinău on the dusty roads.

For all the poverty in the country, that first visit to Moldova was remarkable for the general friendliness and kindness of the people we met. Everything that could be done to make our stay comfortable, interesting and useful was done, and our official hosts did their best to set up meetings with everyone we asked to see. As a result, in barely a week we learned a huge amount about a little-known country. Indeed the only time I recall Moldova being mentioned in British newspapers was an occasion a few years back when England and Moldova were playing an international football match, part of the European Cup, I think, with one leg being played out in Chişinău. Otherwise, the country might as well not exist.

Yet Moldova has good conditions for agricultural production, and a reasonably well educated workforce, so it clearly has the potential to be a lot more prosperous than it is, and for its products to be better known. As an economist, I frequently found myself wondering what was really holding the country back, why it wasn't doing better economically. While I tended to think about production and trade opportunities, Judy was more interested in the politics of the country, and ways in which the country's politics had facilitated the initial reforms needed at the start of the transition to a market economy, but now seemed to be blocking further progress. However you look at it, building a new country is no easy task!

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Much of the world is far less stable and politically settled than highly developed countries such as the UK or the USA. When communism and its associated centralised economic planning ended, and the transition towards market-type economies got under way across Central and Eastern Europe and the former Soviet Union, political upheaval was probably inevitable, at least in some of the new countries. Without doubt it diverted attention from economic reforms, delayed much needed economic change by many years, and sometimes left a legacy of bitterness and hate that now seriously exacerbates the tasks of state-building and getting economies going again. That said, it is worth emphasising that for all their problems, most countries of the region have recovered substantially from their low points of the mid-1990s, most are now enjoying quite respectable economic growth and living standards are improving almost everywhere.

Chapter 4. The Early Years - Understanding and Building Markets

Just as building new states in the post-communist world turned out to be more complicated and considerably more contentious than many observers had expected, building new economic systems was also immensely difficult. At the start, it was also quite poorly understood by most of those who found themselves advising or assisting the fledgling new governments across the whole region.

True, it wasn't so difficult to bring about the formal end of old style central planning (the new governments simply shut down the old network of planning offices), and prices can easily be liberalised, either gradually or all at once. But as was quickly discovered, not all the markets needed for a modern, well functioning economy just spring up automatically, and many certainly don't work well right away. Some markets have special problems, such as the labour market, where in much of the region unemployment was more or less illegal (!) prior to transition, and consequently there were no institutions in place to cope with it, no unemployment pay, and virtually no facilities to foster labour force retraining or mobility. Hence all of this needed development, and it took time, with many countries making mistakes along the way. Likewise, the housing market and the market for land were both undeveloped under socialism, and even after the fall of communism often remained controversial and problematic.

Even the markets for standard, everyday items such as food, clothing, electrical goods and the like were not guaranteed to work well from 'day one' of the new economic system. For a start, it needs to be easy to set up new firms in any line of business, failing firms need to exit from the market in an orderly way, and there should be some 'rules of the game' in place to prevent firms from exploiting positions of near-monopoly to the detriment of their customers (these rules are what we call, more technically, competition policy). These conditions usually ensure that the competitive process in each market works fairly well, an important point since this is, after all, what mostly drives firms to produce new products, improve quality, and strive to satisfy their customers.

These points may seem almost self evident to the reader, but it is important to recall that in almost the whole of Eastern Europe before the collapse of communism (1989-91), it was normally illegal for a private individual (an entrepreneur, dare I say?) to set up a new firm. When a new firm was established, it would be on the instruction of one or other industrial ministry, and the resulting firm would be yet another state-owned enterprise. To illustrate this point, I recall using Hungarian industrial statistics in the 1970s and 1980s to study changing industrial structure. The study turned out to be extremely easy and extremely boring, because the list of firms in any given branch of the economy was very short (often no more than a handful of firms), and remained pretty much the same from one year to the next, and even from one decade to the next. The result was an industrial structure heavily skewed towards larger firms, with hardly any small firms operating anywhere in the economy, and virtually no change. In a normal market economy, on the other hand, over eighty percent of the firms in most lines of business are very small ones, with under ten employees. Most don't survive for long, while a few grow to become the large firms of the future.

To make it easy to set up new firms, a suitable legal framework has to be in place. This comes under the general heading of commercial law, and should include definitions of the types of firm allowed under the law - such as sole trader; various forms of partnership or cooperative; limited liability company; joint-stock company; and so on. Registering a new business entity under any of these headings should be quick and cheap, not subject to too much over-bureaucratic regulation. Similarly, when a business fails in the market, arrangements are needed to permit orderly closure, repayment of creditors where possible, and the sale of any assets that could be used by other businesses. This has to do with the part of commercial law dealing with bankruptcy and liquidation.

None of this was in place in 1989 in Eastern Europe, or in 1991 in the fifteen new countries of the former Soviet Union. Eastern Europe and the Baltic States had some advantage here, in that they still had an 'institutional memory' of their inter-war economic conditions, when the countries of the region were more or less democratic and operated market-type economies. Some countries still had commercial codes from the 1930s formally 'on the books', and were able to reinstate these to enable private businesses to have a reasonable legal framework almost immediately. This meant that updating and modernising the legal environment for business could then proceed in a more considered and leisurely way, always a sensible idea.

In the remaining twelve countries (i.e. the former Soviet Union, excluding the three Baltic States), there was no old legal framework to go back to, since even the pre-1917 Czarist laws were not very suited to modern business conditions, and in any event there was no desire to turn the clock back quite that far. Hence Russia, and the other successor states, were largely starting from scratch, and had to develop new business laws to allow private sector activity as quickly as possible after the collapse of the old system. In practice, the result was often quite chaotic, with many firms set up without a proper legal framework, unsure of their property rights, often lacking much contract law. This legal vacuum did not remain unfilled for long. In part it was occupied by more modern business laws as these evolved, in part by private sector, often temporary alternatives, including an upsurge of what was often described as mafia-type activity - some of which involved what we may call, euphemistically, 'contract enforcement services'.

Not only did all firms in the emerging economic systems need a new, sound legal framework, but especially for the older firms, there was also a need for a massive change in their thinking, in their approach to doing business. Under socialism they had been told what to produce, where to buy their inputs, and even to whom to sell their products. Thus they had no reason to think about marketing, and since they were not allowed to go out of business even when they made losses, they were also not obliged to pay much attention to finance. This no doubt explains why the organisation charts of socialist firms from the 1970s or 1980s rarely included either a sales/marketing department or even a finance department (other than some basic book-keeping). Thus starting to think about money and markets in a more serious way required enormous changes in the way these firms conducted their business - for a start, they suddenly had to make sure that they actually made some money, instead of running up more losses; and they also had to start taking care of their customers, instead of presenting them with a 'take it or leave it' type of deal. Not surprisingly, perhaps, some firms adapted to the new conditions rather well, and quite rapidly, while many others waited for state help or actively lobbied for continued support and protection. Often, the new states were not strong enough or self-confident enough to resist such pressures.

Foreign trade was a difficult area for the new states that emerged from the ruins of communism and central planning. For until 1990, most of the foreign trade of the socialist countries was conducted with other socialist partner-countries on the basis of annual agreements arrived at as part of the planning process; only a small fraction of their trade then involved western partners. Moreover, the socialist trade was not conducted at world market prices, but at artificially fixed prices agreed within the socialist bloc, and transactions were carried out using the so-called 'transferable rouble', an artificial currency that was really neither transferable, nor a rouble. What I mean by this is that if, say, Hungary had a trade surplus with Poland, it could not use these 'transferable roubles' to buy goods from the Soviet Union or from Bulgaria; Hungary could only use the surplus to buy more goods from Poland, and even then, only if the additional trade could be fitted into Poland's planning process. No one had the right simply to enter a market and buy something. If you were trying to design an inefficient international trading system, it would not be terribly easy to come up with anything much worse than this.

Luckily, perhaps, this dreadful system collapsed in 1990, and even more luckily, most of the new countries of Central and Eastern Europe proved to be agile enough - or economically desperate enough - to reorient much of their foreign trade towards western markets, mostly to the EU, which was quick to offer easy access to its markets. Some markets simply vanished almost overnight in the course of this 'adjustment'. Bulgaria, for example, had supplied computers to the socialist bloc and Hungary supplied buses, but little remained of these businesses after 1990. So although these countries did cope with the new trading conditions, their adjustment was accompanied by huge economic shocks, including the disruption of much long-established production.

This was bad enough, but when the Soviet Union disintegrated at the end of 1991, the trading situation was enormously more difficult. Suddenly, what had been internal trade between republics within the Union turned into international trade between the fifteen new countries. Although initially all but the Baltics stuck with the Russian rouble as their basic currency, by 1993 all the new countries had set up their own central banks and introduced their own currencies. But these new domestic currencies were not accepted in international trade, and many of the countries had little or nothing in dollar reserves; mostly they also lacked functioning banking systems, so financing trade in the way we take for granted in developed western countries was initially out of the question. For much of the region, foreign trade banks were not functioning at all well until at least the end of the 1990s.

In addition, some of the new countries, mostly those with substantial energy resources (Russia, Kazakhstan, Turkmenistan, Azerbaijan), turned out to have large structural trade surpluses, while others (Armenia, Ukraine, Moldova, and others) turned out to have structural deficits, and since the countries could no longer count on regular financial transfers from the 'Centre' (Moscow), the deficit countries had to undergo further painful adjustments in order to avoid the accumulation of unmanageable foreign debts. All in all, therefore, it was only to be expected that trade among these new countries should collapse drastically in the early to mid-1990s.

Just imagine what might happen, for instance, if Scotland gained its independence from the rest of the UK, or the State of New Jersey declared its independence from the US. In either case, the trade balance of the seceding unit would suddenly matter, whereas now most people neither know nor care what Scotland's trade balance might be with either the rest of the UK or with the rest of the world; likewise for New Jersey. And unless Scotland held onto the pound sterling (or possibly the Euro) as its currency, and New Jersey held onto the US dollar, there would be issues of foreign exchange risk, foreign currency reserves, and many other practical problems to complicate future trading relationships with their former partner countries. Thus breaking up a big nation-state, such as the former Soviet Union, was always bound to be an extremely messy affair, involving some very high costs and a good deal of economic disruption. The same can be said for the subsequent, and considerably bloodier break up of Yugoslavia to form several new states (each now with its own central bank, and its own currency).

Although some of their 'normal' trade was always conducted with the capitalist world, the countries behind the 'iron curtain' faced some restrictions on this trade, namely a comprehensive embargo on high technology imports from NATO countries (and a few others, such as Japan). Administered by a little known NATO committee, CoCom (Co-ordinating Committee for Multilateral Export Controls), that used to meet in Paris, lists of products that could not legally be exported to the countries of the socialist bloc were drawn up and periodically revised and extended as our own technology advanced. Banned products included a variety of special alloys, materials and equipment to do with nuclear power, most modern electronic products (which, by the 1980s already included PCs and the like), and many other items thought to have military or strategic significance. It can be argued that such embargoes are likely to prove ineffective, partly because there will always be someone willing to try to evade them, either through illicit trade or through theft of the technology; and partly because their existence provides the countries concerned with incentives to develop for themselves the prohibited products. Nevertheless, there is no doubt that the embargo weakened the capacity of the socialist bloc to produce many modern products, and to be competitive in world markets. The internal innovative capacity of the former socialist countries proved to be quite limited, in the end, eventually a fatal shortcoming of the centrally planned, state-run type of economy. And the CoCom system of controls only came to an end in March 1994, over two years after the collapse of the Soviet Union.

Something else that we don't often think about, or even know much about, is the very practical matter of how laws are passed, implemented and enforced in various countries. Most of us, I would suspect, are only dimly aware of how this works in our own countries, let alone anywhere else. But it can make an enormous difference to the way in which private businesses can function. Let me illustrate with a couple of examples which I picked up in the course of some consultancy work during the 1990s. Quite often the various International

Financial Institutions (IFIs) like the IMF, the World Bank, and for the transition economies, the EBRD, offer advice about how to design laws to protect shareholders and otherwise enable foreign investment to operate efficiently and securely. I was told that in the case of Russia, it used to be easy to get new laws passed, since IFI officials would simply advise the relevant Russian minister that a new business law would be helpful. Next day, a decree would be issued by the Council of Ministers (essentially, the cabinet), and it would be published in selected newspapers. And that would be that. No resources would be allocated to implement the new law, no timetable would be issued for its implementation (usually it would come into effect immediately), no one would be trained in the provisions of the new law, and it would even be unclear whose formal responsibility it was to ensure that the new law did indeed function. Needless to say, in practice most laws passed in this way have hardly any effect 'on the ground'. This is why reports on Russia quite often note that the laws look fine, while their implementation is somewhere in the range between 'very bad' and 'bad'.

In contrast, the same informant told me that in Hungary the corresponding situation was very different. The starting point might be just the same, with an IFI official advising the Hungarian government that some new business law was needed. But then the Hungarians would undertake extensive consultation with firms, banks, chambers of commerce, business lawyers and the like, to find out what people thought of the proposed new law, to devise ways of modifying it to suit Hungarian conditions and legal practices, to consider training implications and to agree on a timetable for bringing such a law into operation. By the time a new law was finally passed, two years might have elapsed, but by then the business community would be well aware of the new provisions and would be prepared for them. So there would be a far higher chance of the new business law having some real impact upon the economy.

It is useful to bear in mind that before 1989 (Eastern Europe) or 1991 (former Soviet Union), the main implementation mechanism was the communist party itself, which had branches (sometimes called 'cells') in every significant organisation in the country, including firms, farms, local and national government departments, universities and research institutes. The party secretary often had more authority than the nominal director, certainly when it came to making judgements about which official laws and decrees should take priority in a given period. New laws and decrees passed down the party hierarchy, and came into effect locally through the work of the local party committees. All this collapsed when communism ended, as all countries in the region quickly banned the communist party cells from all work places.

This created a very unusual situation in which long-established procedures for implementing new laws and decrees simply disappeared, with nothing to put in their place, and really surprisingly little thought given to the whole issue. For the countries of Central and Eastern Europe, and the Baltic States, the situation was somewhat easier for, just as with the business law mentioned earlier, they were able to draw on a degree of 'institutional memory' of operating democratic societies between the wars. This certainly helped, since enough people still understood what needed to be done to enable the new governments to function. But in the rest of the former Soviet Union, the new countries had little useful experience to draw on. Hence a good deal of law making in the early post-communist years was remarkably chaotic and ineffective.

Last, the ending of communism did not immediately result in widespread understanding of markets and prices, in fact it left a great deal of learning about economic relationships still to take place, some of it quite painful and difficult. Thus people had been used to prices being fixed for long periods, and were terrified in the early months of transition when price liberalisation resulted in a burst of inflation, and some big shifts in the pattern of prices. People had also been used to prices for some really important goods and services, such as energy products (oil, coal and gas for heating; as well as electricity), housing services (essentially, rents) and public transport being heavily subsidised and therefore very low in relation to incomes. Some basic food products were also subsidised in some countries.

Needless to say, people liked these low prices, they contributed to feelings of security and stability in the socialist countries. What was not so well understand, though, was that the same (artificially) low prices often encouraged inefficiency and waste, as in the apocryphal stories of farmers feeding bread to their pigs, and the more familiar one of public housing that was not maintained because rents were too low to cover the costs (not unlike Glasgow and many other places in the UK, as recently as the 1970s and 1980s, one must admit). On the other hand, it would be politically unwise to raise such sensitive prices 'at a stroke', since that would have imposed some extremely uncomfortable adjustments on people. Rather, such price adjustments would need to advance in step with improvements in the social welfare system so that the impact on individuals could be cushioned.

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Examples

In 1992, Russia asked the G7 governments for food aid, especially meat, claiming that a massive crisis was looming; the Russian government was expecting meat to be in seriously short supply in the coming winter, and sought help because they regarded meat as a basic commodity that was, politically, extremely sensitive. The G7 governments wanted to support President Yeltsin, but rather than simply acceding to his request, they passed it on to the UN's Food and Agriculture Organization (FAO) based in Rome, for evaluation. FAO in turn commissioned my centre, CERT, to do the work; this is often the way such studies end up being done around the world. In order to do the required evaluation, we employed a UK researcher, Tim, plus staff from Russia, notably Misha and some of his colleagues. Tim and Misha visited statistical offices and agriculture ministries in Russia and several of the new states, and our international team assembled all the data and wrote up 15 country studies (one for each country of the former Soviet Union) and an overview report in just over two months. My relatively modest role in all this was partly organisational, to make sure that we could assemble all the needed information on time and within budget (we did); and partly report writing, in that Tim, Misha and I spent a few days at FAO headquarters in Rome (just down the road from the Coliseum, as it happens) working with senior FAO staff to agree on and report on our principal findings.

Our judgement was that, at worst, the output of major meat products would probably decline somewhat, but since there had also been a general rise in the price of meat relative to other prices, as well as a fall in incomes, it seemed very likely that there would be a modest fall in the consumer demand for meat. Taking all this together, it seemed to us highly unlikely that there would be any problems over meat supplies in the coming winter, and we advised accordingly. Specifically, we advised the G7 governments to provide no aid to Russia or any of the other new countries in the form of meat, over the winter of 1992-3. This part of our advice was accepted, and it turned out to be correct - there was no shortage of meat anywhere in the region.

The other part of our advice was addressed more to Russia and the other governments concerned, rather than to the G7 itself. Our analysis suggested that in all the countries, various poor and vulnerable groups would find it increasingly hard to purchase much meat, given its higher prices, so we advised the individual governments to improve their systems of social support to ensure that vulnerable groups would not lose out too badly. To our knowledge, this part of our advice was not taken anywhere - the poor and vulnerable just had to get by as best they could. The early 1990s were very tough years for such groups.

Standing back from our specific study for FAO, it is interesting to consider why the Russians might have been so nervous about their meat supplies in 1992. Their starting point, after all, was quite a good one, with per capita meat consumption not much different from that in far richer countries such as the UK. Despite that, the meat prices paid by households were often so low that meat was in short supply, so it had to be rationed, usually informally depending on local custom and practice, sometimes officially if shortage conditions were too severe. This illustrates the point that the existence of shortage conditions often has little or nothing to do with actual volumes of supply, and much more to do with pricing. After all, if the UK government suddenly announced that all TV sets must be sold for £10, there would immediately be a massive shortage - no private-sector firms would wish to offer the product at that price, and lots of consumers would be queueing up to buy.

In the case of the Russian meat market, the producers were still state-owned or cooperative farms, so they could be told what to produce, but even so, if the consumer price was fixed irrationally low (for some misguided political reason), there would obviously be a shortage. So when the meat price rose in the early 1990s, the Russian government most likely thought that this would at most simply eliminate the existing shortages, without actually cutting the effective level of demand at all. At the same time, as remarked above, the real incomes of Russian households were falling quite fast in the early 1990s, but we suspect that the Russian government completely underestimated the likely impact this would have on the demand for meat. This is why, when they saw initial signs of a decline in production, they anticipated quite severe imbalances in the meat market, and hence sought external aid. The Russian government was mistaken, at least in part because simple economic tools like supply and demand analysis were not then widely taught or understood in the country (even by reformers who were actively encouraging market-type reforms), and there was little experience of analysing large price changes and their likely impact on firms and households, whereas this is the 'bread and butter' of economic analysis in western countries.

By the mid-1990s, the specialist international financial institution set up to support the transition, the European Bank for Reconstruction and Development (EBRD), had already been in operation for some years and it had lent several billion Euros to the region to support all sorts of investment projects. The official remit of the EBRD enjoined it to operate like a bank, in other words to lend money for investment projects that were expected to be profitable, and hence able to service and eventually repay the original loan. In addition, the EBRD was supposed to 'contribute to the transition to a market economy' in its countries of operation. The snag was that no one really understood what that phrase actually meant, but the Bank's board of directors (mostly consisting of the finance ministers from its member countries) gradually became more restive, and finally demanded that the Bank should report each year on the contribution made by its various funded projects to 'the transition'. Two departments in the Bank played an active role in the ensuing studies, principally the Office of the Chief Economist (essentially, the Bank's economics department), and later the Project

Evaluation Department, an office that carried out post-completion evaluations of Bank projects.

The Bank already published an annual report on Central and Eastern Europe and the former Soviet Union, the *Transition Report* (published each November), and these reports already included a section that assessed each country's progress in building a market-type economy using a short list of so called transition indicators. These indicators covered such things as the extent of price liberalisation and trade liberalisation, how far the privatisation of state-owned firms had progressed, what share of the economy the private sector accounted for, what the legal conditions for doing business were like, how well the banks functioned, how far other types of financial product and service had developed, and so on. So they provided quite a useful and interesting snapshot of each country's progress, from which it was quickly apparent that some countries were moving very fast towards building a 'normal' market-type economy, for instance Hungary, the Czech Republic, Poland, Estonia, and a few others. Equally, some countries were hardly moving at all, and showed very limited interest in the 'market economy' project as we may term it; this category included (and still does include) Belarus, Turkmenistan and Uzbekistan, with some other countries not much in advance of this group.

These transition indicators thus gave a good impression of transition progress at the country level, but they had nothing to contribute to the issue that concerned the EBRD board, namely how to assess transition impact at the level of their individual investment projects. This is where my research centre, CERT, was called in to act as consultants to the Bank, advising them how to measure and evaluate this impact. The Bank wanted to be able to assess the likely impact without collecting lots of new information, so our starting point was to study the Bank's own project reports prepared when a project was approved, and subsequent reports prepared to monitor project progress.

The Bank sent us project reports on the first 200 (!) investment projects that they had approved in the transition economies, a massive volume of paper that we had to wade through in great detail in order to build up our picture of how projects affected the economies in which they were based. At that time, we employed a researcher, Junior Davis, originally trained as an agricultural economist, to work on various CERT projects. Junior, it must be admitted, did most of the detailed 'wading' through the reports, an enormous task but in the end one that proved quite rewarding. In discussion with Bank economists, we had agreed that there were several types of 'transition impact' that we would look for in the reports. These had to do with what economists call linkages, demonstration effects, and other types of learning effect, and we found numerous examples of all of these. In fact it did not prove too difficult, using the available information, to highlight the likely transition impact of most Bank projects, at least in qualitative terms. Later, we did a follow up project for the Bank looking at some post-completion evaluation reports, partly to help assess how well Bank projects actually performed in terms of transition impact, partly to compare these evaluations with what we would have expected when projects were first approved. Luckily, the differences were usually not that great, though naturally there were a few projects that had not performed particularly well, as one would expect to find at any bank.

This is all a bit abstract and general, so to make it all clearer to the reader, I mention a few specific examples, without mentioning the names of any of the firms involved since these remain confidential. First, I recall some interesting projects in Poland. Investments in particular firms, in various branches of light industry, were mostly intended both to improve product quality and to increase production capacity to meet the demands of a growing market; sometimes these investments were also the means to introduce new products to the Polish market. Evaluated as investments in particular firms, these projects appeared profitable, for otherwise they would not have been approved by EBRD. However, it turned out that several of these projects could not in fact operate profitably without further important changes in the markets of the firms concerned.

In some cases, for instance, a firm would find that its input suppliers were not providing materials of a consistent enough or high enough quality to enable the firm to achieve its desired quality standards. Hence the firm would either need to find a new supplier (sometimes through imports), or take steps to ensure that the existing suppliers delivered what was needed. In the latter situation, the firm receiving the EBRD investment (plus whatever other funding that released at the same time) would find itself faced with the task of reorganising some of its suppliers in order to force them to meet the right standards. This is an example of a *backward linkage*, whereby a change in one firm (a new investment) spreads back along the supply chain to raise the quality of production in other parts of the economy. For our purposes, this was an important type of *transition impact*. To many readers this might seem completely commonplace and uninteresting, since in our own economies this kind of adjustment takes place all the time, as part of the normal competitive process. However, the economies in transition had been used to an environment in which firms generally delivered what they were told to the customers they were assigned, and firms had no effective power to complain when supplies were not of the right quality. In this context, an active backward linkage of the sort just sketched was an immensely important innovation.

Similarly, other firms found that their customer networks were not being well enough supported by the existing retail outlets, and that customers were not being offered the service standards corresponding to the new, higher quality products they wanted to supply as a result of their EBRD investment. Sometimes, a firm would simply put pressure on the existing retail outlets to improve their service quality, and sometimes such pressure was enough to bring about real change, especially when the firm could threaten to switch its output to different retailers - so the possibility of competition and the existence of alternative outlets were helpful factors here. In a few extreme cases, a firm would simply abandon its existing outlets altogether, and set up its own completely new sales network to distribute the improved products. All these situations are examples of *forward linkages*, another important form of *transition impact*.

Next, EBRD funded a wide range of projects in the field of banking and financial services, in nearly all its countries of operation. In most of the region, a recognisably modern financial sector scarcely existed, and in some countries, EBRD projects supported the first examples of particular types of financial institution in the given country. Such important projects supported the transition by providing *demonstration effects*, essentially establishing the principle that such financial institutions could function and flourish in these emerging economies, thus encouraging other firms to enter these lines of business. These new institutions included such things as pension funds, insurance companies and the like, which we either don't think about much at all, or simply take for granted. But in the transition countries, such organisations either didn't exist at all, or were wholly in state hands and operated in a largely non-transparent way, with at best a very limited role for market-type mechanisms.

All of the transition countries had organisations called banks, but at the start none functioned like the normal commercial banks we are all used to, most had handed out loans to firms in line with the current plan, with little regard for the prospective profitability of the proposed investment, and as a result, most were carrying massive amounts of so called non-performing debt (a polite way of referring to loans that should mostly not have been given in the first place, which the recipients were unable to repay). Some EBRD projects helped some of these banks to learn about commercial banking practices and hence improve their behaviour and performance. For instance, I recall some projects in both Central Europe and the Baltic States in which EBRD provided a project in the form of a credit line, essentially a fund for a selected local bank in one of these countries to on-lend to small and medium enterprises (or SMEs, to use the standard abbreviation).

In one case, the local bank had lent money to about 20 SMEs, as expected. What then made the project especially interesting was how the bank reacted when a couple of firms to which it had lent ran into difficulties. Under the former socialist system, bad loans would just have been averaged out with the good ones, not attracting any particular attention or action by the bank. In this case, though, the bank decided to set up what is commonly called a workout department - despite the name, this does not entail setting up a gym where employees of the bank could take some exercise. Rather, it was a department whose key task was to manage bad loans, and it worked by requiring the delinquent firms to report frequently on their performance, to agree financial targets to be achieved month-by-month, and to agree various emergency cost-cutting measures within the business in order to turn it around. Such efforts do not always succeed, but they often do, and the firms can then go on to do well. For the bank, its response to the bad loans in setting up the new department was an example of a *learning effect*, the last type of *transition impact*.

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What I wanted to show in this chapter was that most of the transition countries faced some rather difficult initial conditions when they abandoned the communist system, with their foreign trade relations severely disrupted and important features of a normally functioning market-type economic system simply 'missing', and certainly not springing up more or less immediately. The whole process proved a lot more complicated than that simple view would suggest.

Through examples, I also wanted to illustrate how strange and unfamiliar it was for people in many transition economies to start thinking about market behaviour, and to assess how a change in economic conditions in some market (such as the market for meat in Russia) might affect production levels, the supply situation in the market, and the people's living standards. The first steps towards a market economy were not usually accompanied by widespread understanding of markets or trust in how they would work.

Last, by looking at EBRD transition indicators I tried to convey the flavour of an initial answer to the question, 'what is transition, what does it mean'? In doing so, I hope the reader understands a little better what it means for a country to start building a market economy (from a background of central planning).

The style of this chapter could be described as somewhat 'heavier', and perhaps more academic, than most of the remainder of the book. The next chapter lightens the tone somewhat by sketching three of my most interesting and informative trips to Russia during the transition years.

Chapter 5. Russia: Off the Beaten Track

Dinner Dance in Vorkuta

Coat of Arms - Vorkuta

One day in summer 1993 a phone call came in to my office, "How would you like a trip to the Arctic?". I guessed this meant Russia, and immediately said "yes", since I had never been anywhere near the Arctic, and such a trip could hardly fail to be hugely interesting. The call had come from a colleague at the World Bank in Washington. The Bank was just embarking on a major study of coal industry restructuring in Russia, at the request of the Russian government. Since 1991, demand for coal in Russia had collapsed catastrophically as the economy went into a severe post-communist recession (as did all the other transition economies, by the way, though Central Europe recovered much faster than Russia), and the Russians sought advice on how to deal with the emerging crisis. My remit was to go with a couple of Bank staff from Washington, and one from the Bank's Moscow office (to help us with translation and interpretation), up to Vorkuta.

"Where is Vorkuta?", I wondered, having agreed to take part in the mission. The term 'mission', incidentally, is simply World Bank-speak (or more generally, IFI-speak) for any visit to a country as part of an investigation or study. It sounds quite grand, but it's not really, though a good deal of protocol surrounds such trips. Anyway, my first task was to consult an atlas, from which I quickly found that Vorkuta was at the northern end of the Urals, inside the Arctic Circle, not very far from Russia's northern coast. So far so good; but I also had a feeling that I had heard of Vorkuta somewhere, and a bit of investigation soon revealed that the place figures, briefly, in Solzhenitsyn's *Gulag Archipelago*. Why was it there? Simple, and I suppose quite tragic. The coal mines that we were to study had been opened up using prison labour, starting in the 1930s, the days of Stalin's *Red Terror*. Thousands of the workers must have died as a result of the harsh conditions that prevailed, both the prison regime itself, and the awful local weather, with months of sub-zero temperatures every year. Reportedly, in the early postwar years, many of the workers were German and Polish prisoners from the war, most never surviving long enough to get home again. Nowadays, the labour camps are closed and no one in Vorkuta is there by force, but what I had learned about the place still did not seem like a very promising start to this mission.

Those of us coming to Russia from outside the country first flew in to Moscow for some initial briefing, then we took an overnight flight from Moscow's main domestic airport, *Sheremyetovo* 1 (the main international airport is *Sheremyetovo* 2, a sad and gloomy building, not in the least welcoming to visitors). The airport then was hardly better than a large provincial bus-station, except it lacked flight information and offered hardly any services for waiting passengers. Every so often there was a flurry of activity as some flight was checked through the various controls, and each time this happened we had to go and ask someone, to make sure we didn't miss our flight. Eventually, towards 2am, our flight was checked in and, to my amazement, we took off dead on time - so clearly the place was a bit more organised than it appeared to be! Flying north and slightly east, it was just getting light as we passed over the Russian *taiga*, the huge expanse of mostly coniferous forest - with stands of silver birch and other hardy deciduous trees along its southern edge - that extends across much of the Russian landmass, and then further north into the far bleaker, and treeless, tundra. Before long, we were descending to Vorkuta's airport, from where we were driven into town on a grey and rather wet September morning.

In the middle of town we came to what we gathered was Vorkuta's only hotel, at least the only one deemed suitable for an international mission like ours. This was the Vorkuta Hotel, located on one side of the wet, and in places quite muddy, main square. The hotel was a 'socialist style' hotel, implying that it offered the basics like bed and food, but not much in the way of quality service. However, I subsequently gathered that it only cost us about $10 per night for our rooms, and both food and service turned out much better than we expected. Rooms, though, were indeed very basic, with no TVs, poor bathroom facilities, no telephones. The latter was less of a problem than you might think, since phoning out of

Vorkuta proved to be virtually impossible in any case. We understood that there was a main post office in town at which international calls, and inter-city calls within Russia, could be booked, but since this was likely to prove slow and bureaucratic, not to say uncertain as to whether one would ever get a connection, we never even tried it. Moreover, back in 1993, there was also no chance of linking up to the outside world by mobile phone.

In the circumstances, there was little to do besides simply getting on with our work. The coal mines in Vorkuta at that time were organised in two groups, namely a consortium of 12 mines forming the enterprise, *Vorkutaugol* (which, translated, simply means Vorkuta Coal); and a single larger mine, located about 40 minutes' drive out of town, *Vorgashorgskaya*. The deep-mined coal was of good quality, but local production costs were quite high (especially compared to surface coal available elsewhere in the country) and the coal was remote from its main markets. It had to be transported at least 1000km by rail to reach any of Russia's major centres of heavy industry. Under the former socialist system, this distance was not considered especially problematic, as freight charges were close to zero as a result of extensive subsidies. However, even by the early 1990s, subsidies were much reduced and freight charges already looked like a serious element of costs, costs that clearly affected adversely the economics of coal production in Vorkuta.

Our task in Vorkuta was to collect information about coal production costs in order to assess how much of the area's production might be economic, and to enable us to consider various restructuring options. These included both closing down some of the existing mines, considering expanding the better mines or sinking new ones, and thinking about more radical options that could entail large-scale relocation of Vorkuta's population. In addition, we were expected to consider possible non-coal activities that could be encouraged in Vorkuta to help replace likely job losses in the coal sector.

The last of these was the easiest, since it quickly became apparent that economically viable alternatives to coal production were virtually non-existent. We did wonder about tourism options, thinking of some form of eco-tourism or Arctic adventure tourism, since few people travel that far north for their holidays. But a landscape dotted with coal tips and abandoned mine workings, plus all the working ones, was never likely to have great appeal, and Vorkuta's lack of accommodation and suitable entertainment - together with its poor transport links - meant that visitors could only be attracted if the city undertook massive investments to improve local services. An extremely risky proposition, we judged. There was modest scope for additional manufacturing activity, mostly to supply the needs of the local population, but even there the underlying economics were likely to be quite shaky given the long distances that raw materials and other inputs would have to travel.

Coal was therefore the main focus of our work, and I spent a lot of time in an accounting office of *Vorkutaugol* getting detailed information on coal production costs for each individual mine; similar details were collected for the independent mine, *Vorgashorgskaya*. The data were all on spreadsheets, and I was allowed complete access to everything on the company computers plus various supporting documentation, so that I could gain a full understanding of the relevant cost structures. In some respects these were rather odd, thinking about costs from a western standpoint.

First, the costs included a large element for local services, reflecting the fact that in Vorkuta the mines - rather than the local authority - paid for most local services like primary schools, health clinics, and the like. At that time in Russia, the system of local government financing in Russia was, frankly, a complete mess, and it didn't improve much until at least the end of the decade. It might not seem unreasonable for the main local business in an area to finance most local services, and indeed when the business is going well it's not necessarily that bad a system (though there is always the troubling issue of service delivery to those who don't work in the main company). After all, the business would normally pay taxes to the local authority which would then deliver the services, so having the business provide services directly appears to cut out one link in the chain, apparently making life simpler for everyone. But when business is going badly, this simple model reveals some major drawbacks: for the firm might not then be able to pay enough taxes to finance all the local services, and if business gets really bad, so the firm needs to scale down its operations, or even close altogether, it might be unable to pay anything, so putting all the local services at risk. Thus having local authorities to provide services, with funding both from the taxation of local businesses and from transfers from higher levels of the administration, means that service provision is more secure, and restructuring of local firms need not be inhibited by fears about such provision.

Second, the costs of *Vorkutaugol* also included outlays on a local pig farm, providing part of the city's food supply. This reflects the high degree of economic integration that characterised Vorkuta, though one can't help doubting whether such ancillary activities were really best run by coal-mine managers. In any event, I'm not aware of mines elsewhere that include such items in their cost base. Interesting.

How was all this very detailed cost information to be used? For our purposes, we wanted to know the coal production costs at different mines so we could assess which might be uneconomic, and which were the best ones in which future production ought to be concentrated. For *Vorkutaugol*, however, cost information was used in a very different way. The mining company used it to compute what the average price of coal would have to be to enable the whole complex to make a profit, charging the resulting price to *Rosugol*, the Russian coal-sector holding company that purchased and marketed the coal from various mines all across the country. High cost mines were then subsidised to keep them going, while the more efficient ones, in effect were taxed to stop them being too profitable. As far as we could tell, *Vorkutaugol* made no attempt to shift production and manpower between mines to raise its overall efficiency.

Towards the end of our stay in Vorkuta, we were dining in the hotel one evening when a small band arrived, set up their gear, and started to play dance music, mostly of the old-fashioned ballroom dancing type. We quietly continued our meal, but one of the locals came over to ask Jenny, an American woman in our team, to dance. Soon we were all dancing, having realised that our hotel was evidently the social 'hotspot' of Vorkuta. It was nice to be welcomed by the locals in this way, though our conversation was quite limited. Only I and our interpreter knew any Russian, and in my case, while I could have discussed coal industry accounting in Russian, this didn't seem a great topic for the dance floor. So our dancing was sociable and fun, but not very animated conversationally.

Next day it was back to Moscow for a couple of days to discuss our findings and agree on how our various reports were to be written. From the ten dollar a night Vorkuta Hotel we transferred to Moscow's sumptuous Kempinski Hotel at over $250 per night, and quickly ran up against the fundamental contradiction underlying the whole mission. This contradiction concerned the wholly divergent conceptions of the likely future of the Russian coal industry held by the Russian government (notably the Energy Ministry) and the World Bank. The former was convinced that Russian industry would soon bounce back from the post-communist recession ('slump' is perhaps a better word) then being experienced, and as a result coal demand would soon be back to its late communist period levels. Since coal output had fallen by nearly half, this was an extremely optimistic view, and the Bank totally disagreed, expecting coal output to remain low as energy demand shifted to other fuels and coal use became more efficient (Russia at that time used coal unbelievably inefficiently).

Such different projections naturally led to different views about restructuring needs. While the Russians were prepared to contemplate closing some of Vorkuta's least efficient mines, they sought restructuring cash to help sink new mines to meet expected future demand. In contrast, the Bank was thinking more in terms of a drastic reduction in the scale of mining at Vorkuta, and expected a good deal of restructuring money to be used to help Russians move out to more promising locations, further south.

It might be thought that this was quite a callous, hard-hearted approach by the Bank, the sort of thing that attracts populist slogans like 'destroying communities' and so on. But anyone living in Vorkuta's harsh conditions - only 100 days a year without snow - for long will simply die; life expectancy is very low, in fact, not much above 50 years. Russians themselves know this perfectly well, and in the past many endured the harsh conditions for 20 years or so, enjoyed the high wages (large premia were paid to get people to work there, so average wages were double the Russian average), saved a lot and then moved out, using their accumulated savings to help them settle elsewhere. In 1993, this 'model' was collapsing as Russian inflation exceeded 1000%, promptly wiping out the savings of virtually everyone. Hence Russia's economic mismanagement in the early 1990s condemned many inhabitants of the far north to an early death, since they could no longer afford to move out.

In the end, the Bank and the Energy Ministry proved unable to reach agreement, and the coal industry restructuring project was basically shelved. However, it is worth noting that as far as the basic forecasts were concerned, the Bank was completely right. Coal industry output did not bounce back as the Russians expected. This is one of many - perhaps understandable - instances where, given their past, the Russians found it terribly hard to come to terms with the ways in which their economic landscape had changed.

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Eaten alive!

Tomsk - Coat of Arms

For a long time now, one of my areas of interest, academically, has been the economics of higher education, in other words trying to figure out what universities do or ought to do, to understand the incentives under which they operate, and the mechanisms through which they are funded. On several occasions in the past I have written about the organisation and funding of research in UK universities, so in the mid-1990s it occurred to me to seek funding for a research project to study higher education reforms in Russia and Ukraine, thus linking up my higher education interest with my interest in the transition economies. As usual for these projects, a small consortium had to be set up, and this consisted of myself, an academic from Germany (Ulrich), a colleague from Lancaster University (Geraint), a group from Kyiv (led by Vladimir Savchuk), and a team in Russia based at the Moscow State University (led by Mikhail Lugachev, the same Misha mentioned in the previous chapter).

The project funding was not enormous, but it was enough to pay for a good deal of travel, with several visits to Kyiv and Moscow, some travel to Edinburgh by our partners, and a very successful research workshop at the University of Kassel in Germany, papers from which eventually formed the project book (as usual, academics are always under pressure to generate published 'output').

For me, the most interesting part of the project was a trip that took me first to Moscow, then on beyond the Urals into Siberia, to the city of Tomsk. In Moscow, I met various people at Moscow State University to learn how their finances had developed since the Soviet Union disintegrated - for all areas of public spending in Russia the first half of the 1990s was an enormously challenging period, for tax revenues initially collapsed, there was a burst of severe inflation in 1993 (about 1000% that year), and public sector wages declined massively in real terms. The budgets for most publicly funded bodies, including the universities, were in complete disarray, and Moscow State University was no exception. Interestingly, what was starting to save the day was an evolving practice of recruiting students above the official state-funded quota who would then pay something like full fees (a practice, by the way, that would not be permitted in the UK!). In new subjects like management, there were enough potential students willing and able to pay full fees to make this a viable strategy, and it enabled the academics involved to receive supplements to their basic wages, while also funding improvements in academic facilities and services.

During this Moscow visit, Misha arranged an interview for me with a senior official at Russia's Higher Education Ministry. The Ministry was then contemplating the design of a new law governing Russia's universities, so our discussion focussed on some of the issues that were exercising the officials struggling to draft the legislation. One quite intriguing and unexpectedly tricky question came up, namely who owns universities in the UK, what are their ownership structures, and who has what property rights over university assets (such as buildings, research equipment, and so on), and how are universities governed? The Russian were interested in this, as they wanted to specify the property rights and governance arrangements to be enjoyed by their universities in the new law, considering it an essential part of defining 'the university' in a modern economic system. But I had to explain that in UK universities, our property rights are often quite 'muddy' and unclear, and no simple definition covers all the possibilities. Likewise, governance arrangements are both complicated and diverse, often the result of history and serendipity as much as well formulated principles of institutional management. So I doubt whether my attempts to explain the UK system were of much help to the Ministry.

Misha and I then flew to Tomsk, departing from Moscow's *Domodedovo* airport about 30 miles South-East of the city, an airport that at that time was little more than a massive shed, with few facilities for waiting passengers - though I'm told that it has recently been thoroughly modernised and upgraded, not before time. We arrived in Tomsk early in the morning, went to our pretty basic guest-house to deposit our bags, then found a fairly dire café to get some breakfast (the guest-house offered no food). This was not a wonderful start to our visit, though it did give us a chance to wander around the middle of town, with its mix of old Russian houses - some entirely wooden and carved in a very traditional style; lovely nineteenth century public buildings - some already well restored or at least re-painted, others looking quite shabby and neglected; and various run-of-the-mill shops. Just a little further along the street from the café, the road came close to the Tom River, after which the city was named. We could look out over almost flat, very gently rolling countryside, with a mix of open fields, areas of woodland, and rough scrub. The view was pleasant, but nothing out of the ordinary, I thought.

The city of Tomsk was founded in 1504 as a fort on the Tom River, on the order of Czar Boris Godunov (a czar only known nowadays through Mussorgsky's stunning opera, *Boris Godunov*). By the early nineteenth century it had become an administrative centre for its region, and it grew rapidly as Siberian gold mining developed. Nowadays, the population is just under half a million people. Local pride in Tomsk is very strong, as was revealed by the extensive celebrations of the city's 400^{th} anniversary that took place during 2004, a few years after our visit. The wording on the city's coat of arms, by the way, means "Through Work and Knowledge" (see picture at start of this section).

The main goal of our visit was to meet various members of the management team at Tomsk State University in order to discuss university finances and management. The University was founded in 1878 as the Imperial Siberian University. It opened its doors to students in 1888, and was the first university in Russia East of the Urals. By now it has developed into one of the leading universities of Siberia, with well over 20,000 students. As part of the visit, we were given a tour of the university buildings and facilities. Our timing probably wasn't ideal, since the main building at the top of the tree-lined entrance drive was undergoing extensive renovation. The white-painted front looked wonderful, with its classic columns above the entrance doors and the domed roof, as the picture shows (next page). However, this initial impression was a little misleading at the time, since most of the rest of the building was in terrible condition, with rotten windows, cracked plaster and brickwork, and piles of building materials lying about. Clearly, this was work-in-progress.

Inside, the same unevenness of development was to be found. On the one hand, we were shown a recently installed IT room equipped with computers and high-speed internet links that were at least as good as anything at my home university (and later, I was able to use one of the machines to log on to Heriot-Watt to check my e-mail, quite impressive a decade ago). On the other hand, the toilets we encountered were close to the worst I have found anywhere in the world - and that's saying something! My normal rule always to carry toilet paper (mentioned above in Chapter 1) was fully vindicated. However, no doubt the continuing renovations at the university will have improved such matters by now.

Tomsk State University - Main Building

An unexpected part of our tour was a visit to the university's old library, or rather the section of the library that held its collection of old books. This proved to be exceptionally interesting, since the library had hundreds of early editions of mostly eighteenth and early nineteenth century classics of Western philosophy, history, mathematics and science, including books by the Bernoulli family (among the founders of modern probability theory), some early economic writings, and lots of others; many had been donated to the university by wealthy landowners who had built up their own private collections. Though our time there was quite limited, it was exciting enough simply to hold for the first time some of these great, path-breaking works. And it was pleasing to note that the library had apparently remained untouched during Stalin's repression, so that all these wonderful books had survived, a real treasure for the region. Among the books were a few about Siberia itself, written by early Russian travellers across that enormous, remote and inhospitable domain. For some infraction against Czarist authority, one of these writers about Siberia had been exiled to St Petersburg, since this was considered a fitting punishment for someone whose life was mostly devoted to Siberian travel - internal exile had long been a standard punishment for those who fell foul of the authorities in Russia, but in the main people were exiled to Siberia, not away from it. Indeed, in 1890 the famous Russian playwright, Chekhov, passed through Tomsk on his way to the remote Sakhalin Island in the far East of Russia - Chekhov wrote a book about the island (*The Island: A Journey to Sakhalin*) , which at the time of his visit was used as a prison island by the Russian authorities. It is now the site of world's largest natural gas processing plant, so things have changed.

Our more formal business in the university involved talking about the institution's financial accounts and budgets over the few years up to our visit, and trying to understand how Tomsk State University was coping with Russia's transition to a market-type economy. On the whole it was coping quite badly, since the budget allocated by the Ministry failed to cover all the operating costs, some transactions were settled using barter arrangements, and basic academic wage rates had seriously collapsed, with effective wage rates only being 'rescued' somewhat by the presence of increasing numbers of full fee-paying students, just as we had found in Moscow. No doubt the financial arrangements for the university will by now be in much better shape, but the mid- to late 1990s was not a good period for Russian higher education.

Thus we found, for instance, that the official budget for the university included no allowance for expenditure on energy such as coal or oil for the heating boilers. Naturally, being in Siberia, the university could not simply choose to consume no energy, since winter temperatures are far too low. Instead, it consumed the normal amount, for which it was unable to pay. But at the same time, the main energy companies in Russia were somehow managing not to pay much in taxes to the government. So at the end of the year, officials from the university, the Ministry of Higher Education, and the Energy Ministry would get together and agree a deal whereby the university got its energy without paying, and some of the energy producers' tax arrears would be written off against what the university should have paid. On the face of it, this sounds like a very satisfactory arrangement, but we pointed out that it was economically very foolish, since it gave the university no incentive whatsoever to make any effort to economise on energy (why economise on something that is, effectively, free?). This was important, we argued, since decades of low energy prices during the period of central planning have created a situation in Russia where the use of energy is exceptionally inefficient.

The discovery that some of the university's business had been conducted on barter terms came as a surprise. But we were told that in one case where the university was undertaking a study for a private company, the company was unable to pay in money (Roubles), but offered to pay in goods instead, something that was a common practice in Russia in the mid-1990s. The university agreed, and it was apparently paid in a consignment of tyres. Not only that, but the university made money on the deal by successfully selling the tyres in the market. This seemed to us quite strange, since if the university was so good at marketing, surely it could have simply advised the firm how to sell its products and received its payment in cash. And it was puzzling that the firm was seemingly unable to sell its own products. So we didn't fully understand what was going on here, but the phenomenon was widely noted in Russia at that time. More normal, money-based transactions were gradually re-established by the end of the 1990s. By the end of this discussion, I must admit that I was beginning to feel that our university finances back home in the UK were simply in great shape, since we had never experienced any of these problems - I also did wonder how my own university would react if a client offered to pay for services in goods, such as a lorry-load of bricks or perhaps electrical goods. Probably the idea would not go down too well.

To finish off this trip to Tomsk, we met up with one of Misha's friends who took us to a dacha about a dozen miles out of town, in a heavily wooded area beside the Tom River. The plan was to have a barbecue outside, and several people had brought along bread, various salads, rice, plus bottles of vodka and beer and some soft drinks. There were also lots of fish, and I was handed some to gut and prepare for grilling, an extremely messy task, but in the end rewarding as the fish turned out to be very tasty; I'm not sure what they were, except that they were freshwater fish, not seafish. We kept the fire fairly smoky, partly to give the fish the right flavour, partly to deter the hordes of insects that seemed to be everywhere, constantly trying to bite us. The combination of smoke, nice food, vodka and lively conversation distracted our attention from all the flying bugs, and anyway, I'm not usually very susceptible to insect bites. It wasn't very obvious at the time, but I really got that one wrong, for by the time I was flying home a day later I was covered - practically from head to foot - in itchy red blotches, and felt that I had been eaten alive. The bites took several days to subside and stop itching. So, a really enjoyable social end to my Tomsk visit left me with a rather unwelcome set of souvenirs.

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McDonald's is coming to Ufa

Ufa Coat of Arms

This time it was an e-mail that started it. The message, from a consulting firm based in Brussels, asked whether I could go to Ufa for a few days in July 2004, to join a small team advising on light industry restructuring. Apparently someone else had dropped out of the project very late in the day, and so I would help to fill the resulting gap. Up to this point in my life, I must confess that I had never heard of Ufa, and had some difficulty locating it on a map. Ufa turned out to be the capital of Bashkortostan, a Republic belonging to the Russian Federation and nearly as big as the UK, located in the southern Urals, just about as far East as you can go while still remaining - technically - in Europe. Bashkortostan has a population of just over four million people, and Ufa itself, a population of about one million.

Having discovered all this, how could I resist the chance to go there? The restructuring project was being funded by the EU under one of the aid programmes for the former Soviet Union, and my part in the Ufa work was to advise on the international trade aspects of policy towards light industry. This seemed to fit quite nicely alongside other work I had recently done on issues connected with Russia's accession to the World Trade Organization (WTO), a fact that probably explains why I was invited onto the project. Even three years after this trip, Russia's WTO accession had still not been approved, because too many outstanding issues between Russia and major trade partners like the US (and to a lesser extent, the EU) remained unsettled.

So at very short notice, I had to get a Russian visa and arrange travel to Ufa. The latter turned out to be expensive, presumably because Ufa is not exactly on the tourist trail (yet) and none of the relevant airlines seemed to offer much in the way of special deals; no doubt this will change. The journey involved three flights in each direction, plus a bus ride between Moscow's international airport, *Sheremetevo* 2, and the main domestic airport, *Sheremetevo* 1. Arriving in Ufa early one morning, I was taken to my hotel, the Bashkortostan Hotel, on Lenin Street. The hotel was not terribly busy, but it had been very nicely modernised and was far better equipped and serviced than I had expected, with really friendly and welcoming staff. Outside, a little further along Lenin Street, a large banner hung across the road, bearing the immortal words (in Russian), "McDonald's is coming to Ufa, opening August 2004". Evidently McDonald's knew perfectly well where Ufa was, even though I had struggled a little myself over the geography. Luckily, I was set to leave Ufa well before this official opening took place.

Shortly after arriving in Ufa, I walked down Lenin Street to the Ministry of Economy where two members of our small team were already working. On the way, I was interested to see that my route crossed other streets or squares with names like 'Socialist Revolution Street', 'Marx Street', 'October Square', and so on. It was hard to avoid the feeling that somehow, major events like the ending of communism, and the decade or so already spent on managing Russia's transition towards building a market-type economy, had scarcely been noticed down in Bashkortostan, far from Moscow. This impression was confirmed later when I learnt that, for the whole period since the disintegration of the Soviet Union back in 1991, the Republic had been ruled by President Murtaza Rakhimov. Rakhimov had previously been head of the Republic's Supreme Soviet, and has been re-elected repeatedly to the Presidency of Bashkortostan, most recently in December 2003. The latter election was criticised by OSCE for a variety of fraudulent practices, but these were not paid much attention in the Republic.[1] Since Rakhimov has not exactly been a keen reformer, not much serious economic reform had happened in the Republic beyond taking on board Russia-wide policies decided in Moscow - such as formally abolishing central planning, and undertaking measures to liberalise most prices. While much of the region's industry has been privatised, many of the new owners, especially of the larger enterprises, have links to the President's family, and one therefore suspects that some of them will survive mostly through their political connections rather than as a result of any particular stellar economic performance. Unfortunately, Bashkortostan is rich enough to be able to afford such otherwise foolish economic mis-management, since it has abundant oil.

As we learned, it was the very same abundance of oil, and the associated revenues to the Republic, that had enabled Bashkortostan to subsidise in various ways the light industrial firms that we were there to study. It appeared, however, that some new staff in the Ministry of Economy were more open to change, and increasingly willing to think about a more strategic approach to the Republic's industrial policy, than most of their predecessors had been; this is why the EU was supporting our project when they did. The sectors we were looking at included firms making shoes and other leather products; textiles and clothing; and a few other light industrial products, mostly goods for household consumption. Most of the firms were loss-making, or in the best cases, were just making enough money to break even, and Republic officials had protected them by means of direct subsidies and the toleration of tax arrears (this

[1] Organization for Security and Cooperation in Europe; see the organization's website, www.osce.org

is an example of what economists often call the 'soft budget constraint' problem), largely because they wanted to protect the jobs involved, about 20,000 or so.

This sort of official response to business problems is both understandable, and indeed widespread around the world; even in more developed countries such as the UK it is far from unknown. However, it is nearly always a mistake, and this is what we had to try to convince the Bashkortostan authorities. The line of argument that we employed here involves several steps, but it is of such general importance that it is worth spelling it out quite carefully.

First, it is essential to bear in mind that change is a normal part of economic life in any reasonably well performing economy. Firms close, new firms open; entire sectors disappear, new sectors emerge, usually in quite unexpected areas of production (which is why, when governments try to 'pick winners', they nearly always get it wrong). Driven by a mix of competitive pressures and innovation, this is the main mechanism through which successful economies evolve and grow, and which enables incomes and living standards to rise over time. From one decade to the next, one can expect a third of jobs to disappear, to be replaced by entirely new ones. In contrast, under the old socialist system that prevailed in Russia before 1991, hardly any jobs disappeared, firms were not normally allowed to close even when they performed poorly, and by the time of its disintegration the Soviet Union's economy had become incredibly sclerotic, lacking innovation and increasingly failing to satisfy consumer demands. So our starting point was simply to try to convince the authorities that economic change was normal, and that it should be accepted, not resisted.

Secondly, though, we realised that this general approach need not imply that any loss-making sector, such as light industry, should immediately be shut down. Reality is always a bit more complicated than that. Generally speaking, when firms in a sector are in economic difficulty, they need to restructure to get costs down, improve product quality, introduce new products, improve their marketing, and so on; only if they are unable to do this to a sufficient extent, or rapidly enough, do they reach the point of having to close down (whereupon the assets would normally be sold off to other firms, and so most might well find productive use elsewhere).

The firms we were dealing with were all private sector businesses, having been privatized in the mid-1990s along with most state-owned firms in Russia, so it would be up to them to finance their restructuring through a mix of internal funds, revenues from selling off assets not needed for current production, and borrowing from the banks. By paying subsidies, though, the Bashkortostan government was, in effect, delaying this much needed restructuring by relieving the financial pressure that the firms would otherwise have been facing - for there was certainly no evidence that state subsidies were being used to facilitate restructuring.

Thirdly, looking more carefully at the markets for light industry products, we learned that for the most part these firms were having difficulty selling their output even in the local Bashkortostan market, and had little success in the wider Russian market, even less in export markets. Thus they were being out-competed by firms from other parts of Russia, implying that costs were too high or product quality too low, or more likely, a bit of both, even in comparison to other Russian firms. Even worse, the firms were also being out-competed by imports from Turkey and elsewhere, both official ones and unofficial ones (i.e. smuggled goods). Especially for shoes, the imports provided greater variety and were also perceived to offer better quality than the local production. In response, some of the firms were demanding higher tariffs on imports to protect 'their' markets, along with tougher action to stamp out smuggling. They would also, no doubt, have welcomed measures to stop imports from other regions of Russia. But even in Bashkortostan the authorities were not inclined to fall for this sort of self-interested industry lobbying - rather, they genuinely wanted their firms to improve their performance so that they could compete without continued support. Moreover, if Russia is at all serious about joining the World Trade Organization, it simply could not allow individual republics or regions to start imposing their own trade restrictions to protect local firms. That's not supposed to happen under the prevailing 'rules of the game'.

Fourthly, the firms could nevertheless justify their subsidies by arguing that people 'needed' their output. But unfortunately, economic arguments based on 'needs', however defined, are nearly always at best misleading, and more often quite simply wrong. Yes, naturally, the people do need shoes and all the other products of light industry, but this is not at all the same as claiming that they must have the products of specific local firms. Arguments about need are not even arguments for local production at all, except in the very unusual circumstances of a region or country facing a complete economic blockade. None of this makes any sense for Bashkortostan, however.

The final argument used for subsidising these light industry firms was the old chestnut of employment protection, as noted above. This is always an appealing argument for politicians, as job losses attract much unwelcome political attention (politicians get the blame, usually unfairly), while a scattering of job creation by new firms or expanding older ones is hardly noticed. But job protection via subsidies and the like has two bad effects. It discourages the entry of new firms into the sectors enjoying protection, since new entrants can see that there is not a level playing field, and will perceive the market as one characterised by unfair competition. After all, who would want to start producing shoes in Ufa when the existing firms are already heavily subsidised? And yet, as we remarked, it is new entry plus the demise of unproductive firms that results in sustained productivity gains, not the continued protection of these failing firms. Even worse, such job protection might well deter the creation of new firms in general, since potential new entrepreneurs might conclude that their business success would depend at least as much on their ability to negotiate for subsidies and other supports, as against producing quality goods and services for the market. Subsidising some firms, therefore, worsens the business environment for all. And it surely wastes public money, too, since the funds spent on inefficient subsidies could otherwise be used to improve infrastructure such as roads and other transport facilities, or to improve the supply of suitable business premises.

So this was our argument, and we wrote it up in detail in our formal report, while presenting our main findings and conclusions in a small workshop at the Ministry at the end of our time in Ufa. The discussion there was extremely lively, so a few people at the Ministry were interested in our ideas. But as is often the case, I have no way of knowing whether any of our advice was actually taken; though even if not, I hope we might at least have initiated a process of change in the official economic thinking about approaches to economic management, especially industrial policy.

As for Ufa itself, it turned out to be a lovely city, and one with considerable historical interest, having been first established as a fort on the *Belaya* (White) River in 1574, by Czar Ivan IV (otherwise known as Ivan the Terrible). The population of the Republic is very mixed, about 36% Russian, around 30% Bashkiri, 24% Tatar, and the rest comprising small numbers of diverse other ethnic groups. This diversity is reflected in Ufa itself, the city boasting both Orthodox churches, some with the famous ‘onion-dome’ style characteristic of Russian Orthodoxy, and many mosques, some quite beautiful. Likewise, street signs and advertising hoardings were written in either or both of the official languages, Russian and Bashkiri. Both use the Cyrillic script, but I could only read the Russian signs. I don’t know any words in the Bashkiri language, and it is written in a variant of the Cyrillic script with several additional letters that I was unable to pronounce. Thus in Russian, Ufa becomes: Уфа; while in Bashkiri it is: Өфө. Most people I came across in connection with our work were comfortable with at least three languages, usually Bashkiri, Russian, possibly Tatar, and at least one Western language such as English or French, and I was told that even relatively uneducated people could often manage a couple of languages. This was just taken for granted, rather putting most of us in the UK to shame, I thought.

With no high buildings, quite wide and often tree-lined main streets, and a fairly compact central area, Ufa is an easy and pleasant city to wander around, with little cafés and restaurants dotted about when a break is needed. None of these was especially wonderful, it must be said, but they were there, and service everywhere was unfailingly friendly. The dour, indifferent Russian approach to service that one unfortunately encounters all too often further North in Russia was simply not to be found in Bashkortostan. Many buildings were relatively new, and much of the architecture undistinguished, but some more traditional Russian houses with their colourful wooden shutters could still be found on a few side streets. Being summer, the people wore light, often colourful clothes, and the streets, though sometimes quite busy and even crowded, felt easy going, fairly slow moving, relaxed and comfortable.

Few people were in a hurry, and most looked well fed, well dressed, and content with their lives - as well they might, since living standards had been going up quite fast for nearly a decade already, and there was little unemployment in the Republic.

Along Lenin Street, I noticed that many of the buildings bore small plaques with inscriptions in Russian, stating that 'During the Great Patriotic War the central supply administration for the chemicals industry was relocated to Ufa', and many similar inscriptions referring to other branches of industry, and other parts of the Soviet Union's apparatus of central planning. For Russians, the Great Patriotic War is simply what we call the Second World War. For the Soviet Union it began on that terrible date, June 22nd 1941, when Hitler launched Operation Barbarossa, Germany's massive attack on the country. Though Stalin and his generals were initially taken by surprise, and seriously underestimated the ferocity and power of the German attack, they recovered fast and mobilised huge new forces, stopping the German offensive at the very gates of Moscow in December 1941. However, the Soviet Union had by then lost a great deal of territory, much of which was not regained until 1943 or even later in the War.

Meanwhile, as his forces retreated, Stalin ordered that thousands of factories - usually accompanied by most of their workforce - should be dismantled and shipped East to the Urals and beyond. The factories were then rebuilt and restarted, often astonishingly rapidly, and quite often while the workers still shivered in tents or other makeshift accommodation nearby. At the same time, along with many academic institutions and research institutes, much of the Soviet Union's economic administration, including *Gosplan* (the country's State Planning Office), *Gossnab* (the State Supply Administration), and most of the sectoral departments of *Gossnab* were also relocated East, well away from Moscow, for safety.

Thus the dull sounding signs along Lenin Street were actually highly significant historically, since they revealed that Ufa itself had played a key part in the War by housing important sections of the Soviet Union's economic administration, hence enabling the planning system to go on functioning surprisingly well throughout the War. Several large industrial enterprises were also relocated to Ufa during that period, and some of these later formed the basis for the city's postwar economic development.

One evening I had chance to explore a bit further, away from the central area of Ufa. As usual, I had no map and just relied on my good sense of direction to stop me from getting lost - I usually buy maps when I've been somewhere, to check what I should have seen, and what I might have missed, but it always seems to me more interesting to explore a place first with little or no guidance. The same line of thinking means that organised tours and groups have never appealed to me, and wherever possible I take care to avoid them. At one point I found myself walking along a wide, gently rising road that finally came to a dead end, where I discovered that I was overlooking a broad bend in the *Belaya* River. Close to this view-point stood a large statue, which turned out to represent Salawat Yulayev, a Bashkiri national hero who lived in the second half of the eighteenth century. Aside from being an outstanding poet, Yulayev is also noted for participating in a rebellion against Czarist rule led by the Cossack landowner Pugachev in 1773-4. The rebellion was put down quite brutally, with many of its leaders, including Pugachev himself, executed. Yulayev, however, evidently lived to tell the tale, since he survived until his death in 1800. Later, coming back into the town centre, I found a bookshop where I wanted to buy a book about Ufa, as a souvenir. However, there were no recent books, nothing aimed at potential tourists or other visitors. Instead I found a book of old photographs of Ufa, with accompanying descriptions (in Russian, naturally), that gave a fascinating picture of the town as it had been in the late 19th and early 20th Centuries.

Returning home, I was fascinated to notice that my flight back to Moscow departed from the international section of Ufa's airport, whereas my flight down to Bashkortostan had departed from one of Moscow's domestic airports. Thus, in a small way, does Bashkortostan declare its autonomy.

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These pictures of Russia encompassed three very different places, namely Vorkuta, Tomsk and Ufa, and spanned just over a decade, 1993-2004. None of the places is anywhere near the usual tourist routes, so I found no postcards or touristy guide-books in any of them (in any language). Each, in its different way, has had to come to terms with one or other aspect of Russia's transition to the market, and each encountered enormous difficulties in doing so. But eventually, solutions are found, and sometimes they work. Little by little, Russia's unwieldy economy is transforming itself through lots of local solutions to quite small scale problems, and slowly, the transition process is happening.

Chapter 6. Services for the Visitor: Airports, Hotels and Food

When visiting a new country, first impressions really make difference, and the first things the visitor notices are therefore the airports where he or she arrives in the country, and the facilities for passport control and customs clearance. Naturally, when driving into a country, or arriving by train, the border crossings and railway stations are also important, but most of my own experience in the region has involved air travel. Interestingly, not only can getting into a country be quite tricky, but leaving is not always easy, either. So I shall start this chapter by talking about arrivals and departures.

Next, most visitors tend to stay in hotels when in Eastern Europe or the former Soviet Union, and these vary enormously both between countries and over time. In most countries, hotels have greatly improved since the bad old days before 1990, but there is a long way to go. However, by now there is a noticeable difference between Central Europe and the Baltic States on the one hand, and most of the rest of the former Soviet Union on the other, a difference that can be summed up in the phrase, 'service culture'. I am not a great believer in inherent cultural differences between people; rather, I think the way they operate mostly reflects the systems in which they have lived their lives, the incentives and habits generated therein. The conditions in different countries appear to result in three types of behaviour by hotel staff: (a) a desire to take care of the customer, and look after him or her as well as possible; (b) a desire to care for the customer, but an inability to do so due to poor physical conditions, lack of knowledge, lack of skills, etc.; and (c) a lack of interest in the customer except as someone to dominate and boss around, often with limited regard for basic courtesy. So my second topic will be hotels.

We all have to eat and drink, so the reader will not be surprised to find that this will form my third topic. For the visitor, this can prove quite a challenge, especially if one insists on avoiding the by now ubiquitous outlets of McDonald's, PizzaHut, and other low-budget or fast-food, western-style eating establishments, as I do. But when I first travelled around Eastern Europe, such places were not that common even in western countries, and they were non-existent in the East. Hence there was usually no option but to eat the local food and try the local drinks. Luckily, I mostly liked it, but menus can be tricky when they are presented in wholly unfamiliar languages, and sometimes the best option is just to say ‘yes’, and see what arrives.

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Arrivals and Departures

None of us likes queuing, so arriving in a country after a tiring journey only to find oneself joining the end of an already long queue is more than a little dispiriting. Probably my worst instance of this was a visit to Poland in the early 1990s, when several planes arrived in quick succession, most passengers (including me) still needed visas, and it took almost three hours to get past passport control and customs formalities in Warsaw’s old and dingy airport. Soon after that visit, though, visa requirements were dropped, a smart new airport terminal was opened, and significant queuing - at least for EU citizens (and probably for Americans) - rapidly became a thing of the past.

In the later 1990s I was involved with several projects in Moldova, so had occasion to visit the country several times. Officially, visitors from the UK required visas, but it was more convenient to fill in the relevant forms at the arrival airport in Chişinău, and buy the visa on the spot; at that time it cost about $50. However, visitors working on EU-funded projects, as I was on some of my visits, were supposed to get their visas free of charge (though I never succeeded in doing this in Russia, where I imagine the same rules applied). On one occasion, though, I simply failed to convince the staff at Chişinău airport that my visa should be free, and eventually paid up just to avoid having to wait any longer. Later, colleagues on my project confirmed that my visa should have been free, so we protested to the Foreign Ministry in Chişinău and were summoned to discuss the matter. To my absolute amazement, my $50 was refunded in full.

Moscow is probably the worst capital city in the region, in terms of the complexity and general unfriendliness of their arrival and departure formalities. Possibly this is a characteristic of most great powers, since on many occasions I have found similar procedures in the US remarkably slow, complex and unwelcoming. Admittedly, the US passport control staff do mutter such time worn phrases as “Have a good day, sir”, but everyone knows they couldn’t care less. In the American case, I sometimes think that part of the problem is the simple fact that most Americans have never travelled, so they have no real conception that much of the world is a good deal friendlier, and their entry formalities simpler, than theirs. On the other hand, China must surely now be rated a great power, and I have encountered nothing but friendliness and brisk professionalism over there.

Returning to Moscow, as we must, one’s arrival is not helped by the truly awful *Sheremetevo* 2 airport (hopefully soon to be rebuilt and thoroughly modernised). On entering the terminal, one eventually goes down some steps into the hall where passports and visas are checked, though often when I have arrived the queue has extended well up the stairs. After an hour or so, one can expect to reach a passport officer (occasionally this is quicker, often much longer) who inspects all documents, wants to know where you will be staying in the city, and eventually stamps the passport - usually the passport officers are just about courteous, though smiles are rare. Before collecting luggage, a customs declaration has to be completed. For most visitors, most of it remains blank (how many of us import diamonds and jewellery into Russia, for instance?), but everyone has to complete it. When the luggage eventually comes off the plane into the terminal building, usually on a carousel labelled ‘Delhi’ even if you’ve just arrived from London, you then have to join either a ‘red’ (items to declare) or a ‘green’ queue for customs checking. In practice, though, the ‘green’ route is often not operating, so mostly people go through ‘red’ and are checked by having all their luggage put through the usual x-ray machine, and the customs declaration is then checked and stamped. Visitors are instructed to retain the form until they leave the country.

On passing through customs, into the badly lit arrivals hall, one immediately encounters one of the horrors of Moscow, a mass of scruffy looking people, mostly men, mostly smoking, trying to persuade you to take their car into Moscow. Some carry signs naming the individual they are there to meet, or naming an organisation, and I suppose they are there legitimately. The rest are taxi-drivers of diverse sorts, some presumably officially registered and licensed, many probably not. The whole situation is totally disorderly and uncontrolled, with the most aggressive and pushy taxi-drivers presumably picking up the business. For the unwary visitor, the situation is quite scary, and gives a dreadful first impression of Moscow. Personally, I'm a fairly robust traveller and have sometimes found myself in tricky situations as a result of being as bit too casual here and there. But although I have by now visited Moscow many times, my friends and colleagues have never once allowed me just to take a taxi from the airport into town - either they have picked me up personally, or an official driver from the organisation hosting my visit has met me.

People simply regard the taxis at the airport as too dangerous (though obviously not quite everyone does, or they would do no business). Once I attended a business meeting in London, with representatives of companies either considering or already doing business in Eastern Europe. One person there had abandoned plans to do business in Russia because, having unwisely taken a taxi from *Sheremetevo* 2, he then found himself being taken into a wood off the main route into Moscow, whereupon he was robbed of everything except his underpants. Luckily he didn't freeze to death, but he left Moscow the next day and won't go back. So perhaps my friends' caution is justified. On the other hand, it constantly amazes me that the Moscow City authorities seem so completely unable to regulate a simple matter like airport taxis, enforcing proper registration, queueing and the like. One only otherwise sees the sort of shambolic, corrupt and criminal taxi system that operates in Moscow in very poor developing countries, where administrative capacity might genuinely be unable to cope with effective regulation. Perhaps also the city authorities really do not understand what a shocking impression of Moscow city their appalling airport services provide.

Leaving Moscow is no pleasanter than arriving. The process starts with a long queue even to enter the check-in area, where bags are checked and customs declarations examined. The first time I did this I offered the customs declaration I had completed on entry, and was immediately sent off to complete a new one. Having done so, re-joined the back of the queue, finally reached the front, and offered up both old and new customs declarations, both were awarded a cursory glance and immediately binned. So I did wonder what the object of all this had been, other than to irritate and confuse the unwary traveller. Then there is a queue for the check in desk, usually the least problematic stage as the staff are trained by the airlines they are serving, and are mostly efficient and helpful. Finally, one reaches the passport queue, which always moves very slowly. It's not clear why leaving the country should be so difficult, but the checks there are at least as thorough as those on arrival. At last, escape to the departure lounge, technically no longer in Russia, but still there 'in spirit' as is evidenced by the dour and unfriendly staff operating the airport cafés and duty-free shops.

Visiting Ukraine is rather similar, the only difference being that most airport staff are noticeably friendlier and more welcoming. The old airport terminal was gloomy and unpleasant, but the new one, opened during the 1990s, was a big improvement, with brighter lights, better shops and a generally more efficient feel about it. The only really odd thing about it, a practice that has hopefully long since ended, was the staffing of the toilets in the international departure lounge. All airports employ staff to clean and inspect their toilets, and one can usually tell at a glance how well the job is being done, what priority it has in the country concerned. But at Kyiv's Borispol Airport, when the new terminal opened, three staff were employed to supply toilet paper to users of the departure lounge toilets. There appeared to be a simple hierarchy in place: a supervisor to oversee the other two staff and to manage toilet paper supplies; one person to allocate paper to ladies; one person to allocate paper to men. And the paper was carefully doled out, in very small quantities. This curious practice reflected, I think, the reality that under socialism, and still for some years thereafter, toilet paper was a commodity in seriously short supply - somehow the socialist planners at *Gosplan* had never regarded it as very important to boost production. Any toilet paper in public facilities would instantly be stolen, since that was often the only way for people to get supplies to use at home. Hence public facilities rarely had any toilet paper, and this rationing system at the airport was a natural consequence.

As a little aside, it is worth remarking here that this combination of rationing and theft was quite a common feature of the old socialist system, and shows how the system contributed to a general lowering of standards of public morality. Thus even into the 1990s, and certainly in the last decade or two of the socialist system itself, many car owners (and there weren't enormous numbers of them then) would never park their cars without removing their windscreen wiper blades, since these were likely to be stolen if left in place. Why? Quite simply, there was a severe shortage of car spare parts, both for domestically produced and imported vehicles. Again, the planners never gave spare parts a high enough priority. On the one hand this encouraged a degree of ingenuity, as drivers struggled to keep their vehicles going despite the lack of parts; but on the other hand, these planning failures clearly also encouraged theft.

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Hotels and Other Accommodation

When visiting Eastern Europe I have mostly stayed in hotels, almost never the best ones, as neither my own budget nor my research grants have ever been generous enough to allow that. Sometimes I have stayed in guest houses attached to the relevant country's Academy of Sciences, especially when visiting Hungary back in the 1980s. In Hungary I have also stayed in rooms rented out by families wanting some extra money, and just occasionally I have stayed with friends. Usually, though, friends lived in quite small apartments, and had no space for visitors.

From staying in Hungary, I was used to at least reasonable accommodation in medium-priced hotels, with decent food and mostly good, friendly service. Hence it came as a real shock when, in the early 1990s, I started travelling in the region more widely and experiencing conditions in other countries.

Vodka and Pickled Cabbage by Paul Hare

My first visit to Romania provided just such a shock. The visit occurred as part of a fairly technical research project on economic modelling of Hungary and Romania, a project funded by the EU and with Greek partners in addition to my own university, and the Hungarian and Romanian teams. This project structure had the advantage that in the course of the four-year project (the initial grant was extended by the EU), we managed to hold two workshops in Athens and one in Edinburgh. But returning to the first Romanian workshop, I was joined there by Hungarian colleagues, Ernő and Tamás. The workshop took place at the Institute of Economics building in central Bucharest, and we stayed in the Hotel Dorobanti, just a couple of streets away, conveniently. The workshop itself went quite well and we enjoyed meeting our new Romanian colleagues, notably Stefan and Constantin, and some staff from the National Statistical Office.

The hotel, at that time, was almost embarrassingly bad, albeit conveniently located. It's hard to know where to start, but let me try. The reception area was dark and gloomy, with carpets everywhere worn and in places literally threadbare. The rooms were smoky from previous occupants, similarly threadbare with torn curtains and battered furniture, and the hot water supply was erratic. Bedding was minimal, unfortunate as the heating didn't work very well and we were there in winter. Everywhere was gloomy, with many lights not working, and those that were mostly quite dim. Nothing really looked or felt very clean. There was a TV in each room but it picked up very little and at times nothing at all. To be fair, the staff were quite friendly and tried to be helpful, but they faced an uphill struggle to provide a good service.

Breakfast was basic but adequate, but after the first morning of the workshop we were taken by our hosts to a restaurant belonging to the Romanian Academy of Sciences, where we gathered the food would be quite good. The building was a lovely domed structure set back from the road, and the restaurant was down in a basement below the main floor, but not so far down that there were no windows. Service was good, and we were advised to go for the trout. Luckily, the first course of soup was substantial, accompanied by plenty of bread, because the trout were the smallest I have ever seen, very thin and bony, so not easy to eat.

We did our best to eat it, but really, the meal was little more than potatoes and some pickled vegetables. Assisted by some nice wine, we naturally managed and returned to the workshop.

Later in the workshop we were taken out to a neighbouring hotel, the Hotel Lido, for dinner. Being February, Bucharest was very cold, and even inside the Hotel Lido the large dining room was distinctly chilly. The waiters serving our dinner looked pinched and cold. I don't recall the food being anything special, but at least it was plentiful, and accompanied by reasonable wine. Towards the end of dinner, we gathered there was to be some sort of floor-show, at which my heart sank, as I've never been at all keen on night-club type entertainment (though I don't mind some local music, provided that I'm not sitting right next to the players); my preference has always been for quieter surroundings where it's easier to talk to friends and colleagues. I feared that we might be offered a strip show or something of the sort. But not quite, the entertainment was actually some dancing by three scantily clad, nice looking girls, who bravely put on a decent performance while trying valiantly not to shiver. It was hard not to feel sorry for them.

At the end of the workshop, Ernő and I had to catch early flights out of Bucharest, while Tamás stayed on a bit longer to work with our Romanian colleagues. We went to check out at around 6am, and were presented with our bill in Romanian lei. Neither of us had enough lei to pay, but the hotel did not then accept credit cards, so we offered to pay in a mix of lei and US dollars (we always carried dollars when travelling around the region, the most universally accepted currency).

"The hotel foreign exchange office will not open until 10am", said the clerk.

"But we have to leave now, the car is waiting to take us to the airport", we replied.

"The foreign exchange office is not open yet."

"Right, so either we must leave now without paying, or we can pay you in a mix of lei and dollars", we proposed.

"But I don't know how many dollars you should pay", responded the clerk, clearly getting more embarrassed and uncomfortable by the minute. Although the current exchange rate was posted beside the foreign exchange office (and we knew the rates, anyway), just two yards along the same desk where we were standing, the clerk evidently had no idea how to do the calculation. So we brought out a calculator and offered to help. In the end, we completed the transaction without difficulty. We didn't cheat the hotel, of course, though I'm afraid it would have been all too easy to do so, given the lack of training of the staff at the reception desk.

A year later, we came back to Bucharest for a further workshop as part of the same project, and again stayed at the Hotel Dorobanti - not without a certain amount of trepidation it must be said. However, the transformation in the hotel was quite unexpected. It appeared that the Bucharest city tourist organisation had really got its act together in terms of classifying hotels and making clear what they had to offer in order to get one or more stars. The Dorobanti had benefited from quite substantial investment, not enough for a major face-lift, but enough to put right all the irritations of the previous year - with new carpets and curtains everywhere, some rooms and floors already designated as non-smoking, new TVs in the rooms (and they worked), better heating and lighting everywhere, the whole place thoroughly cleaned, a much improved restaurant, credit-card facilities and well trained, courteous staff. It was hard to believe this was the same hotel in which we had practically frozen the previous year!

Our drive in from the airport was an interesting experience, as the main road had only just been fully re-opened, a day and a half after a metre of snow had fallen. Coming from Scotland, where anything more than an inch of snow throws the country into chaos for days, it was hugely impressive to find both the airport and the main road into town operating normally so soon after such a massive fall. No one seemed to think it was anything special. Beside the main road, all the way into town, were huge piles of snow two-three metres deep, so one hopes no one was out walking when the snow clearing was being done, as they could easily have been buried. In the following couple of days, as we walked (and slid) to and fro between our hotel and the workshop, I was intrigued to see lots of Bucharest residents digging away at the huge piles of snow; eventually, I realised that they were trying to find their cars, a few of which were starting to re-appear as our workshop came to an end. Given the depth of snow, some cars must have remained stuck for two or three weeks, I imagine.

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Russia - Moscow

Next, some of my hotel experiences in Moscow have been interesting, to put it mildly. The hotels in question have been the Intourist Hotel not far from Red Square and the Kremlin, at the bottom end of Tverskaya Street, and now demolished (with a smart new hotel opening in early 2007 on the same site); the Hotel Moskva, also close to Red Square and recently closed for major refurbishment; and the Hotel Orlyonok, located on Kosygin Street not far from Moscow State University, along the road towards Yuri Gagarin Square, this also being a hotel that closed in the late 1990s for refurbishment. Hence by 2007, all three of these hotels (or the hotels now operating on those sites) should offer the visitor a considerably better experience than I 'enjoyed', so my account below should not be taken as a warning to avoid them; rather it shows just how far behind the times Russia was in the provision of good quality hotel facilities in the early years of transition, and how far it has progressed in the past decade or so. However, I imagine most of this enormous improvement is largely confined to the major cities.

The Hotel Orlyonok was a place where I stayed at least a couple of times, while attending project workshops at Moscow State University, projects to do with higher education reform on one occasion, and industrial policy on another. Generally speaking, those of us from outside Russia attending these workshops were impressively well looked after, both by Misha and by his colleagues, as appropriate. The hotel had the merit of convenience, but in the mid-1990s not much else. The building was very much what I think of as a socialist-style hotel, drab and grey with lots of concrete and glass, poor lighting inside, and fairly heavy decor. No surprise, then, to discover that the original architect had actually won a prize for the design - what more can I say?

Driven there late one evening straight from Sheremetevo 2 airport, I checked in at the hotel, having agreed to meet colleagues at the College of Economics in the University at about

9.30am the next morning. By 8am I was ready to get some breakfast so went down to the hotel restaurant. On arrival, I was asked to pay 1200 roubles and quickly learned that I could not use US dollars, as the Russian government was trying to stop the 'dollarisation' of the economy, and required all domestic transactions to be paid in roubles. I also found that I could not charge breakfast to my room, a situation that I have also encountered in a few American hotels, where the restaurant is run by a separate franchise. But at least in the US a credit card would normally be accepted, whereas here in Moscow, it wasn't.

My late arrival in Moscow meant that I had not changed any US dollars into roubles the previous evening, so I went down to the reception desk to convert some money. No one at the desk spoke any English at that time, so the following conversation was in Russian:

"Sorry, Sir, but our foreign exchange office does not open until 10am." (This might already seem a familiar refrain.)

"But I would like to get breakfast, and I have to go to the University soon after 9am."

"Sorry, Sir, it is forbidden to pay with US dollars and we cannot help you," the receptionist replied. This was not feeling like a good start to the day, so I tried again.

"Surely someone here can change a few dollars for me so I can get some breakfast?"

"This is not allowed."

However, despite being 'forbidden', a younger woman at the reception desk did eventually and unofficially - agree to change $20 for me, so in the end I did get the breakfast. As I recall, it was fairly typical fare, a mix of black bread, various pickles, cold meats and cheeses, and coffee - but getting it felt like a major victory over absurd bureaucracy. This incident was, I felt, quite revealing about the under-developed service culture that prevailed in Russia.

The Hotel Moskva is another story altogether. It was a massive socialist monolith located close to Red Square, opposite the former head offices of *Gosplan* (this building is now occupied by the Russian Federation Council, the upper house of the Russian parliament or *Duma*) and not far from the world famous Bolshoi Theatre. Until its recent reconstruction, it was an easy place to get lost in, as all corridors looked the same, dark and gloomy, all were extremely long, and the lifts were very confusing as they didn't all connect all floors. On arrival, there was a separate reception desk for foreigners (most likely charging higher prices than Russians would pay, a common practice then), but after checking in it was still necessary to go to a separate passport desk to complete the official registration process. Then there was a long trek to one's room, which was invariably moderately clean and warm, but furnished with heavy, Soviet-style furniture, with dark fittings, poor lighting.

As an aside, the reader might be amused to learn one of the reasons why Russian furniture was traditionally so heavy. Under the central planning system, plan targets for furniture-making enterprises were often expressed in terms of weight, in other words a given firm would be instructed to produce, say 10,500 tonnes of furniture in the coming plan year. The firm was guaranteed to sell everything it produced, so it never had to bother about marketing, nor indeed to pay much attention to product design or innovation. The easiest way to fulfil the plan under these conditions was simply to produce relatively few rather heavy items - that requires far less effort than using the same amount of wood and other materials to produce, say, twenty percent more of everything by using more elegant, graceful designs. The result was that all public buildings in Russia were stuffed with atrocious furniture, no doubt strong and very durable, but otherwise with little to recommend it. Very slowly, this is starting to change as Scandinavian and other designs make an impact on the Russian market, and Russia's own designers start to win more influence over what is produced.

At least at the Moskva, the breakfast was included in the room charge, provided one remembered to take the relevant voucher down to the restaurant. And as at the Orlyonok, breakfast was very much the traditional Russian fare, which was quite surprising as the restaurant itself had a Wild West theme. Only one lift appeared to go down to the restaurant, so depending on your starting point it could be hard to find. On arrival, the restaurant's theme was evident immediately, since all the restaurant staff were dressed like cowboys or cowgirls (though none were carrying six-guns, I'm pleased to note), and the whole place was set out like a traditional western movie saloon, with western-style memorabilia decorating the walls - saddles, stirrups, chaps, lassoes, and so on. The dissonance between the Russian fare and the western theme could hardly have been surpassed - it was all a bit confusing. The only analogy I can think of is with another Russian restaurant, this time located in the middle of St Petersburg; this was named the Bogart Restaurant, so I met a Russian friend there expecting something at least a little American in style. Not a chance, the menu offered exactly what one would expect in a Russian restaurant, including *borscht* (beetroot soup) and various meat dishes accompanied by the usual pickled vegetables.

The worst Moscow hotel was undoubtedly the Intourist, which I have already remarked on in passing in an earlier chapter. My wife, Cindy, and I arrived there for a ten-day stay in December 2000, in connection with work I was doing on an EU-funded project called RECEP, or Russian-European Centre for Economic Policy. As the name suggests, RECEP was a sort of economic policy think-tank, supposed to do a mixture of economic studies on aspects of the Russian economy, and to offer policy advice to the Russian government. The Centre was still operating to end-2005, though its website shows no events in 2006. Although a nice idea in principle, I was never sure how effective RECEP was as there were other think-tanks in Moscow funded by different aid agencies (such as the World Bank) and this lack of co-ordination between agencies was unhelpful. In any event, it was also unclear how interested the Russian government really was in what we were trying to do.

At the time of our visit, there were management problems within the RECEP consortium, and this also made effective work much more difficult than it should have been. A lot of pressure had been applied to get me to come to Moscow for ten days as I normally prefer shorter (and if need be, more frequent) trips, and the argument was that I would need to give some presentations and work with various Russian members of the RECEP team. But in the event, I arrived to find almost nothing set up for me and hardly anyone available to meet me. Richard, the project manager at the time, did his best to set up meetings at the last minute, but for a good deal of the time I was at the RECEP offices working on various papers and reports I had agreed to do, essentially doing work that I could just as well have done at home. So this was probably one of the least effective of my trips to transition economies. However, that did have the side benefit that I was free to spend some time showing Cindy parts of central Moscow such as Red Square, the Kremlin, and the famous department store, GUM - now modernised and hosting lots of well-known western outlets. Since it was Cindy's first visit to Russia, and she reads none of the Cyrillic script in which Russian is written, this was probably just as well.

Our arrival at the Intourist Hotel set the tone for the rest of the visit. The entrance to the hotel was 'guarded' by some dubious looking characters who may well have been security staff. They waved Cindy though but stopped me, as I appeared to be Russian - the sheepskin hat I wear in winter probably suggested that. I immediately said, "*Ya Angliskiy*" (I am English) and carried on walking into the hotel. The reception process was the most intricate and bizarre I have encountered anywhere in the world. First was the normal check in, where we filled in the registration form and were allocated a room. But the key was not issued until we had completed two more stages. The first was at a desk along the counter, where we had to hand in our passports, pay a separate fee for registration, and get an official receipt.

The next was around the corner, where we had to purchase some telephone time. The procedure was not very clear and the staff were extremely rude and unfriendly, a fact that left Cindy fuming with exasperation beside me. I just kept talking quietly in Russian, trying to get the process completed, not least because I thought we could just be sent away and be unable to get our room key if we didn't comply. Eventually, I understood that we couldn't use the telephone in our room without paying in advance - though we had no idea how much time we should buy. It appeared that we could reclaim any unspent balance at the end of our stay by going to yet another office and filling in another form. On the other hand, if call charges exceeded our pre-payment, we could just be cut off in the middle of a call, and would have to repeat this horrible process to get more credit. In the end, I think we bought about $20 of telephone time, got another receipt, presented both receipts to the original reception desk, and finally obtained our room key. Not a great start, as we were both tired and hungry after the journey.

The room, unfortunately, did not greatly brighten our spirits, since it was poorly lit and over-heated (as is not uncommon in Russia in the winter), with no English language channels on the TV, and a pretty basic bathroom. All in all, this was not going to be a very pleasant place for Cindy to spend much time while I worked, so on some days she simply came into the RECEP offices with me. She also struggled a bit with the food, especially at breakfast, not being a great fan of black bread or pickled cabbage (strange...); however, we managed to find a decent little supermarket nearby, where we bought milk and some western breakfast cereal, so that saved the day.

So we just about survived the 'joys' of the Intourist, but our visit to Moscow ended much better as Misha had agreed to take us out to his dacha at Lutsino, not far from Zvenigorod, about an hour's drive outside Moscow. A *dacha* is basically a country house or cottage where people spend weekends and holidays and is very popular in Russia where many people are only a generation or two from the peasantry. This trip enabled us to shorten our stay at the Intourist Hotel. Once well away from Moscow's heavy traffic, the drive was uneventful, but particularly interesting for Cindy, who was surprised to see lots of older, very traditional cottages along the road and in the various villages we passed through, with little sign of the modernization that is going on all over Moscow. Aside from the occasional TV aerial or satellite dish, much of what we saw might not have changed much for centuries. We shopped in Zvenigorod and then drove on to Lutsino, a large area of dachas that had been established decades earlier under the former communist government. Lutsino was established for the academic community, and in the past directors of prestigious research institutes and other senior Academicians (full members of the Academy of Sciences) were rewarded by the government by being given a dacha, or at least the use of a dacha. By now, though, virtually all these dachas must be privately owned, and several luxurious new ones were going up or had recently been constructed. I assume these were owned by members of Moscow's new business elite, as it is hard to see who else would have enough money.

Misha's dacha was very much at the smaller end of the scale, half of a building that had been divided to form two dachas. However, it did have a combined kitchen and dining room, a small bathroom with a shower, and two large bedrooms. Hence it was more than adequate for a short visit, and Misha went out there most weekends, both to get away from the city, and because his dog, Dusya, loved running around among the trees. On arrival at Lutsino, we had a modest lunch accompanied by a few glasses of vodka, each glass requiring a toast to such mundane things as ‘Cindy’s first visit to Russia’, ‘Cindy’s first visit to Lutsino’, ‘Friendship’, and so on - I’m sure you get the idea. Normally I drink almost no alcohol, rarely more than a glass of wine, and Cindy doesn’t drink at all, which makes these multiple vodkas quite tricky. However, by drinking as slowly as politeness allows (and occasionally pouring a glass onto a suitable plant), and having plenty of food to slow down alcohol absorption, one can manage without getting too wobbly.

Though most of the week or so we spent in Moscow had been unseasonably warm - to Cindy’s disappointment as she loves the cold - by the time we got to Lutsino the temperature had dropped and it had already been snowing for a while. After lunch we went for a walk through the woods, also walking along the Moscow River for a while; the river was only a few minutes’ walk away from the dacha. Mentioning the river reminds me that a couple of years earlier I had visited Moscow twice, once in January and then again in June, both times going out to the dacha. On the first occasion, Misha and I were able to walk on the ice of the Moscow River, watching the patient fishermen who sat beside carefully drilled holes through the ice, hoping to catch some fish. On the second, the ice was gone and the sun was hot, so I and a colleague were able to swim in the river; Misha no doubt thought we were mad.

In the course of our walk we visited a few other dachas to meet some of Misha’s friends. Some just offered a ‘drop’ more vodka (though I think this phrase might be an oxymoron), but at the last we were also offered some blinis, small Russian pancakes that we all enjoyed. These can be served with caviar, other cold meats or cheese, or sweet, with jam or cream. Later, we cooked meat and potatoes back at Misha’s dacha, making a simple but tasty meal. Throughout, the food was a challenge for Cindy, as aside from not drinking alcohol she also prefers not to eat meat, a notion that is not very familiar to Russians. At the dacha, she mostly survived on some biscuits brought out from Moscow, together with a few cans of Coca-Cola.

Next morning, before heading back to the delights of *Sheremetevo* 2 and the journey home, we had a truly authentic Russian experience at the banya. A *banya* is essentially a form of sauna, usually in a small wooden cabin with a small changing area and a larger hot room, spells of sitting and lying down in the heat typically interspersed with short rests outside in the snow, while pouring cold water over oneself to cool down enough to go back inside. I had told Cindy about this practice, but I don't think she really believed me. However, we went with Misha to a banya belonging to a friend of his, Sergei. The banya was not far away from Misha's dacha and Sergei joined us there, so we were a group of four, about right for a small banya. Initially, we all undressed and went into the hot room, taking towels to sit on. The heat was intense, and it was both difficult and inadvisable to stay in the hot room for more than ten or fifteen minutes at a time. To her surprise, Cindy was soon standing completely naked among the trees, pouring cold water over herself, and enjoying the lightly falling snow. After two or three cycles like this, it was time for the next stage. Some bundles of birch twigs were brought into the hot room and we were each in turn beaten with them all over our bodies - this left our skin reddened and tingling. Cindy found herself being beaten by Sergei, whom she had never met before, an interesting way of getting to know someone! At the end, we stood outside for a while to cool down enough to get dressed.

Finally, Misha drove us back to the airport and we headed back home. Visiting the dacha had provided a wonderful end to an otherwise not so wonderful trip.

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Russia - St Petersburg

A much more positive experience of Russian hotels - though not particularly of Russia in general - occurred in very early April 2002 when Cindy and I stayed at the Hotel Nevskiy Palace on *Nevskiy Prospekt* in the middle of St Petersburg. This was Cindy's first visit to the city, and it was still bitterly cold, though the ice on the River Neva had already broken up and hundreds of ice floes and chunks of ice were drifting slowly down the river.

I was there to work on a couple of projects, one on Russian privatisation, the other on Russia's long and tortuous application to join the World Trade Organization. At the time of this visit, it seemed that Russia might be able to join the WTO as early as 2004, but negotiations were still not continuing in mid-2007, with outstanding disagreements about such issues as intellectual property rights, agricultural support, services trade (especially financial services such as banks and insurance companies), and various other matters. Russia was taking a tough line in the negotiations because, at least in the short to medium term, there wasn't really that much at stake for them. For Russia's major exports are oil, gas and various other raw materials, and there are hardly any trade restrictions on these items around the world. In due course, though, when Russia's economy comes to depend more on exports of manufactured goods or even of services, then its trade regime, including membership of the WTO, will come to matter a lot more.

As one would expect from a hotel belonging to an international chain, service at the Nevskiy Palace was efficient, courteous and friendly right from the start, with no hassle at all to mar our arrival. Rooms were pleasant, well equipped, and sizeable, so much better for Cindy than our earlier Intourist experience. Cindy came along to some of my meetings out of curiosity, and at other times stayed at the hotel. As we walked around town in the freezing cold, she was surprised at the poor physical condition of much of the city. I had found this on my first visit in 1990, but over a decade later rather little had improved. Most buildings looked quite stunning from a distance, just as before, but close up you couldn't miss the cracks, the rotting window frames, and other signs of long-term neglect. Even the streets were full of potholes, except for a few major traffic routes such as the Nevskiy Prospekt itself. A few of the principal buildings, such as the Hermitage, had benefited from some restoration and extensive repainting, but most had not. It was quite saddening to see such a glorious city in such generally bad shape.

On our first evening, we ate at one of the restaurants in the hotel. Having ordered what promised to be some very nice food we were surprised when an extra starter arrived, courtesy of the hotel. It consisted of whole, pickled garlic and a small amount of other pickled vegetable, plus a generous glass of vodka. Cindy, needless to say, was horrified, but I was able to come to the rescue and enjoy her starter as well as my own. The fact that I like almost everything turns out to be very useful on such occasions, since we can manage whatever is offered without causing any offence or embarrassment to anyone. The rest of the meal was good, with excellent service, simply confirming our feeling that the attention to service standards that comes from being in a well-known hotel chain really makes a huge difference.

Later in the trip, once most of my work meetings had taken place, we had some time left to visit the Hermitage Museum. The art collection there is one of the best in the world, really too much to take in on a single visit, so we didn't even try. Nevertheless, we saw lots of beautiful and thought-provoking paintings and appreciated the restored interior of the main building, then decided to walk back to the hotel. We got about half-way back to the hotel, then decided to take the metro for one stop along Nevskiy Prospekt to save time. Entering the metro at the *Gostiny Dvor* station, we unexpectedly found our way in blocked by a crowd of people. At first we thought nothing of it, and moved slowly forwards towards the station doors, then we suddenly realised that we had been robbed, as about a dozen young men scattered in various directions. Checking our pockets revealed that we had both lost our wallets, containing all the money we had changed and some UK money, together with all our credit cards. We were initially stunned and very angry, especially Cindy as she is normally much more careful than I am, rarely carries everything in one place and usually carries her credit card inside her shoe. On this very unfortunate occasion she had not followed her usual excellent practice.

By the time we walked back to the hotel - all thoughts of using the metro having vanished - we were quite shocked and shaken by the experience. However, we quickly pulled ourselves together enough to phone home in order to get a friend's help to cancel all our cards. This was done within an hour of the incident. At this point, it was dawning on us that although we still had our passports and flight tickets, we had no money or means of payment to keep us going for the last day and a half in St Petersburg. I suppose we could have arranged for money to be wired out to us, but I was unsure what banks would be open at a weekend to enable us to receive the cash. So instead we went down to the hotel reception and arranged to meet one of the customer service managers.

To our relief, the hotel was impressively understanding and helpful. We were loaned some cash to keep us going and to pay our taxi fares out to the airport at the end, and we agreed that as soon as we got home and obtained new credit cards, we would pay our outstanding bill. I can just about imagine that some British hotels might be helpful in a similar way, but I would be astonished if many US hotels could have been persuaded to help us, given their general lack of trust in their customers. Equally, I am quite certain that none of the older, socialist-style hotels still to be found in the city would have helped, given their poor service standards. In the event, we had new cards within a few days of getting back home, so were soon able to settle up with the hotel. Their trust in us proved to be fully justified.

Since I wanted to submit an insurance claim on returning home to recoup some of our losses, it occurred to me that I would need a police report. To obtain this, next morning I went to the relevant police station with a helpful member of the hotel staff. This was police station No.79, down a small street just next to the *Gostiny Dvor* shopping precinct. First we went to the office occupied by the station chief, a large office containing a desk and chair, a large TV, a phone, and almost nothing else. The chief was sitting, feet on desk, watching the TV; he certainly didn’t seem to be very busy solving local crimes! He instructed one of his junior colleagues to take a statement from me, so we were taken to another office, bare except for some flimsy chairs, a small table, and a dull, grey filing cabinet. There was no equipment of any kind, no computer, no typewriter, no photocopier, no telephone, nothing. As a result, the police officer had to take down my statement in long-hand, which he did with the help of translation into Russian by the lady from the hotel. This took some time, and was then repeated, as apparently two copies of my statement were needed and there was evidently no carbon paper.

After this performance we were taken downstairs to the basement, where a sort of reception desk stood in front of an array of filing cabinets, and beside which were a couple of cells, both occupied. I suppose this at least showed that now and again the police did catch someone, though the two men might well have been drunks picked up during the night. Part of my statement was copied out for a third time, and I was finally issued with a St Petersburg crime number, КП-79.210/310-02-02, and a receipt summarising my losses. I have no idea what the insurance company made of an official receipt hand-written in Russian, but they did in due course reimburse us. Nor do I know whether the police ever caught anyone, but I really doubt it..

What was striking about this experience at the police station was how under-resourced the police appeared to be. It was really hard to see how they could effectively track down many criminals with such limited facilities and technical support available to them. Perhaps because their pay and conditions are so poor, the police are also reputed to be quite corrupt, often conniving with the crooks rather than incarcerating them. Hence not only do the police lack adequate resources, but their motivation too might not be quite what one would like. Naturally, I have no direct evidence of this, but some indirect evidence is available. Thus in the two-three weeks after the theft, about £6000 worth of spending was done through St Petersburg shops using our stolen cards, mostly in chunks of several hundred pounds per transaction. Since not many young Russian men really look as though they have any right to be using a credit card issued in Scotland to a woman, it's hard to see how most of these transactions could have occurred without collusion by the shops involved. It should not in principle have been hard for the police to track some of these transactions, and hence catch both the guilty shop managers and one or more of the original thieves, but there was no sign that the police were at all interested in such lines of enquiry.

In any event, it was fortunate that we had managed to cancel our cards so promptly, as we might have been liable for some of the illicit spending otherwise. It was also fortunate that the hotel was so willing to assist us through these rather difficult few days.

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Food and Drink

Much has already been said about meals in amongst discussion of other topics, so here I can be quite brief. In fact, from the hundreds of places in the region where I have eaten I shall just pick out three. The first is a newish restaurant in Moldova, the second a restaurant beside the Vltava River in Prague, and the third a bar-restaurant up in the mountains to the south of Almaty. Each was chosen for a different reason.

Being a small and quite poor country, one would not expect Moldova to be well provided with nice restaurants. There are a few in the capital, Chişinău, some in the better hotels and some operating independently, mostly offering Moldovan/Romanian, Ukrainian/Russian, Italian or Greek food. Outside the capital, good quality provision is more limited, but here and there one can find new interesting restaurants. In the late 1990s, while on a visit to Moldova in connection with an EU-funded project on industrial policy, I had had occasion to visit the town of Bălţi in the northern part of the country. We visited the offices of a small project set up to support new businesses, a project that seemed to be having some success in a difficult area. On the way back to Chişinău, to have a break from the bumpy road surface and to have a late lunch, we stopped at a newly built and only recently opened restaurant, set back a little from the road at a place where there was a bend near the top of a low hill. The views over the Moldovan countryside, therefore, were open and extensive, with grain or fruit trees in all directions, and just an occasional house. Thus the restaurant was quite isolated, but in the middle of a lovely area.

Our group, perhaps half a dozen of us - having travelled in two cars - settled down in this fine looking restaurant, built and decorated in fairly traditional style, and inspected the menu. With the help of some interpretation, and by glancing at the food being brought to other diners, we could see that the place was quite promising. So it turned out, with a rich, meat and vegetable soup soon followed by a stew containing aubergines, peppers, and a tasty sauce. All this was accompanied by some Moldovan beer.

After a while, though, one of our group needed to use the toilet. "Ah," said the waiter, "Actually we don't have a toilet." Further enquiry revealed that although this was a new restaurant, only just built and opened, the architects had 'forgotten' to include any toilets, and whatever planning controls were in place has evidently failed to pick up this *lacuna*. Moreover, with the omission still uncorrected, the restaurant had been allowed to open, surprisingly. So what should we do? It turned out that a little way behind the restaurant there was a low wall, and the men in our party were directed behind that. The women were sent off in a slightly different direction, I'm not quite sure where. So the 'facilities' were somewhat limited and not very private, but we all managed, as one does. As much as anything, I suppose this experience revealed just how fastidious those of us from affluent western countries have become nowadays, since our Moldovan hosts were clearly neither embarrassed nor at all concerned by this minor problem. I expect they were right. However, I did wonder how well everyone would have coped had it been raining!

In late Spring 2001, Cindy and I travelled to Prague, capital of the Czech Republic, where I was to attend a short conference on privatisation and industrial policy issues in order to present a paper and take part in the discussion. There's nothing of great interest to be said about the conference, but we had tacked an extra day or two onto the trip so that we could relax, enjoy the sunshine, and appreciate the sights of the city. It was Cindy's first visit, and she loved the main square in the old town, the narrow streets, the famous astronomical clock, and the Charles Bridge over the Vltava River, mobbed with artists selling their latest work, and visitors wondering what to buy. From the other side of the bridge we also climbed up to visit the spectacular Prague Castle and neighbouring monuments, both stunning in themselves and affording wonderful views over much of the lower city.

On the evening of Cindy's birthday we looked for a nice restaurant at which to celebrate it. We found a place beside the river, with good views south to the Charles Bridge, where we could eat *al fresco* as it was easily warm enough then (that detail would scarcely rate a mention were it not for the fact that we live near Edinburgh where we only get about two weeks each year where it's really warm enough to eat outside). The restaurant offered some pasta dishes, important for Cindy as she tries where possible not to eat meat (never easy in Eastern Europe), and in any event would have found the normal Czech food - lots of meat and lots of dumplings - much too heavy and stodgy for her tastes. As ever, I really liked the local dishes, however. While the setting would have been hard to better, the food turned out to be extremely disappointing, especially for Cindy. Mine was indeed a heavy and stodgy meat dish, all right but not at all distinguished; but Cindy got a huge dish of nearly cold pasta, not at all appetising in terms of presentation, and close to inedible. So aside from enjoying the views, for her birthday treat she was able to eat little more than the bread that was provided to accompany the meal. Not a big success, but I guess these things happen sometimes wherever you go, and Cindy always handles these little setbacks very calmly.

The next evening, the last of our visit, we had a much better meal at a restaurant not far from our hotel, just on Wenceslas Square. At the end, I drank my coffee and asked for the bill, then reached in my jacket for my wallet. Alarmed, I realised it wasn't there, nor was it in any other pocket, and I immediately had visions of a long night working in the restaurant kitchens, doing their washing up! Once our initial panic subsided, we thought back over the day and remembered that on entering a metro station at the old-town end of Wenceslas Square, we had been heavily jostled by three young men pushing past us. We suddenly realised that they must have 'lifted' my wallet at that time, several hours earlier. Luckily, Cindy's credit card was still with our bags back at the hotel, so I left her to admire the views from the restaurant window, while I rushed back to get our remaining means of payment. That done, we were able to leave the restaurant without further embarrassment, report the theft officially at the hotel, and phone home to cancel my lost cards. A very annoying end to what was otherwise a very enjoyable visit to Prague.

My first visit to Kazakhstan took place in February 2005, and got off to an unexpectedly interesting start. The purpose of the trip was to work with various colleagues on energy policy issues, supported by the UK Foreign and Commonwealth Office. It's still not wholly clear to me why the Foreign Office wanted to fund such work, but I suppose it had something to do with concerns about either UK or EU energy security, and the possible role that supplies of oil and gas from Kazakhstan might play in improving our security. We were also supposed to be working with the Kazakhstan government to advise them on the development of an improved energy strategy.

After a long overnight flight I arrived in the old capital, Almaty, at around 5am on a Sunday morning, feeling half dead; so I was taken to my hotel and was left there to sleep for a while, agreeing to get breakfast and walk the short distance to our project office by mid-morning, where the team was assembling. The walk was quite bracing, shall we say, as the temperature was a few degrees below zero and the streets were all covered with ice and snow. Unlike what one would find back home, though, there was no indication that the road conditions were in any way impeding either private or public transport in the city.

Once our group had gathered, we drove south out of town, mostly along some of the tree-lined streets that are a feature of Almaty. In fact Almaty really is a city of trees, famous for its orchards, particularly the apples. Some say that the apples we eat in Europe originated in the region around present-day Almaty, and the area is still renowned for the enormous genetic diversity in the local wild fruit trees. Continuing up into the hills, we drove past the world's highest outdoor ice-skating rink at Medea, finally reaching the Chimbulak ski resort, around 2,200m above sea level. The bright sunshine made the reflected glare from the snow and ice at Chimbulak quite uncomfortable when looking south, but the views were simply stunning, the resort being surrounded by a semi-circle of snowy peaks. There were hundreds of skiers enjoying the snow, but we just watched them.

We sat around a large table in the outdoor section of the ski-resort restaurant, where there was enough sun to keep the temperature just about above freezing - but we all kept our hats and coats on. We ordered beers and a variety of other food - thick soup, meaty stews, shashlik, and some vegetable dishes, followed by cakes and coffee. In a sense the food itself didn't matter that much, since I found myself much more interested in the wonderful surroundings than anything else. During the meal, we did discuss a little the arrangements for the various workshops we had planned for the week of my visit, and thought about some of our presentations, but these business matters proved unable to hold our attention for long. We simply enjoyed the food, the scenery, and the good company. Quite suddenly, soon after 3pm, the sun sank below the western ridge of the surrounding hills, whereupon the outdoor temperature dropped like a stone, probably falling ten degrees Celsius in little more than five minutes. We knew it was time to go back down to Almaty.

Towards the end of this same visit to Kazakhstan, I was taken out to a traditional Kazakh restaurant in Almaty. The menu was 'interesting', with the first three pages entirely taken up with various dishes involving horse-meat. In principle I don't have any objection to eating horse-meat, but I couldn't quite bring myself to do so on this occasion - though several other people at our table did. I suspect my hesitation had something to do with the fact that my daughter used to own a horse, leaving me feeling a bit too sentimental about these animals to eat them. So I settled for a dish based on camel-meat, which turned out to be very tasty. The rest of the meal was good though not exceptionally so, but overall this was a delightful way to round off my first visit to the country.

Chapter 7. Choices, Shops and Markets

Choices and Shopping

Now that most of the transition countries are steadily progressing towards a situation where they will soon simply be regarded as 'normal' market-type economies (and we could no doubt debate at length over the precise meaning of the word 'normal' here), it is interesting to think about the choices that people want to make as they become a little more prosperous. This is particularly illuminating in the former socialist countries for several reasons. First, under socialism, although officially measured incomes rose over time, many goods and services were either rationed or not readily available, and in any case the planners often decreed what would be supplied to individuals and families through the normal retail outlets and other channels. Often, what was supplied was not actually what people would have preferred to get. But in most countries, little or no market research was done, and firms had at best very weak incentives to produce and sell new products - unless they were instructed to do so as part of the 'plan'.

Second, since the start of transition, all countries experienced an initial drop in incomes, both at the national level, and in terms of individual living standards. In the countries that adapted to the market more rapidly, such as Poland, the drop in income was not very large and didn't last very long, with growth in incomes and living standards already resuming quite early in the 1990s. In countries that reformed more slowly, the initial recession was deeper, and recovery was not well under way until later in the 1990s. For countries that experienced major wars, such as much of the former Yugoslavia, Armenia, Azerbaijan and a few others, strong growth and recovery has only been experienced since the turn of the century. But by now, most countries are growing again and many have passed their pre-1990 peak income levels. What is interesting, though, is how the pattern of spending changed during this process - on the whole people did not simply return to their spending patterns of 1990 as incomes recovered.

Third, the collection of goods and services available to people today is vastly different from what it could ever have been thirty or forty years ago, largely as a result of extensive technical change and innovation in practically every sector of the economy. Many products available today simply did not exist forty years ago, and every-day products then are no longer produced. Further, in most countries the collection of goods available to consumers has been enormously widened by the much freer international trading conditions since 1990, with many more items being imported than formerly. These observations have little to do with whether we think of socialist or capitalist economic systems, they are simply basic facts about the modern world. And when different things are available, people tend to make different choices from those their parents or grandparents would have made, even had the latter had the same income to spend.

To show what I mean about making different choices, when travelling through rural areas of Romania, Moldova, as well as Russia (less than an hour's drive from Moscow) it is not uncommon to see houses with outside toilets (usually a small privy down the garden), sometimes also with a well to supply their drinking water, though in some places the nearest well might be serving several houses, not just one. Back in the 1950s and 1960s, most houses in the UK already had their own running water, even in rural areas, but it was not uncommon, especially in northern England, for older houses still to have outside toilets, and quite possibly no proper bathroom as we understand the term nowadays. So what did people usually do as incomes rose? Mostly, they installed proper bathrooms with bath or shower unit plus toilet, and this came to be regarded as the 'natural' choice for people to make.

But forty years later, we live in a different world, and many of the poor rural dwellers of Eastern Europe turned out to make interestingly different choices from those we made a generation or so ago in the UK or other western countries. Thus some of the houses I mentioned above, with their wells and outside toilets, also boasted a third item, namely a satellite dish mounted somewhere in the garden or on the roof of the house (some older dishes were much too big to go on the roof). So one thing people evidently want as they get richer is better access to modern entertainment and news, in the form of multiple TV channels, in other words they seek to be connected with the world. For my generation in the UK, that simply wasn't an option, as in the 1950s we only had black and white TV and initially only a couple of channels. Colour and multiple channels only became standard and widespread as recently as the 1980s, something we're inclined to forget because they seem so commonplace now. Perhaps if we could have bought better TV services, we might not have been in such a hurry to install our bathrooms. I wonder.

Something else that people seem to want as they prosper, or even as they become less poor, is better access to communication services. This used to mean fixed-line telephone services, and even through the 1980s - the last decade of communist rule - the number of phone connections per 1000 of population was pitifully low (even in the cities, but especially in the more remote rural villages) as compared to all the more developed countries. The early years of transition witnessed much privatisation of fixed-line telecoms services, often to new foreign owners, accompanied by commitments to undertake massive investment to expand network coverage. More or less in parallel, though, most governments in the region licensed one or more mobile phone operators to establish networks in their countries and these took off astonishingly rapidly - I suspect that all governments in the region were taken by surprise by the pace of development, especially when mobile phone coverage overtook the fixed-line network, as happened in several countries. People were willing to pay for their mobile phones, despite still being rather poor in most countries. The ability to communicate is evidently a basic need for people nowadays, and it is greatly valued.

Moreover, the new devices were not just employed to chat to family and friends, important though that was. For in addition, the mobile phone came to be an essential tool for all new businesses. Whereas business development had undoubtedly been held up sometimes by the appalling telephone services that prevailed in the early 1990s, the ubiquity of mobile phones quickly removed this key barrier. Communications services were not the only barrier to business development, but they were, for some years, an important one. In most places, that is simply no longer the case. In a way, parts of Central and Eastern Europe have jumped a technological stage by going straight for mobile telecommunications, and one must doubt whether the fixed-line network will ever be developed to the extent that occurred in western countries, for there is simply no need.

Last, with the planners no longer dictating what goods and services people would be 'allowed' to buy, and especially once imports were substantially liberalised so that people could choose between the traditional domestically produced items and a wide range of well-known western brand names, spending patterns tended to shift in favour of imports. Actual changes were a lot more complex than this simple statement suggests, and spending patterns did tend to change over time, too.

Many firms producing goods and services that were of poor quality or out-dated technology found that demand for their output simply collapsed. In many cases, demand never recovered and the firms were unable to adjust, so they gradually disappeared. Something like this happens in all economies as part of the normal process of growth and development - thus how many firms in the UK still make mechanical, or electro-mechanical calculators? These were standard equipment as recently as the 1970s, but I doubt whether anyone makes them now. And the firms concerned did not suddenly transform themselves into firms that made electronic calculators, they simply went out of business. What was special about the former socialist countries was the sheer scale and speed of the collapse of older, inefficient firms, with entire industrial sectors disappearing overnight. This posed a massive challenge for the new governments, and not all were able to cope.

In some important areas, such as food production and processing, the Eastern European products were often of good quality in terms of the basic product, but were lacking in adequate packaging, were poorly presented and marketed with few recognisable brand names, and often had a short shelf life. Most probably they would not have met the currently accepted international hygiene standards, and the product mix was old fashioned, with lots of pickles and preserves (reflecting an age without reliable electricity supplies, and with few domestic refrigerators), relatively little frozen food or other modern products. In addition, many of the newly liberated consumers were keen to try the formerly unavailable western products; so these were imported in large quantities, and initially sold well. However, in many countries of the region, partly though their own efforts, partly with the help of foreign direct investment, food industry firms fought back, and in some cases managed to regain market share, usually with revamped products and improved marketing. In some countries, such as Russia, it turned out that consumers often found the western products too bland for their taste, and preferred the local ones once these were packaged and marketed more effectively.

Thus many firms collapsed, but many others were able to transform themselves and survive, when faced with the awful combination of vigorous competition from imports and big shifts in consumer demand in the early transition years.

Shopping is something that, in a prosperous consumer society, we often do for fun. But until very recently, shopping in Central and Eastern Europe was mostly about buying the basics, the daily necessities of life. And mostly, it was not done for fun. In other words, it was not unlike shopping in most of the UK back in the 1950s, and possibly into the 1960s, with lots of small, specialist and very local shops (reflecting the simple fact that few people had cars, so most of what people needed had to be close to home), no supermarkets (they had scarcely been invented back then), and only the occasional larger, department store.

In the 1970s and 1980s, a surprisingly high proportion of shops in Central and Eastern Europe bore such unexciting names as ‘Shoes’, ‘Milk and Milk Products’, ‘Meat’, ‘Bread’, and so on. In other words, if there was a sign on the front of the shop at all, it did no more than identify the shop’s main product. Shops then were largely functional, and virtually all were state owned, so the idea that they might need some individual identity, and that they might compete against each other for customers had not yet surfaced. Indeed why should they bother to compete when shortage conditions were widespread in most countries, and no shops would be allowed to go out of business?

By the early 1990s, most small shops were already privatised, with existing managers mostly securing ownership. This made for quick and easy privatisation, and was generally popular, but it also resulted in quite slow changes in the retail sector post-privatisation, except where there was some foreign investment. Thus some western supermarkets bought up existing shops or established large new outlets, and many well known western brands established branches across the region. Restaurants were also mostly privatised in the early 1990s, and both the quality and diversity of provision rapidly improved in most countries. Much of the old network of cheap, self-service restaurants closed, or was taken over by western fast-food chains like PizzaHut, McDonald's, Burger King and others. This sort of development, I imagine, was greatly appreciated by many foreign visitors to the region, as well as by many local people, though personally I thought it was a shame that only a few local fast-food establishments proved able to compete in this segment of the food market. Perhaps that will gradually change.

By the early years of this decade, the 'shopping experience' had become much more differentiated. Ordinary shops selling basic goods had often not changed very much, though many had adopted more individual names and had improved their displays. But alongside these, many shops selling luxury items, mostly with western brand names, had sprung up, presumably to meet the demands of the newly prosperous elites of the various post-communist societies. As a result, inequalities in incomes and access to goods were surely a lot more visible than they had been under the old socialist systems, a fact that could explain at least some of the social tensions associated with the transition to a market-type economy.

In Russia, for instance, this sort of change appeared to be both faster and slower than in Central Europe. The luxury end of the market was, if anything, even more luxurious than elsewhere, with astonishingly opulent displays in some of the shops attracting, one suspects, a lot of people looking around and relatively few really serious customers. So this part of the market had gone further, and more rapidly, than in Central Europe. On the other hand, many basic, everyday shops had scarcely changed at all, despite near complete privatisation. Many shops still apparently sold the same things in the same ways as before, to pretty much the same clientele.

One could see this in much of Moscow or St Petersburg, but it was even clearer in smaller places such as *Zvenigorod*, a small town about an hour's drive from Moscow, quite close to Misha's dacha. One of the main food shops in the middle of the town was simply called *Moloko* (meaning 'Milk'), and it sold milk, dairy produce, and a variety of other things. For the visitor, buying things in that shop was something of a challenge, as the customer first had to go to a counter, order whatever items were wanted from that section of the shop, then go to the cash desk opposite to pay. To pay, the customer had to list each item (in Russian, naturally), the clerk at the cash desk would add up the cost using an abacus (and astonishingly quickly, too - my wife, Cindy, had never seen that before), then prepare a receipt. The receipt was then taken back to the counter, and the purchases could then be handed over. At each counter within the shop, the same procedure had to be repeated, so managing the shopping required both a degree of patience and persistence, and a fair knowledge of Russian. In our case, the whole thing was much simpler as we were just accompanying Misha, for whom this way of shopping was completely normal.

Just along the street from *Moloko* was Zvenigorod's open market, such markets always offering a source of fascinating insights into local living standards, consumption patterns and preferences, and styles of shopping. We went there to buy fresh meat, plus some potatoes and herbs to accompany the meat. I imagine the meat market cannot have changed much for decades, and possibly even centuries, and though the meat looked fresh (and later proved to be very tender and tasty), I suspect the selling conditions would not quite comply with the prevailing rules that we have to live with in the EU. It was winter when we were there, the area around the stalls covered in ice and snow, so the absence of refrigeration (except at the fish stall, the fish being displayed in trays of ice) wasn't really a problem; I imagine it would be a very different matter in the summer.

Diverse chunks of meat were on display on an open counter along a couple of lines of wood-framed stalls, roofed to give the butchers some protection from the elements, otherwise open on all sides. Pig's heads were nailed to a couple of the vertical posts supporting the stalls' roofing, as part of the display. In the UK this was quite a common sight in butcher's shops even 20 years ago, but is not so often seen nowadays. Aside from what was on the counter, the available meat simply consisted of half pigs and half bullocks suspended from hooks. When a customer wanted a large piece of meat, half a bullock would be laid across the chopping block - itself just a large, heavily blood-stained tree stump - and a massive axe would be used to separate off the desired piece. This was not a very delicate process, but it was undoubtedly effective. Most customers seemed to be buying surprisingly large pieces of meat, though a few went for smaller, more carefully trimmed pieces. Purchases were wrapped in newspaper or coarse white paper from a large roll, then put in flimsy plastic bags - that itself, I expect, will have been a fairly recent innovation, as most customers had their own shopping bags with them.

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Markets and Prices

When we talk about markets, we usually make a lot of assumptions without realising it. One of these is the basic feature of any market, namely that when a buyer receives some good or service, he or she will actually pay for it. If pressed we would acknowledge that not paying for something amounts to theft, and that in most countries this is a criminal offence, with police and the judiciary there in readiness to deal with such offences. Failing that, the supplier could, in most countries, pursue the errant buyer through the civil courts to secure payment. But even when they work, these methods are usually expensive, slow, and uncertain in their application (even in countries with good police services and legal systems), and economic systems that rely on them much are unlikely to be very successful. We certainly need the police and the courts to be 'there', very much in the background, but we also need most economic transactions to be settled in the normal way, without the need for such official coercion. One way of thinking about this is to suggest that economic systems need a high degree of trust between buyers and sellers in order for business to run smoothly.

In practice, aside from this rather intangible idea of 'trust', buyers and sellers do have lots of other mechanisms in place to facilitate transactions between buyers and sellers, especially in the more developed countries, and increasingly in the transition economies. For most small items we simply pay cash 'on the spot', and if we don't wish to pay, we don't get the item. Credit and debit cards, as well as cheques (though these are becoming less common now) increasingly support this mechanism for larger transactions, since again payment is immediate, and our bank or our credit-card company serves as our guarantor; but once more, if we don't pay, we don't get the goods. Similarly, if we pay, but the goods turn out to be defective in some way, consumer protection laws generally compel the seller to offer a replacement item or full reimbursement. Simple, isn't it?

For really large items, such as cars and houses, we often take out loans to pay for the item over a period, typically two to three years for a car, more often 10 to 20 years for a house, and we have many financial institutions whose main business is precisely to provide such loans. In the case of a car, the loan company usually formally 'owns' the car until the final payment is made, and if the buyer interrupts the flow of repayments, the car can be repossessed, and sold by the loan company to get its money back. If the buyer is involved in an accident that writes off the car, and has insufficient insurance to cover replacing the car, that is basically bad luck for the buyer. The original car purchase loan will still have to be paid back, the only escape routes being emigration, a change of identity (but doing that to escape a legal obligation is, naturally, an offence), or personal bankruptcy. Most people don't much like these options, so struggle to service the original loan.

The situation is very much the same with house purchase. In most developed market economies there is an active housing market and most buyers finance their purchase by taking out a mortgage secured on the property itself. For most people, most of the time, the fact that their house is serving as security for a loan is not seen as a big problem. But if their economic fortunes unexpectedly turn down, for instance the homeowner becomes unemployed or faces some other 'shock' that sharply diminishes his or her income, so that loan repayments cannot be met, then eventually, either the owner has to sell the house to get the funds to repay the lender, or the lender will seek what is called (in the UK) a repossession order from the courts. Bluntly, what this means is that the erstwhile homeowner is evicted from his or her home so the mortgage company can sell it to recoup the original loan. In the UK, this drastic step is not very common as a proportion of the total number of people with mortgages, but across the country it still happens several thousand times each year. It is perfectly legal, and the presumption is that people evicted from their homes will not be left completely homeless, but that they will be able to find somewhere cheaper to buy or rent. Sometimes, evicted families may be allocated a publicly-owned house by their local council.

Thus in the background to all the everyday economic transactions in which we engage there are some extremely tough, and sometimes thoroughly unpleasant measures that can be taken if we default on our obligations - whether deliberately or through force of circumstance, it doesn't matter. The reason for mentioning this here is that in many of the transition economies, these 'background measures', as we may call them, were often not in place, and this resulted in many markets functioning extremely badly, especially in the first few years, sometimes the first decade, of transition. Some countries were quite slow to learn the conditions that need to be in place for markets to function.

Some examples will help to give the reader a better idea of what I mean. Thus in many transition countries, domestic electricity prices were very low, frequently below any reasonable estimate of the associated production costs, but even at these low prices, many people just didn't pay for their electricity. Likewise, quite a number of businesses either didn't pay at all, or preferred to pay 'in kind'. For some years, this was a serious problem in Russia and in most other CIS countries, much less serious in Central Europe where, despite much higher prices, payments discipline was always much better. In parts of the CIS, though, actual payments sometimes barely exceeded 50% of what should have been paid, and payment rates only gradually rose to more normal levels by the end of the 1990s (in most western countries, payment rates are normally over 98%). Even today, the problem is not fully resolved, but in most countries the position is undoubtedly a great deal better than it was. We have actually identified two problems here: (a) people not paying for their electricity, or paying in kind; and (b) the electricity price being set at much too low a level. I shall look at each of these problems in turn.

Getting people to pay for their electricity consumption requires two things - first, that some effort is devoted to the business of billing people and collecting the money; and second, that when billed, people know (and believe) that they risk being disconnected if they persistently fail to pay. In most CIS countries, neither of these conditions operated very effectively. As large, state-owned companies, most electricity utilities initially put surprisingly little effort into collecting small sums from diverse households, preferring instead to rely on getting revenues from the business sector, and if need be, subsidies from their governments. This attitude was encouraged by the bizarre pricing practices that we shall look at a little later, and also by the fact that electricity - along with other public utilities - was regarded as more or less a ‘necessity’, in the sense that suppliers were often not allowed to disconnect delinquent customers, supposedly on social grounds. Thus many public utility companies were either forbidden to disconnect customers, or were very reluctant to do so because they feared the ensuing public hostility, the political damage. It took several years for the utilities and their governments to learn that people would only reliably pay for their electricity if they had no option. Arguments about electricity being a necessity are largely beside the point, since lots of things are necessities - notably food, for instance - but we don’t expect them to be provided free (except perhaps under pure communism, that mythical state that we never expect to reach, contrary to the precepts of fundamentalist Marxism).

For firms, the same issue took a different form. At times, firms didn’t pay, or delayed payment, in order to extract from the state a form of deferred credit, and such arrears were tolerated because governments were afraid to risk forcing firms into bankruptcy. But as usual, if firms are allowed to treat electricity (and other energy supplies) as virtually free, they will have no incentive to economise and use energy reasonably sensibly. At other times, firms were willing to pay, but not in cash but in goods. Thus on a visit to Moldova, I recall an occasion when I interviewed an official from the main electricity company, and he informed me that one of the country's largest wineries had opted to pay for its electricity in bottles of wine. This sort of practice became very common for a time in the mid-1990s, but has now largely subsided, mostly as firms learnt that 'in kind payments' were really bad business. In the case of the winery, I suspect that the wine was transferred to the electricity utility at the normal market price, thus enabling the winery to buy a good deal of electricity 'per bottle of wine'. But I also suspect that the electricity utility, given its obvious lack of expertise in wine marketing, was only able to realise a small fraction of the normal price when it sold the wine, so in effect it was heavily subsidising the winery's electricity. All in all, this is not a great way to price anything, and it certainly ensures that the resulting price signals will be at best unclear, and more likely completely opaque. In the end, this is bad for everyone.

As for the electricity pricing itself, most of the former communist countries had price structures that were very different from those we are used to in western countries. In the UK, the US and elsewhere, the normal situation is that households pay far more for their electricity than do commercial firms, quite simply because it costs more to supply them. The household segment of the market comprises lots of customers each with small demands, involving a complex local supply network and expensive billing and network maintenance. The very smallest firms are not that different, but medium and larger firms are much cheaper to supply and service. Despite that, the price structure in the transition economies mostly had households paying extremely low electricity prices, firms paying perhaps twice as much per unit of power, and the overall level of prices often too low to enable the companies to make much money overall. Although there have been some adjustments in the right direction, the price structure in Russia still, in effect, subsidises households, not only for electricity but also for other forms of energy (such as gas and sometimes even heating oil). But the need for a more comprehensive adjustment to these prices is neither widely understood, nor accepted.

Indeed in early April 2002, I paid a visit to the Management School of the St Petersburg State University, where I gave a talk on Russian economic reforms to a group of postgraduate students and academic staff. This talk was a little 'extra', tacked on to the main aims of the visit, which were in part to discuss a paper on Russian privatisation with my Russian co-author; and in part to collect information to help me in writing about Russia's application to join the World Trade Organization. In the course of the talk, I mentioned in passing the absurdity of Russian domestic energy pricing, and was immediately pounced on by several of the students (only figuratively, I should say!). They argued that Russia was an energy-rich country and could perfectly well afford to supply its citizens with cheap energy, and that it should certainly continue to do so. I tried to argue that the main gas supplier, *Gazprom*, was a major player in the European natural gas market, and that if Russian gas supplies were short, the prevailing pricing structure might encourage the company to export more rather than meet domestic demands. I also tried to suggest that unless the electricity utilities made more money from Russian households, there was a risk that the local supply networks would suffer from under-investment as the companies would have no financial incentive to invest. Recently, both Russian and western press reports and academic studies have issued warnings about these and other issues to do with energy supplies, but back in St Petersburg my arguments did not go down very well. It may be that some areas of Russia will have to experience a serious energy crisis before they learn to set their energy prices more sensibly and sustainably.

Housing, too, remains a problem area in lots of the transition countries, but especially so in Russia and the CIS. Rents have persistently been too low even to cover maintenance costs, and especially where district heating systems have been in place, they have been bundled together with heating costs. So most people had no idea how much their heating was costing them, and individual apartments within a block usually had no way of controlling how much heat they received; in many older houses it was not even possible or easy to turn off the radiators. Hence many people kept their houses at a reasonable temperature in the winter by opening the windows, the only way to keep the temperature down, but hardly efficient in terms of energy use.

Most countries have raised rents to more reasonable levels, but some are still constrained by social policy to the effect that no one can be evicted even if they don't pay. The same policy has also severely inhibited the emergence of housing markets in some countries, including Russia and Ukraine, since few financial institutions would be willing to offer a loan to buy a property if the property cannot legally provide the needed security. And if occupiers cannot legally be evicted, then there is no real security for the lender. This point doesn't prevent the housing market functioning perfectly well for the very rich, since they can pay cash, but it does pretty much kill the market for most ordinary people.

Two issues come together here, namely the appropriate social policy, and the need for suitable financial institutions to support housing transactions. On social policy, I would certainly support a social security system that ensured at least some basic minimum income for everyone, but once that was in place, I would not like to see a complete ban on evictions. In saying this, though, I am assuming that some sort of market does exist for rented property (including for rooms in shared apartments, like much student accommodation in the UK), so that anyone who is evicted can find somewhere to stay. So there is an element of 'chicken and egg' here, since one needs both a basic income and a market in rented housing for evictions to be socially manageable, and countries like Russia began transition with neither. Thus this is a delicate area where change might have to be quite gradual.

Developing the right financial institutions to support an active housing market has not proved easy. At the start of transition there were poorly functioning banks with little real commercial experience or knowledge, and not much else. Moreover, experience in other countries strongly suggests that it is not easy to establish other financial institutions such as insurance and pension funds, as well as mortgage lenders, without a fairly liquid market in financial assets such as commercial shares, commercial bonds of various maturities, and government securities, both short-term and long-term. But when transition started there were no private shares or bonds, since such financial instruments were illegal then, and anyway, when virtually all firms were wholly state owned the only shareholder would have been the government. Similarly, there were hardly any government securities either, other than a few very short term ones in a few countries.

Some of these deficiencies could have been met quite quickly by allowing established foreign financial institutions to enter the transition economy markets to supply mortgage services, and some countries did take that route, or a mixed route where foreign firms bought large shares in existing domestic banks, enabling them to offer mortgages in a secure and competent manner. Some countries, however, including Russia, have been very resistant over the idea of allowing foreign financial firms access to 'their' domestic markets, and arguments about this matter have contributed to the long delays surrounding Russia's application to join the World Trade Organization (WTO). By now, the Russian government issues securities of various maturities and, as a result of the 1990s privatization of most firms, there are many shares traded on the Russian stock market. Despite all this useful progress, the fact remains that in international terms the Russian financial markets remain small, not very liquid, and subject to a fair amount of volatility. In smaller countries, or countries not so far forward with their economic reforms, these markets are extremely thin. They exist, but cannot be said to function very well, a point that has sometimes led to suggestions about developing regional stock markets to cover several countries, or listing shares of larger companies on well established foreign stock exchanges. So far, ideas like this have not really caught on, presumably due to the political sensitivities that would be aroused.

Overall, then, developing mortgage markets able to meet the needs of those other than the very rich has proved surprisingly difficult, entailing simultaneous developments in financial institutions (banks or wholly new ones), and the supply of diverse financial assets, both private and public. It has also involved substantial developments in the associated services of estate agents (or 'realtors', to use the American term), property surveying and valuation, legal services to do with private property transactions (conveyancing), and the provision of security for mortgage contracts. Most of this complex infrastructure we simply take for granted in developed market economies, but the transition economies have had to build it all up, from virtually nothing. The private housing market is definitely one where one could not hope simply to lift the old restrictions that characterised the old system of central planning, and then expect the market to work well pretty much immediately. It needs a lot of carefully structured institutional support to enable it to work well.

Chapter 8. Funding, Projects and Workshops

Funding and contracts

As soon as my research centre, CERT, was established at Heriot-Watt University in late 1990, we started to win research and consultancy contracts from a wide range of organisations. Some of these were the result of our own initiative, where we would prepare a research grant application, submit it to the relevant funding body, and have it assessed in the usual competitive manner, based largely on peer review. Some of what we did was the result of invitations to do specific pieces of work, or to tender for work, based on our individual and collective reputations and expertise.

In practice, for much of the 1990s, we received far more invitations than we could conceivably have managed, and so turned down as much as three-quarters of the potential work that came our way. Some of what we turned down was, in any event, outside our main areas of interest or experience, so we might not have won the work even if we had bid for it. At other times, work was turned down because it would have involved long spells away from home, such as six months or a year to work on EU projects in Nizhny Novgorod or Yekaterinberg (among many other possibilities). Although we used junior researchers quite extensively to help fulfil our various contracts - and the ones we hired generally did some incredibly good work for us, and demonstrated massive commitment and enthusiasm - we could not have used them on these long-term placements as the EU usually wanted someone with lots of experience, able to manage a large project.

But I and other colleagues in CERT basically worked as full-time academics for Heriot-Watt University, so all of this work on the transition economies had to be fitted in around our regular teaching and administrative commitments back home, as well as normal family commitments. This often entailed some rather mad weeks, with teaching on Monday and Tuesday, say, a flight to Eastern Europe on the Wednesday, two or three days hard work in whatever country we were dealing with, and then a flight home on Saturday or Sunday in time for the next week's teaching. Usually, part of the flight home would be spent drafting the visit report for that week, and sometimes also in starting to prepare for the next trip that might be in a week or two's time.

For this kind of hectic working pattern to be viable, naturally, most meetings 'in the field' had to be set up from home, in advance. Similarly, travel arrangements had to be set up in good time to keep costs down, as all our projects included travel costs set at the cheapest possible levels - I have never yet had the good fortune to be employed by an organisation willing to pay for Business Class travel, for instance. Especially at the start of transition, many of the countries we visited also required visas, and some still do; so it was vital to schedule this aspect of the process quite carefully - otherwise I might have needed my passport to travel somewhere while it was at some other country's embassy awaiting a visa. Indeed, so complex did this juggling become that for almost a decade I operated with two passports so that I always had one available for travelling with me while the other was at an embassy. The UK does not normally issue people with multiple passports, but my University wrote a letter in my support (more exactly, I drafted the letter and got someone senior to sign it for me) that evidently convinced the passport authorities that two passports would be justified in my case. Now that I travel less, and fewer countries require visas, I'm back down to one passport again.

During the 1990s CERT attracted, as a result of all our efforts, well over a million pounds of funding from various sources, mostly used to pay researcher salaries here and in our partner institutions, travel and hotel costs associated with visiting the countries where we were working, an administrator's salary, and some surplus for use in our School, with an overhead often going to the University as well. The projects we won were often quite complex to manage, with multiple partners across several countries. Moreover, different funders operated different funding rules and each had different reporting requirements, and all that had to be taken on board whenever we accepted a new award.

From the University's standpoint, there were two aspects of our projects that were of particular interest, namely the type of funder we were contracting with, and their expected overhead contribution. The reader might have expected that the actual research we did would also have been of interest, and to an extent it was, but it wasn't always at the top of the priority list - as I generally thought it should have been. For over two decades, now, UK universities have been subject to periodic research assessments, in which the quality of research done in each department or school (or unit of assessment, to use the official jargon) was evaluated by an assessment panel of experts in the relevant discipline (a process also called peer review). The evaluations were then used by our Funding Council to determine one component of each university's general funding. While research output, mostly in the form of publications, certainly contributed to this assessment, so did research funding, with funding from the Research Councils being especially highly regarded. The reason for this, I think, is that Research Council funding for research is extremely competitive, so success in winning these grants is likely to be positively associated with the quality of the actual research to be done.

Hence the fact that I was awarded two large Research Council grants during the 1990s (summing to over £300,000 of funding) for work on the transition economies was highly appreciated by the University, while the numerous other awards were rather less appreciated. Both the Research Council awards involved collaboration with other UK partners and with partners in the countries we had agreed to work on, and both gave rise to lots of journal articles and project books. Success in winning other grants was not so highly regarded because it counted for less in the research assessment process.

Overheads were the second aspect of our projects in which the University took a close interest. As it happens, the Research Council projects were also good on that criterion, too, since the Council paid the University an additional 45% of approved salary costs on top of the basic grant, to cover institutional overhead costs. Moreover, no special accounting or reporting was needed to get that money. Although one could argue that even 45% (which later became 46%) wasn't all that generous, it was a lot better than most other funders would pay. Thus EU contracts usually only paid 10% (for a partner) or 20% (for a project co-ordinator) of approved costs as an overhead, and many funders paid nothing at all, since they took the view that universities' basic grants should be sufficient to cover their normal overheads. As funding conditions in universities became tighter and tighter after the early 1980s, this assumption was decreasingly valid. In fact some universities reached the point where they would not allow staff to accept research projects that offered too little in overheads (Heriot-Watt never did this). However, some projects were in practice financially better than these remarks imply, in that we were allowed to include some days of our own time into the project costs - generating consultancy income that mostly added to CERT and Heriot-Watt cash flows, rather than boosting my own personal income - whereas Research Council grants assumed then that our salary costs were already paid (this rule has changed recently, as universities have moved into a new research costing regime). So at times, projects offering low overheads could still yield significant extra income for the institution.

In principle, Heriot-Watt, like other UK universities, preferred the research and consultancy projects undertaken by its staff to be set up and managed through a proper contractual arrangement. For our Research Council awards this was always the case, and for our EU research grants under various programmes there were also proper contracts between the funding body and the University. However, much of what we did was much less formal than this implies, and some of the informality was neither well understood nor greatly appreciated by the University - nor always by me either, for that matter.

For instance, the first two pieces of work I did for the EU, in 1990, were done before our centre, CERT, was properly established, so I handled the contractual aspects personally. What this actually meant was that there was a meeting in Brussels (referred to in Chapter 2) at which it was agreed that various background papers on the transition economies would be prepared; we were told roughly what the fee would be, and were advised that the EU's legal section would in due course contact us with contracts, including full terms of reference covering the agreed work. The papers were needed quite quickly, so we wrote them as agreed, then some months later (!) a contract arrived, and a few months after that payment finally reached us. In other words, the work was completed many months before we even received a contract, let alone any payment. The second contract was worse than the first, since there was more money involved and I was using some of mine to pay for research assistance in Hungary, Czechoslovakia (as it then still was) and Poland. I paid my researchers as soon as they delivered their parts of the work to me, leaving me several thousand pounds out of pocket until the EU finally paid up a few months later. This experience, in which I suppose that my approach had been a bit naive, convinced me that I would do better to run my projects through the University. Thus it was one of the factors that led me to establish CERT.

Even so, other than the larger research projects, much of what we undertook continued to be governed by extremely informal arrangements, often just a phone call or an e-mail. The University didn't like this at all, as I suppose they were unsure what the implications were for such things as insurance (I still don't know the answer to this, and frankly don't care very much), and they probably wondered whether we would actually get paid for what we did (we always were). However, it generally seemed to me that, even if they might be slow and bureaucratic sometimes, the major international financial institutions (IFIs) like the World Bank or the IMF were hardly likely to renege on their obligation to pay us for what we did for them. The University, moreover, found it hard to accept that such organisations were simply not interested in setting up contracts between themselves and Heriot-Watt, since what contracts there were were not with the University *per se*, but rather with me or particular senior colleagues acting as individuals. Thus if I was unable to do a particular piece of work, an IFI would rarely look for someone else from Heriot-Watt to do it; instead, they would probably find someone from the other side of the world, from a different continent.

Especially during the 1990s, paying our research partners in the various transition economies was sometimes a real nightmare. The partners did work for our various projects and incurred additional costs for travel, running workshops, and so on; so naturally they had to be paid. But in many cases, especially for projects involving Russia or Ukraine, but also in some other countries, our partners were unwilling to receive payment through the banks in their respective countries. This was a little problematic for us, since the rules of funders like the EU and others often expressly stated that payment must be made through the banks, and sometimes we were even told which banks were approved for such purposes. However, the EU was often not good at choosing suitable banks, since several of the ones they recommended went out of business at various times. Thus it was probably fortunate that we acceded to our partners' requests and sought ways of paying them other than through their banks.

But before explaining what we did, it is worth pausing to consider why our partners were so united in rejecting bank transfers. There seemed to be several reasons. First, some partners simply didn't trust their local banks, fearing that payments would never arrive, might only arrive after several months' delay, or would be subject to large and uncertain bank charges. Second, they feared that transfers made in US dollars or Ecus (European Currency Units, now Euros) would be converted to the local currency, and that they would not be allowed to use the payments as a source of foreign currency, or not without huge penalties. For most of the 1990s, many transition countries still limited their citizens' ability to access foreign currencies (as the UK did as recently as the late 1970s). Third, partners feared that their employing institution - usually a university or a research centre - would get its hands on all the money if it was transferred through the banks, and use it for some purpose unconnected with our projects. Thus partners might not themselves get paid for their work, and their work-units might not benefit from any of our project funding. This simply reflects the lack of adequate accountability, and the risk of corruption, in some of our partner institutions - these were indeed very real issues. All in all, therefore, one can well understand partners' reluctance to use the official banking system.

To deal with this problem, I operated in the simplest possible, and probably the most foolish way that you could imagine: namely, I regularly carried a briefcase stuffed with US dollars (the most widely known and accepted currency in the region) on my trips into Eastern Europe, in order to pay project partners. Usually I carried under $10,000, occasionally rather more. While undoubtedly a bit risky, I simply couldn't think of any other solution. Luckily I was never robbed on these ‘payroll’ trips. On occasion, I did discuss this practice with the finance office of Heriot-Watt University, only to be told that I must ‘on no account’ do anything so foolish as to carry large amounts of cash on my overseas trips, especially as the University insurers probably wouldn’t cover any ensuing losses. But what else was I supposed to do? The partners needed to be paid, and I didn’t see why they should have to wait for months and months, for example until we next held a workshop in the UK. I did once also seek advice from the Foreign and Commonwealth Office, perhaps naively thinking that they might let me transfer money through the diplomatic bag. But there was no way they were going to allow me to do that, because if they allowed such a privilege to me, they would also have to grant it to hundreds of other people. And anyway, I expect there is some international agreement that prohibits the use of diplomatic bags for carrying out private financial transactions. Not surprisingly, the Foreign Office agreed with my University that it was ‘unwise’ to handle these payments in the way that I proposed. Who could disagree? But nobody had any useful suggestions about alternative means of solving my problem. It’s worth mentioning here that I was far from alone in employing this ‘crazy’ method of transferring funds to partners, as I was aware of several colleagues and acquaintances who did exactly the same thing. By now, though, the banks in the region are mostly functioning tolerably well and are somewhat more trusted, so there is no longer such a need.

To make these ‘payroll’ transactions as official as I could, I always carried out with me on my trips a bundle of pre-prepared letters. Everyone whom I had to pay was required to sign a letter confirming that some part of the agreed work had been done and that they had received the agreed payment for that phase; I then counter-signed, and the letters all went into our project files back home so that if Brussels (the EU) or other funders ever chose to audit us in depth, we would have all the necessary documentation to provide a complete ‘paper-trail’ of all financial transactions. These letters also provided some protection for me, personally, as it would have been all too easy for me to cream off something from each payment due to my partners, and there was no way I wanted to be accused of such gross dishonesty. As it turned out, we were never audited - but it seemed sensible to be well prepared.

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Examples of projects

There have been too many projects since 1990 to list them all here without risk of boring the reader, and in any event, a few have already been mentioned in earlier chapters. Here, therefore, I shall simply sketch the particularly interesting aspects of a handful of projects, including the associated travel. The selected projects involved: industrial policy in Hungary; statistical work in Moldova; a study of the CIS7; and a curious teaching activity involving North Korea.

Industrial policy in Hungary

The project on industrial policy in Hungary was part of a study being carried out for the OECD, jointly with an American colleague (Joe) and a senior official from the OECD itself (Helgard). At the time, the early 1990s, Joe was working as an advisor to the Czech government, so adding in some work on Hungary was not too difficult for him. In my case, I was already working on other projects involving Hungary and was visiting the country frequently, so the extra work for the OECD could be fitted in quite easily, needing only a couple of extra trips to Hungary and one to Paris. The starting point for the work was a massive document on industrial policy that Hungary's Ministry of Industry had just published. As a survey of industrial policies that could be found around the world it was surprisingly comprehensive, since it included practically everything that Joe and I had ever heard of. But such a document is no guide to serious, practical policy, since by recommending everything, it effectively recommended nothing, and offered virtually no useful advice regarding the appropriate industrial policy priorities for Hungary. Hence our task was to review what was happening 'on the ground' in Hungary, and then come up with much more focussed advice, drawing on our wider experience around the world, that would offer a more coherent direction for Hungarian policy.

As we discovered when talking to senior staff in the Ministry of Industry, Hungary was already actively preparing for EU accession - even though formal negotiations would not even start until 1998 or so - by incorporating parts of the EU's legal and regulatory framework (the so called *acquis communautaire*, or simply the *acquis*) into Hungarian economic practice. Some of the regulatory changes were quite costly for Hungary, and we thought that they might be rushing too quickly to adopt and enforce new 'rules of the game', but I suppose the country was determined to demonstrate its commitment to the EU, a stance that evidently paid off since Hungary was one of the countries that became full members in May 2004.

Aside from these talks in the Ministry, I was able to take an extensive tour into north-eastern Hungary to visit two places where there were interesting projects relevant for industrial policy, namely Nyiregyháza and Miskolc. This tour took place in early Spring, and as we drove through small villages on the way, I was delighted to notice quite a few stork nests, and eventually even some storks. These wonderful birds build their nests in the tops of trees or on poles carrying telephone lines or electric power, sometimes also on roof-tops, including - riskily one would think - on chimney-pots. I have read that in areas where agriculture is over-industrialised, with too many weed-killers and pesticides being used, storks are no longer to be seen. So it was reassuring to see them as we travelled east across Hungary. Nyiregyháza is a medium-sized market town, the county town of its district, supporting the region's agriculture by providing inputs and diverse services. Some of it looked quite shabby and neglected, but the central areas were very attractive. But I must re-visit the place sometime, as I never had time back then to look at the old churches and other interesting sights, and I imagine that a lot of restoration and repair work has been done since my visit.

Rather than looking around the older buildings in Nyiregyháza, our goal was to visit an enterprise that operated as a so called *incubator unit*, providing space and other support to enable new small businesses to establish themselves. The idea was that once a new business had been up and running for a couple of years or so, it would be expected to 'graduate' from the unit and find new premises for itself, thus making way for other new businesses to get support in their turn. The hope was that some of these firms would then grow to become the big firms of the future. Incubator units are a fairly widely used tool of industrial policy, and can be found all over Europe and in many other parts of the world. Usually they are established in places where many jobs have been lost through the decline of traditional heavy industry, though that didn't really fit the situation in Nyiregyháza. Nevertheless, the incubator unit was doing good business, with all its space occupied by diverse new firms. We spoke both to the incubator unit management, and to various people from the individual companies using their space. I found this project hugely impressive, for two reasons: the quality of the individual new businesses; and the contrast with what I had seen back home in Scotland.

On the quality point, what was especially striking was that these businesses were being run by highly energetic, well educated, and hard-working individuals. Most of the firms were surprisingly high-tech in character, and most, despite only being a few months' old, were already exporting goods and services to customers in neighbouring Slovakia and Ukraine, and sometimes to other countries. On the Scottish situation, I had visited equivalent operations in Central Scotland on several occasions, most of the units I had seen proving profoundly depressing. The Scottish firms were mostly very low-tech outfits, with poorly qualified staff and managers, and with a very narrow perspective as far as their potential markets were concerned; most thought they were doing well if they managed to sell something in Edinburgh, let alone further afield such as down in England. Thus what I saw in Nyiregyháza could hardly have offered a greater contrast with Scotland, and very much to Hungary's advantage.

However, the next part of our trip was a good deal less impressive. We moved on to the large industrial town of Miskolc, not an especially beautiful town it must be said. There indeed, heavy industry like steel making and heavy engineering was in decline, unemployment was high, and we visited a local technical college that was running retraining programmes for the workers displaced by industrial decline. Such programmes can be found wherever major industries are in steep decline, and in most countries governments introduce them at least in part so that they can be seen to be 'doing something' about the resulting structural unemployment. Unfortunately, experience in many countries shows that these schemes are rarely very effective. Why might this be so? One problem is that we usually have no idea what types of jobs will be available in the future, and this makes it extremely hard to design good training programmes - for the danger is that we end up with lots of people trained in skills that are no longer much in demand. Generally speaking, governments are quite bad at this sort of manpower planning. A second problem is that when new jobs are created in an area like Miskolc, most of them tend to go to younger people or to women. The sad truth is that the mainly middle-aged men who have lost their former jobs in heavy industry rarely find new jobs that offer the same income and social status that they used to enjoy. This is not a special problem for Hungary, for it was just the same in the UK. For industrial policy, what it suggests is that spending lots of extra money on retraining schemes might not be a good use of public money. Thus while it would be unkind to suggest that the Miskolc retraining scheme was especially bad, it certainly did not appear to be placing many of its 'graduates' into new jobs. If these schemes don't work, though, governments need to ensure that these displaced workers at least receive adequate social benefits and income support.

In the end, our advice to Hungary was published by the OECD (following a round of discussions with the Ministry of Industry to ensure that our findings were at least 'acceptable'), and our team made a final visit to Hungary for the official launch of our recommendations. This took the form of a press conference at which TV cameras were also present, so I imagine what we had to say appeared on the Hungarian TV news. Unfortunately, I was unwell for the launch, and only just managed to attend it and answer a couple of questions before rushing back to the hotel to spend the rest of the day in bed, feeling quite feverish and sick. In all the time I have been in the region, that was almost the only occasion when I was ill, and even then I recovered quite rapidly without the need for any medical attention.

Statistical work in Moldova

One of the projects that my research centre worked on in the late 1990s was an EU-funded venture to assemble statistical data from various ministries and other sources in Moldova, in order to enable our team to produce a monthly publication called Moldovan Economic Trends. The rationale for the project was the then quite poor coordination between the different government ministries and agencies in Moldova, including the Statistical Office itself, with the result that what economic statistics were published were often late and sometimes not well prepared in terms of their economic methodology. Our publication, thus, was supposed to pull together data from diverse sources, make sure that it accorded as far as possible with the relevant national accounts conventions, and make it available regularly to government, the academic community, and the various external bodies that provided aid to Moldova. Aside from the publication of data, we also wrote special articles on various aspects of Moldovan economic policy (e.g. I wrote on energy pricing as well as on privatisation) and provided economic and statistical training both to our own project staff and to ministry officials. Our reports came out in English and Moldovan (Romanian), sometimes also in Russian.

The project was based in a couple of large offices in the Ministry of Economy, located on the Stefan cel Mare Boulevard in the centre of Chişinau, and our staff consisted of a UK national employed as the local project manager (or long-term senior resident expert, as the EU likes to denote such positions), plus a team of eight or so Moldovans comprising economists, administrative and secretarial support, an IT specialist, and a driver/technician. I was the overall project leader, running the operation from Heriot-Watt University, and providing periodic activity and financial reports to Brussels. This responsibility required me to visit Moldova several times during the two years (1997-1999) over which we ran this contract.

Mostly these visits went well and I would typically spend a day or so dealing with office business, then meet senior Ministry staff, sometimes one of the Deputy Ministers, visit other related projects, do some staff training, and sometimes visit other pars of the country, essentially just to get to know the place better. Our staff were enthusiastic and hard-working, and the local manager was doing a good job. One planned visit was a total failure, in that I got as far as Budapest only to find that my connection from there was over-booked and my reservation was not confirmed. The next flight was in three days' time, not much use for the business I had in mind, so I simply caught the next flight from Budapest back home. The university travel agent eventually acknowledged that they had not confirmed my connecting flight properly, so they reimbursed us. But flying to Budapest and back in a day, and doing nothing useful or interesting while there was not exactly my preferred way of passing the time.

One of the aims of this project was to Moldovanise it, in other words to make it fully self-sufficient, no longer needing the support of 'foreign experts' and EU funding. But this was no quick and easy task, and after completing one contract we persuaded the European Commission to fund us for a further period so that we could do more training and prepare our 'team' for a gradual transfer to Moldovan management. However, we then quickly ran into serious problems with the Moldovan authorities. Specifically, we gathered that the Minister wanted us to 'remove' our local team leader so that she could be replaced by a Moldovan - but it turned out that the person proposed was both related to the Minister and quite poorly qualified for our position. And in any case, we were not prepared to fire our existing team leader without good cause. After seeking advice from Brussels, who merely told us that running the project was our responsibility, we finally concluded that this persistent pressure from the Minister was unacceptable, and we withdrew from the project completely. This move no doubt cost my university a significant amount of money, but it seemed to me that we were being put into an impossible position that left us little choice. Thus the Moldova project ended on a distinctly sour note, unfortunately.

A study of the CIS7

The CIS7 Initiative was formally launched at a ministerial meeting in Washington, DC, held in April 2002. At the time, it appeared that many of the poorer members of the Commonwealth of Independent States (CIS) were reforming slowly and performing quite poorly, with income levels still massively lower than they had been back in 1990 according to official statistics. Hence with support from Switzerland, the World Bank and IMF established the Initiative, with a view to providing additional support to the seven selected countries from the CIS, namely: Moldova, Armenia, Azerbaijan, Georgia, Tajikistan, Kyrgyzstan and Uzbekistan. The countries are rather diverse, to say the least, and don't exactly fit together well as a single group. But the Fund and the Bank wanted to improve their understanding of the countries to enable them to develop more effective support strategies. With that goal in mind, the Fund planned to hold a major international conference on the CIS7 in Lucerne, Switzerland, in January 2003 at which papers on the economics and politics of the region would be presented. I was one of the people asked to contribute to this meeting, my paper being on the theme of 'Institution Building and the Role of the International Community'.

To prepare for the conference, the Fund organised a one-day meeting for all the speakers. This was held at the Fund offices in Washington, DC, in September 2002, and provided an opportunity for preliminary or draft versions of the various papers to be discussed, and the conference programme finalised. My wife, Cindy, always regards meetings like this as totally insane, and in a way that is not an inaccurate judgement. After all, in this case people came into Washington from all around the world, including from Manila (the Asian Development Bank), various parts of Europe, Central Asia, and so on. Tired after our long journeys, we then spent about ten hours at the Fund on the day of the pre-conference meeting, agreeing various detailed issues for the Lucerne Conference. A few people then stayed on for further meetings, but most simply flew straight back home.

Since Cindy loves Washington, she had a good day being a tourist while I was at the Fund. We had arranged to stay in the US for a few days after my meeting, partly because Cindy travels very badly (unlike me) and couldn't face another long flight so soon after the first one; and partly because Cindy's sister, Mandy, lives in New Jersey, and we had decided to drive up there for the weekend before coming back home. So the day after my meetings we headed north-east, going up through Baltimore and Philadelphia, then across to Clinton, New Jersey, a delightful little township about an hour due west from New York City. Mandy and her family live just outside Clinton, on a small farmstead where they care for about a dozen rescued horses and donkeys. After a relaxing weekend, we took a different route back to the airport in Washington so that we could visit, on the way, the Civil War site, Harpers Ferry, the old township being in West Virginia at the junction of the Potomac and Shenandoah Rivers. The place was fascinating, but we then slightly mis-judged our timing and only just got back to Dulles International Airport in time for the flight home.

The January conference in Lucerne was one of the very rare occasions when Cindy and I have managed to stay in a top quality hotel, this time courtesy of the Swiss Government, since much of the funding for the CIS7 Initiative came from the Swiss aid budget. We flew out by British Airways via London, and on to Zurich, from where we took a train to Lucerne. But at Zurich our luggage unfortunately failed to arrive, and we had to leave without it - this was rather alarming, as we had travelled in very informal clothes, including jeans, and all our smart things were in the suitcases. The conference opened with an official reception and a formal dinner at another of Lucerne's top hotels, but we gave it a miss as we judged that we were simply too informally dressed for such an event; we just had a quiet dinner on our own at a small restaurant along the road from the Palace Hotel. Next day, still no sign of the luggage, so I attended the first morning sessions of the conference still in my travel attire, and Cindy joined us for the official lunch at which George Soros gave a talk on the transition economies and the financial support they needed. Finally, in the first main afternoon session, I had to present my own paper. I did so wearing jeans and a checked shirt, the only male not wearing a suit. This did have the merit that I was extremely recognisable, and a few people even came up to me at the tea break to remark that they wished they had had the nerve to dress similarly. Since Cindy was the only woman there in jeans, she, too, was recognised as my wife. So quite possibly our unconventional dress helped us to meet a few folk.

Luckily, by late afternoon, our luggage was finally delivered from Zurich, so we could dress properly for that evening's second formal dinner. This took place on a boat that motored along Lake Lucerne and was a lovely, relaxing occasion, the boat stopping at one point for us to listen to a performance of Swiss alpenhorns just on the shore of the lake. After another day of presentations and discussion, the conference concluded and everyone dispersed. Afterwards, the Fund did publish a few of the conference papers - though not mine as I suspect I was too critical of some countries, and offered policy suggestions that didn't go down well. This is always a problem for an outsider like me working for the Fund. On the one hand, they bring me in because they think I can say things that they could not (for diplomatic reasons); on the other hand, when I do say these things, they're not too pleased. It's a difficult dilemma.

So what happened to the CIS7 Initiative after the conference? Well, there were a few more events, such as a workshop on social sector reform and another on financial sector issues, but the Initiative seems to have quietly faded away. Most likely this was quite simply because most of the countries of the CIS7 are now growing quite fast, so their situation no longer seems either as urgent or desperate as it did. This is good news, even though we don't fully understand why the recent improvement in the region's economies came about.

Teaching about economic reform to North Koreans

Although this 'project' only involved one day of my time (plus some travel and preparation time, naturally), I couldn't resist including it here as it seems so bizarre - it also proved to be unexpectedly interesting. As many things do nowadays, this project began with an e-mail from a training organisation based in Geneva. The organisation was inviting me to come to Geneva for a day to contribute, along with one of my colleagues from Heriot-Watt, to part of a two-week training programme they were planning to run for middle-level and senior North Korean officials. I have never been to North Korea, nor particularly studied their economy, at least not in any depth; but I was aware that their economy was performing very poorly and that agricultural mis-management had created famine conditions in some recent years. So it was good to have a chance to meet some of their officials, as much to learn from them as to teach them. Much of the training programme was on public administration, but we were asked to talk to the group on economic reforms, drawing on our experience of the transition economies. Naturally we agreed. The course was set for September 2004, and between us we accounted for just one full day of the programme.

A few days before flying out to Geneva, I learned that the programme had suddenly hit an unexpected diplomatic crisis. Apparently the North Koreans had gathered that we planned to talk about economic reforms. As a result, the training organisation's director was summoned to the North Korean embassy in Berne, and was 'informed' that we must on no account talk about economic reforms, as that was a 'forbidden topic'. However, the training programme was funded by the Swiss government, as part of their aid programme; and they were equally adamant that we must discuss reforms. So what should we do? In the end we reached what I suppose is a fairly standard diplomatic compromise - the sort I'm normally not very good at - namely that we agreed to change some of the wording in our presentations so that the term 'economic reform' was replaced by the evidently more neutral and acceptable term, 'economic change'. That's all we did.

Following this fracas, though, it was with some trepidation that I finally went out to Geneva, wondering what on earth I had let myself in for. In the event, the day turned out to be enormous fun. There were just over a dozen North Koreans from various departments and ministries, all very bright and with pretty decent English, and once we started discussing 'economic change' there was no stopping them. They had lots of questions and were enormously interested in many aspects of the reforms experienced in the transition economies since 1989. Moreover, they were clearly quite unconcerned about the term 'economic reform', so we concluded that this had been a concern manufactured by the group's political minders. This is not unlikely as the host organisation told us that their 'minders' maintained considerable control over the group, keeping them together and under supervision at all times. In fact it had only proved possible to separate the group when an exercise was set as part of the official programme, involving individuals walking around Geneva to study selected prices, then reporting back to the whole group later. Only then did the 'minders' relent and allow the North Koreans to wander around Geneva on their own. It must have been quite a culture shock for them!

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Workshops in interesting places

The same EU-funded project on economic modelling of Hungary and Romania, mentioned above in the discussion of hotels and restaurants, held one of its workshops in the Poiana Brasov skiing area in Romania. This is situated in the hills that start to rise just over an hour's drive north of the capital, Bucharest, and not far from the old market town of Brasov. We held our workshop at one of the resort hotels, where we also stayed. General conditions were certainly satisfactory, though not at all luxurious. Being early March, outside temperatures mostly stayed at or below freezing, and the ski slopes were quite busy. None of us had come prepared to ski, though one afternoon we did venture out for quite a long walk around the edge of the main skiing area, taking care to avoid the skiers. The views were wonderful, and the cold, fresh air a welcome respite after many hours of rather technical economic discussion.

On the second evening of the workshop, we were told that we would be having dinner at a local restaurant, just a few minutes' walk from the hotel. The walk was a bit further than we expected, and a bit trickier due to the newly frozen ice on most paths, but we managed. On approaching the restaurant, we saw that a barbecue was being prepared just in front of the entrance, and I found myself wondering, 'what clowns could be thinking of having a barbecue in such intense cold?' The answer turned out to be us, but fortunately the barbecue was just being used to provide a modest starter, consisting of pieces of meat and sausage accompanied by some Romanian brandy. Once we had sampled everything, while keeping close to the fires for warmth, we went into the restaurant and enjoyed a traditional Romanian meal - a great success.

One afternoon in the middle of the workshop we took a break to go down to Brasov itself, had a short walk around the town centre in the lightly falling snow, and were then taken further to a narrow pass in which the legendary Dracula's castle was to be found. This is actually Bran Castle, not far from Brasov, a castle founded by the Teutonic Knights in the early thirteenth century. But later it was indeed one of the temporary residences of Vlad the Impaler (Dracula), and nowadays the castle is visited by many who have read the modern story of Dracula, even though there is no actual connection between the real and fictional versions of the story. As in many other places, tourist organisations are good at exploiting any link or myth that might attract more visitors - and at the end of the day, who really cares whether the tales are true or not?

For one workshop, the same project linked up with another to which our Hungarian partners were also contributing, and the resulting joint workshop was held in Bulgaria, at a lodge in the mountains not far south of the capital, Sofia. This was on the edge of the Vitosha skiing area, a resort area that has good snow but where the facilities have suffered from a good deal of neglect. Some of the ski-lifts and tows not very far from our lodge were rusted and broken, for instance. However, this was the mid-1990s, so by now conditions could well have been much improved. It was early Spring, so there was still a lot of snow on the peaks and higher slopes.

On arrival we had a little time to walk around the central parts of Sofia, an attractive city that seemed very undeveloped, and visibly lagging behind the countries of Central Europe in terms of its commercial development, modernisation, and so on. One could argue at length about whether that was a 'good thing' or not, but what it reflected was divisions in the then government, delays in promoting economic reforms, and some very poor macroeconomic policies that eventually gave rise to a major economic crisis in 1997/98. Since then, reforms have progressed more rapidly, and from January 2007 the country has been a full member of the EU, along with Romania.

The workshop itself ran smoothly, and our Bulgarian hosts took excellent care of us, with plenty of tasty food, and probably a little too much alcohol - albeit including some really good wine. Partly because of this 'excess', I suspect, when the workshop came to an end I was ready for some fresh air and exercise. As it turned out, we had a free morning before we had to go into Sofia to catch our various flights home. Down at the lodge it was quite cold and a bit misty, but despite that, I elected to go for a walk up the mountain above the lodge. No one else from either of our projects wanted to accompany me, so I walked alone - most probably my colleagues thought I was a bit crazy! Needless to say, I had no map or compass, and not very suitable clothing other than some fairly sturdy footwear. But I have a very reliable sense of direction and rarely get lost, so took the view that I would manage, and get back to the lodge in time for our departure.

At first, I ascended through thinly wooded slopes, mostly covered in mud or gravel, with only the odd patch of snow. For part of the way, my route took me past one of the derelict ski-tows. Gradually, the trees thinned and disappeared, there was more snow on the ground, and the mist also thinned out. Suddenly I came out of the mist into unexpectedly bright sunshine, the brightness intensified by reflections from the snow that was now all around me - it was surprisingly warm, and completely still. After climbing a little further I came out onto a broad, snow-covered plateau, and soon found a trail running across it, marked by boot-prints and indentations from skis. There was no one to be seen, and it was incredibly pleasant to be all alone in such a startlingly beautiful place - however, the views down were not too good, as the lower slopes were still misty and it was impossible to see very far. As I walked over the plateau, I caught sight of another walker away in the distance. Gradually, as the walker approached me, I realised that she was wearing very little - in fact just a fairly skimpy bikini, and boots. This wasn't quite what I had expected, as many of the women we had seen down in Sofia had been older, peasant women, often rather plump as a result of their traditionally heavy diet. But the younger women were evidently very different, delightfully so!

Eventually, it was time to head down, so I re-traced my steps and tried to find the route back down the hill. From the edge of the plateau I couldn't see the lodge where I had started, but I could see the top of a rusting ski-tow, so I headed for that. It wasn't the same one I had passed on the way up, but it was in the right area and I soon found a way across the hill and back down to the lodge. For me, the walk had been a perfect end to an interesting few days in Bulgaria. My colleagues were just starting to wonder where I might have got to when I re-appeared, so all was well. Thereafter, we all took a coach to the airport, and went our separate ways.

Vodka and Pickled Cabbage by Paul Hare

In the early years of this decade, I worked with some colleagues from the University of Greenwich, assisting them with a project funded by the UK's own government department concerned with aid, namely DFID (Department for International Development). The project concerned the Non-Farm Rural Economy (NFRE), and was about the types of non-farming jobs that people living in rural areas did, and about finding ways of stimulating the creation of additional jobs in rural areas. In some ways it was a strange project for me to be involved with, since I know next to nothing about agriculture or the rural economy. However, I had worked with some of the Greenwich people before on other projects, and they evidently thought I could provide some helpful advice on such things as survey design and policies for small business support.

Three countries were studied, namely Romania, Armenia and Georgia, and our partners in each country carried out detailed surveys of several hundred families living in selected areas so that we could study the patterns of NFRE activity, and hence - we hoped - design better policies to support it. For most of the project, my role was quite small, little more than some support in preparing background papers for the research, advising on the survey methodology and design, and attending a couple of interesting project workshops at the University of Greenwich. These took place in the University's lovely old buildings beside the Thames, not far from the Greenwich Observatory, and were a good opportunity for me to meet the project partners from the countries we were studying.

The closing workshops for this project took place in Spring 2003 in Bucharest, Romania; and then Yerevan, Armenia. For me it was a really mad week, with seven flights in six days, and two very intensive workshops. Since I had agreed to write up the final workshop reports, I had to listen to everything and take careful notes. In addition to that, I chaired some workshop sessions and also contributed to the discussion in others. We found that NFRE activities were an important source of income for many rural people, often motivated by 'distress push' - in other words people participated because they had to in order to survive, rather than because they were positively attracted by the great opportunities on offer. Access to the local urban job market was often attractive since wages there were usually far higher than rural wages.

There is nothing of interest to say about the Bucharest part of the trip. The workshop was well organised and well attended, and when there were spaces in the programme I took advantage by wandering around parts of central Bucharest to see how the place was looking. Being late winter/early spring, many places still looked quite drab and dull, but I enjoyed seeing Bucharest again after a few years' gap.

But the Yerevan workshop was something else again, not least because I had never been to Armenia before. We arrived on a flight from Bucharest late one evening, were met at Yerevan's airport, and then took a truly hair-raising ride into our hotel, the Hotel Yerevan, right in the centre of town. Our driver seemed to know where all the pot-holes were, and drove a very erratic - and at times quite alarming - route to avoid them. The poor street-lighting in places along the way seemed not to bother him at all, and we arrived safely. The hotel was very welcoming and friendly, with good facilities, so in that respect we were well set up for a pleasant stay. It had a large, open atrium inside, giving a wonderful feeling of space and light to the visitor. The workshop took place in the same hotel, with translation provided between English, Armenian, and Georgian.

Before the trip, I had attempted to get to grips with the Armenian alphabet so I could at least read some of the signs around town - but I failed completely, and concluded that perhaps I was getting too old to be learning new languages. Luckily, it turned out not to matter too much. The alphabet, however, is interesting, having originated in the early fifth century AD, and allegedly being drawn from the Greek alphabet, though as far as I could see the only resemblance to Greek is in the ordering of the letters. The alphabet was created to replace an older writing system based on Babylonian cuneiform, and was developed to enable the Bible to be translated and published in Armenian; this was done by around AD405. Armenia was actually the first country to declare Christianity its official state religion, in AD301 (thus even earlier than the Roman Empire under Constantine, which officially adopted Christianity in AD 313).

Yerevan itself is an old city, with the first known fortress established near the site of the modern city over 2,700 years ago. However, the city, indeed the whole country, has had a tumultuous history, passing under the control of many of its neighbours at various times, including the Eastern Roman Empire, the Persians, and many others. The destruction wrought by many conquests has left little of the old city other than archaeological remains. The present-day city is mostly relatively new, and mostly not especially attractive aside from the numerous trees that make it a very green city. The most impressive buildings are museums, government buildings and - according to one tourist website I saw before going - one of the new metro stations. However, when I walked past the last of these, it was basically a massive, grey concrete structure, big certainly, but not very beautiful!

For most of the time that we were in Yerevan, it was raining or drizzling, which made the city look grey and dismal, an appearance not helped by the poor quality of most buildings and streets even in the central areas of the city. Basic maintenance must have been neglected for decades, and in the early post-communist years there really wasn't any spare cash for such things; hopefully, now that the economy is growing again, that will gradually improve. From a very low base, the economy has actually been growing fast for almost a decade now, so the prospects appear quite promising now. Unfortunately, with such heavy cloud we were unable to see the snow-covered Mount Ararat that should have been visible from the city.

Despite its packed schedule, and occasional problems with interpretation, the workshop itself went unusually well, attended by 50-60 people, mostly from Armenia and Georgia. None of the political problems between the two countries were allowed to get in the way of serious dialogue both on the economic research we were there to conclude, or on the related policy implications. By promoting such dialogue, and by fostering good quality economic and social research on rural areas, I think our project made a valuable contribution. Needless to say, we also hoped that it would start to change the way in which the two governments thought about their rural policies, encouraging them to find new ways of supporting non-farm rural economic activity.

Last, we return to the Kazakhstan energy policy projects mentioned in an earlier chapter, so that the workshops held in Astana can be described. Our team ran workshops on energy strategy and related topics in Astana, the new capital of Kazakhstan, in February 2004 and March 2005 (the name Astana simply means 'new capital' in Kazakh). On the latter occasion we also held a one-day technical training course in the Ministry of Economy to introduce ministry staff to the economic modelling and projection techniques we were using in our work. The workshops and training activities seemed to be appreciated, and our network of contacts in the country, both official and academic, had developed to the point where it was clear that further research and policy advice by our team would be welcomed. So it was a pity that when our second project officially ended, the UK's Foreign and Commonwealth Office declined to provide further financial support. Personally, I never fully understood why the FCO funded us in the first place, though I suppose the UK does have a general interest in the energy policies of major energy producers such as Kazakhstan. But having decided to fund us, I found it even harder to understand why the funding stopped. Quite possibly there was simply a change of personnel at FCO in London, or a shift in their research priorities, as that's all it takes.

Astana itself is located just under 1000km (about 600 miles) to the north of the old (Soviet-era) capital, Almaty, in the middle of a huge wind-swept plain. This sounds a long way for a capital to move, but one needs to bear in mind that Kazakhstan is about the size of Western Europe, so it is only like moving the capital from Edinburgh to Frankfurt, or from London to Milan. Kazakhstan also contains very few people, just over 15 million or so, so most of the country is practically empty as compared to Western Europe. Old Astana was a modest provincial town on the right bank of the Ishim River, with many Russian-style office buildings, factories and houses, and a population of around 250,000. Since becoming the capital in 1997, the city has more than doubled in population and continues to grow rapidly, most of the new development taking place on the left bank of the Ishim. As one arrives in

Astana, the most noticeable feature of the city is the huge number of massive, tall cranes on the numerous construction sites where office blocks, new government buildings, and new apartments are being put up at an amazing rate.

In the new main square, the Presidential Palace is on the southern side, the Ministries of Finance and of Economy and Budget Planning to the north, both in impressive new buildings. The new Palace bears some resemblance to the US capitol building, except that its dome is blue that shines in the sunlight; the Ministry building is also blue, and is often referred to as the 'blue dollar' as its shape (as viewed from above) is quite like the US dollar sign.. Our meetings were held both in the Ministry of Economy itself, and at the offices of other organisations such as research centres, located nearby. During both our visits to Astana there was lots of snow piled along the street, though all roads were completely clear, as were pavements and most paths across the squares; in places, however, it was quite icy and treacherous. Temperatures were generally in the range -10 to -20 degrees Celsius, so fairly cold. But the dry air made the low temperatures easier to cope with than they would have been at home, and we were lucky to visit Astana at times when there was little wind. In any case, I like such conditions, though one evening it was hard to remain outdoors for long as I could feel parts of my face quickly starting to freeze and my breath froze on my beard.

On the first visit to Astana we had a break in the middle of the day and went for lunch to an old restaurant that served traditional Kazakh food. The restaurant itself was nice but nothing especially wonderful, but outside it I had my first ever sight of ice sculpture. This is a feature of Astana in winter, as once it gets cold it stays cold for several months, and this makes it worthwhile constructing the sculptures. The sculptures are made from rectangular chunks of ice about the size of normal bricks, and they were made up into simple structures like a wall, but also into more complex models, such as a large person, and a bear. Later, when our formal business for the day was over, we elected to walk some way across town to an unexpected feature of Astana, an English-style pub that turned out to have an old red BT telephone box just outside it, not far from Republic Square. Our plan was to meet there some people working on another technical assistance project.

Getting to the pub proved to be a novel experience, as urban walks go. We first made our way to the banks of the Ishim River. The river was frozen, and covered in deep snow, and in the snow we could see tracks where trucks and cars had driven along the river. Clearly, as in much of Russia, rivers become roads in winter. There were also quite a few people walking down the middle of the river, and we then did the same. Wherever possible, we tried to follow existing tracks in the snow, as none of us had heavy boots on and we didn't want our shoes to get too full of snow. We walked around a huge curve in the wide river, eventually coming back out onto the river-bank beside a line of colourful new apartments, some finished, some still under construction. Where we came up there was also an impressive bronze statue of a former governor of the Astana region, mounted on his horse, overlooking the frozen river.

What was really striking about these apartments, as indeed about most of the new buildings we saw in the city, was their high quality. Astana is clearly not going to be another Soviet-style city thrown up in a hurry, using shoddy materials and poor designs. Quite the contrary, the country's President, Nursultan Nazurbaev, seems determined to make Astana a showplace for the Kazakh nation, and is employing many internationally known architects to produce some truly stunning buildings. Since the economy has lots of oil (and some gas) and has been growing at around 10% per annum for some years (even faster than China), it appears to be able to afford this very impressive new capital city without causing great strain elsewhere.

Wherever it happens, rapid development like this always has its detractors. There are understandable concerns about how the Kazakh people themselves are coping with the pace of change in their country, and this is very hard to assess for an outsider like me. More generally, studies around the world suggest that possessing natural resources is not conducive to rapid economic development - resource-rich countries grow, on average, more slowly than do resource-poor countries. Most likely this is because natural resources provide ample and very tempting opportunities for corruption by state leaders, and also tend to reduce democratic accountability as the government has less need to raise taxes. One only has to look at Nigeria, Angola and Venezuela to see that oil wealth is no guarantee that a country will perform well economically. But there are exceptions, too, such as Norway with its oil and gas, Finland with timber, and Botswana with diamond mining. Given its recent performance, and the determination of the government both to maintain prudent macroeconomic policies while fostering rapid growth, one hopes that Kazakhstan will join the ranks of the successful resource-rich countries. Undoubtedly the country suffers from some corruption, but thus far on nothing like the scale of the failing countries mentioned above.

Returning to our walk, we continued along the snow-lined street beside the new apartments, and eventually came out into a large open area, in one corner of which was the English pub. It was quite a surprise to find such a place in downtown Astana, and it provided a welcome chance to relax at the end of a couple of very busy days. Later, as it got dark, we had to head back to the hotel, pick up all our bags, and go to the airport for the Air Astana flight back to Almaty. En route, we approached a park decorated with multi-coloured lights. As we got closer, we realised that the lights were actually decorating huge ice sculptures, so we stopped briefly to take a look. There were small castles made of ice, plus models of well known buildings like the Eiffel Tower and the Taj Mahal, and the whole park was edged by a low ice wall. A fascinating way to end both our winter visits to Astana.

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Research and Aid

Many of the projects related in earlier chapters and in this one were pure research, in the sense that their aim was solely to understand how given countries were functioning, how their economies were performing, and what factors were helpful in the process of transition to a market-type economy. There was a lot to learn, and for some countries there still is, as the sudden shift from plan to market was a far more radical change than anything we have experienced in most developed western countries in recent centuries. The 'output' of this part of the work was the standard mix that academics everywhere produce, namely articles for journals, workshop and conference presentations, and the occasional book.

A lot of what we did, however, came under the general heading of 'aid', or more exactly the 'technical assistance' part of aid. Most of the aid that flows to both the transition countries and to developing countries takes the form of funding for specific investment projects (e.g. building new schools, or a new port, and the like), and that was not our business at all. But underlying most investment project finance there is usually a variety of economic studies to assess what is needed in a given area, and a good deal of our work contributed to these background studies. Some technical assistance also takes the form of policy advice, and several of our studies were funded by various bodies to enable us to formulate such advice. It certainly doesn't follow that our advice was always either guaranteed to be 'correct', or even if it was, that the recipient government would necessarily pay much attention. We hoped, though, by working with officials in the countries we studied, often quite senior officials, that we would help to change ways of thinking about economic policy issues, and hence influence policy more gradually. Whether we succeeded at all, only time will tell.

Chapter 9. Return to Europe

EU Enlargement

Strictly speaking, EU Enlargement - in the sense of incorporating into the EU some of the former communist states of Europe - began in July 1990, with the reunification of Germany. By becoming part of an existing member-state, the former East Germany automatically became part of the EU, in a manner that imposed a massive economic, social and political shock on the East, and a huge fiscal burden on the West. While politically probably inevitable, the experience of German reunification does not, in my view, suggest that rapid accession to the EU might have been especially desirable anywhere else, despite the complaints from politicians and others that the accession process took far too long. In fact, for the first batch of the other countries the process took almost fifteen years.

Thus on May 1st 2004, there occurred one of the most momentous and historically significant events in Europe's turbulent 20th century history. This was the accession to the European Union, as full members, of eight of the former communist countries of Central and Eastern Europe. The countries concerned were (taking them, more or less, from north to south): Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary and Slovenia. Just two-and-a-half years later, on January 1st 2007, two more countries from the region became full members of the EU, namely Bulgaria and Romania. Further countries are currently engaged in negotiations for membership, and more would certainly like to join but are not yet at the stage of opening formal talks.

For the new member states, their accession was widely viewed as their 'return to Europe', finally putting right the terrible settlement at the end of World War II that gave the Soviet Union Eastern Europe as its agreed and accepted 'sphere of influence' (accepted by whom, one might reasonably ask....). The Second World War was finally over, and not before time. Culturally and historically, the new countries belong to Europe and the west, and their forced incorporation into the Soviet empire was a shocking episode in their recent history.

Moreover, not only was this incorporation wholly incompatible with the democratic principles that we in the wealthy west are so fond of espousing, inaugurating several decades of quite nasty and brutal politics in the countries concerned; but it also proved to be extremely expensive economically, an economic disaster for the region and its long-suffering peoples.

On the democratic principles, it is true that in most of Eastern Europe the communists were brought to power, usually around 1948, through elections. But the process was extensively rigged through banning more liberal or right wing parties, through forced mergers of social democratic with communist parties, and a variety of other unsavoury tactics. And once in power, the communists were there to stay, with no option left open to the people but to vote for the approved communist candidates. Anyone opposing this process too openly was likely to be arrested, sent off to labour camps, or simply killed. The communists were in power, with none of the 'normal' checks and balances to constrain them. They were above the law, and no longer subject to its majesty. On several occasions, communist power was sustained by the intervention of Soviet power, or the threat of it, and only leaders 'acceptable' to Moscow were allowed to hold power for long in Eastern Europe. Yugoslavia under Marshall Tito, and Albania under Enver Hoxha, were the exceptions that proved the rule. For the three Baltic States (Estonia, Latvia and Lithuania) there was not even any pretence of democracy, the three countries simply being formally and forcibly incorporated into the Soviet Union in the later stages of the Second World War.

And what did the West do to resist the extension of Soviet power, and the extinguishing of democracy, across Eastern Europe? Sadly and rather shamefully, though in terms of *realpolitik*, probably quite understandably, the answer is not a great deal. True, western leaders engaged in a great deal of rhetoric about democracy and were often willing to criticise Soviet political oppression in their speeches. But as for action, no, that was considered far too dangerous. Some small scale actions were taken, such as basing the radio stations Radio Liberty and Radio Free Europe in Munich, to broadcast to the oppressed peoples of Eastern Europe and the then Soviet Union. There were also programmes of cultural and academic exchange to maintain some links, and a few UN-sponsored fora and research institutes at which East and West could meet, safely below the radar of political controversy and media attention. All this probably helped a little. But the fact remains that for most people, the Iron Curtain that came down between East and West from the late 1940s through to 1989 was a really impenetrable barrier - there was not much contact between the two sides of Europe for about four decades.

With such a background, it was not surprising that many of the emerging leaders in Central and Eastern Europe, assuming power once communist rule disintegrated and gave way to free elections, felt that the EU should be welcoming them 'back to Europe' with open arms. They felt very strongly that Western Europe owed them a great deal, since we had tolerated their oppression for so long while doing nothing about it beyond a few pious and well meaning speeches, and while just quietly getting on with the business of enriching ourselves. The 'great deal' they had in mind was immediate membership of the EU (or European Economic Community, as it then was). While it is easy to understand the bitterness and anger, as well as the yearning for freedom and security, that lie behind these feelings, this line of thinking did not offer a very helpful way forward for the people of Eastern Europe. The path to full EU membership was to prove both difficult and lengthy, as we discuss below. It could not simply be wished into being.

Economically, the period of communist rule in Central and Eastern Europe was in many respects a disaster for the region. True, there was some economic growth, but living standards lagged increasingly behind those enjoyed in Western Europe. Thus in the inter-war period, living standards in France and Czechoslovakia had not been far apart, but by 1990, living standards in the latter were estimated at barely half the level prevailing in France. Similar comparisons apply to several of the other countries. Romania and Bulgaria were always poorer than the rest, but they, too, have fallen even further behind Western Europe. So there is a lot of catching up to do.

These crude comparisons also make an important point about economic systems, namely that for all their undoubted faults and imperfections, market-type economies generally perform far better than central planning. Most people are likely to be better off under a market-type system, and their incomes will also grow faster. However, these observations do not mean that everything done under central planning was bad. For instance, the new countries all have basic primary and secondary education systems that achieve quite high academic and technical standards, often superior to what we have in much of Western Europe - notably in mathematics and languages. Hence although currently poor, the workforce in these countries is both well educated and generally willing to work hard. This augurs well for the region's future.

For me personally, these recent accessions to the EU have proved to be deeply emotional moments, since I have been studying and visiting the region since the late 1960s, nearly four decades; I have known some of the countries both as they were under communism and as they have transformed themselves, more or less rapidly, into market-type economies since around 1990; and across the region I have many good friends and colleagues. It feels right that we should all now belong to the same European Union.

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The negotiation process

In mid-1997, the House of Lords Select Committee on the European Union, or more exactly, its sub-Committee (A), decided to carry out a review of the likely costs of EU enlargement, including an assessment of how these would be financed. I was invited to serve as a technical adviser to the Committee during this investigation, and since I had never worked for either house of parliament before, immediately agreed. It seemed likely to be a very interesting study, so I was not too concerned when informed by the Committee's office that they would not be able to pay me 'much' for my contribution. The office seemed distinctly embarrassed about the low rate, though, and it certainly was extremely modest, barely a quarter of a normal commercial consultancy rate. But academics do lots of things that fall strictly outside the scope of their main job, and only rarely are they paid anything much at all. From that perspective, working for the Lords was not too bad a deal, and they did, of course, pay all my travel and accommodation expenses when I had to be in London or Brussels.

To work for the Lords, it appeared that I needed an official security pass, so I completed and submitted the necessary form. In due course, clearance came through and I was told that my pass was 'available'. But by then our work had been completed and our report was already published. Luckily, I am neither a crook nor a terrorist, so the relatively relaxed security did no harm. Possibly now the security issue would be treated more seriously than it was back then, a decade ago.

My work for the Committee involved reading background reports, mostly European Commission publications on the budget and on the enlargement process, attending Committee meetings in Parliament where we interviewed witnesses, providing the Committee with lists of questions to put to witnesses, and assisting the Committee's very professional staff to prepare our report. We also had one visit to Brussels where we interviewed two European Commissioners and some MEPs, and met senior people from the UK's official delegation to Brussels. Again, part of my task was to prepare lists of questions to put to everyone we were to interview. Back in London, we interviewed government ministers, officials from the Treasury, and officials from some of the Eastern European countries' London embassies.

When the Committee was in session, I was always present, but as an ordinary mortal (i.e. not a Lord), I was not permitted to speak. Normally, the chairman would go through my prepared questions, sometimes adding extra ones depending on the answers initially provided. If I thought some answer was incomplete or inaccurate, I could scribble some comments on a piece of paper and pass it to the chairman, and it was then up to him to decide whether to make use of my suggestions - usually he did. In practice, therefore, my enforced silence did not prevent us from covering the agreed topics and issues pretty thoroughly. In fact, a bit to my surprise, I was enormously impressed by the professionalism and hard work put into our study by members of the Committee. Indeed this experience makes me a little anxious sometimes when I contemplate proposed reforms to the Lords, since it would be a great pity to lose the expertise and knowledge of the existing membership.

Also, old-fashioned though it may be, I did quite like some of the arcane rituals and protocol associated with the House of Lords. I experienced some of these once when our Committee met to hear evidence one morning, and in the afternoon we planned to talk over parts of our report that were already being drafted. So it made sense for me to have lunch in the Lords, a highly entertaining experience as it turned out. For a start, as a commoner I was not allowed to sit with the Lords from our Committee and eat with them; they had their own table. Then I noticed that there were also separate tables for the Bishops (Church of England bishops currently sit in the Lords, though possibly not for much longer if proposed reforms go ahead) and for the Law Lords. The 'ordinary' Lords had several tables, and hangers on like me had to eat at a separate table set aside for Lords staff and advisers. As far as I could tell, everyone was getting the same food, essentially what I think of as traditional British boarding school food - not that I've ever been to a boarding school. In that sense the arrangement was perfectly democratic. But the protocol was fun!

Our report explained that financial support to the applicant states from Central and Eastern Europe would be paid for in three ways. First, normal economic growth would generate additional budgetary revenues for Brussels (as a result of higher VAT revenues, mostly) and much of the extra income could be shifted eastwards. Second, it was expected that the Common Agricultural Policy (CAP) would be reformed in a way that drastically reduced its overall costs, freeing up another tranche of resources for the new states. Last, there was expected to be a reform of the EU's structural and cohesion funds, resulting in lower payments to existing member states, again freeing resources to meet the needs of the new states. All this was expected to happen within an unchanged budget ceiling for the EU as a whole - this ceiling was set at 1.27% of the combined EU gross domestic product, but please don't ask me where this precise number came from as I have absolutely no idea.

We thought that some of the EU projections were a bit on the optimistic side, as we doubted whether the Union would grow quite as fast as it was then forecast to do, and we also doubted whether CAP reform would proceed very rapidly - we were right on both counts. But the structural funds were reformed very much as planned. Traditionally, these funds were used to support areas and regions in the EU with significantly below average incomes or higher than average unemployment, and in each member state maps are drawn up showing which areas are eligible for structural fund support and which are not. Thus reforming the system basically meant redrawing the maps to restrict the areas eligible for support, and also reducing the available levels of support to eligible areas. All this was public information back in 1997, not at all a big secret. But one might have thought it had been a secret when, in 2002 and 2003, there appeared in the Scottish newspapers articles expressing shock and consternation at the impending removal of many areas of Scotland from the official support map. Very curious!

Our report was published by the House of Lords in late 1997, just before the EU's Luxemburg Council meeting that formally approved the opening of negotiations on EU accession with up to eight of the Central and Eastern European countries, plus Malta and Cyprus. Negotiations were formally opened in April 1998 and, as we noted earlier, were successfully completed in time for accession in May 2004. Thus even for the most 'advanced' of the transition economies, accession took almost fifteen years from the collapse of communism. This sounds like a very long period, and no doubt, for some of the countries anxious to rejoin the western system of economic and political alliances as rapidly as possible, that's how it must have felt. Nevertheless, it was a very complex process, involving several important stages. Much of the complexity, and hence the duration of the process, was probably unavoidable.

Roughly speaking, the main stages - some of them partly overlapping - were as follows: (a) initial euphoria over the end of communism; (b) trade liberalisation and the Association Agreements; (c) economic reforms and gradual adoption of the *acquis communautaire*; (d) the formal negotiations; (e) ratification and accession.

As soon as communism collapsed in Central Europe in 1989 (and then in the Baltics in 1990 and 1991), it was not really surprising that the new leaders saw their proper place as part of Europe, by which they meant full membership of the western system of alliances such as NATO, the EU (or EEC as it then was), and for some countries, the OECD. There was a clear political reason for this position, namely that the new governments, whatever their exact political complexion, were determined that they would never again fall into Russia's political orbit. Their future was with the west and Europe, not with a possibly revived Russian empire. Some of the newly elected leaders in Central and Eastern Europe, as noted above, expected to be welcomed into the EU pretty much immediately. But that was never a realistic option given the region's legacy of central planning and hence the lack of properly functioning market economies. However, the EU was impressively quick to offer aid to the new democracies, to help them transform their countries and develop the institutions and legal framework needed for a market system. While undoubtedly valuable, though, this aid quickly dampened down the initial wave of euphoria, partly because it signalled unmistakably that the road to EU accession would be long and difficult; and partly because the whole process of committing funds, designing projects to spend them, and then implementing them in the various countries brought the engagement between the EU and the new democracies right down to the nitty-gritty level of detailed, micro-level activities. At that level, lots of important things get done, but it is hard to sustain much excitement through such activities, and in some countries disillusion set in quite early.

Despite this, the EU and the new Eastern partners soon moved into new forms of partnership. The EU itself was quick to offer the new democracies access to its markets, the start of a period of wide-ranging trade liberalisation beneficial to both sides, but especially to the East. Interestingly, as soon as Brussels starting opening up its markets to exports from the new partners, various lobby groups rushed off to Brussels to demand protection and help. For instance, I was told that as soon as the Poles were allowed to sell raspberries in the EU, Scottish raspberry growers sent a delegation in Brussels to try to stop them, or at least to limit Polish exports. I understand that the Commission (i.e. the Commission of the European

Communities, as it then was; now simply the European Commission) totally rejected the Scottish demands, and rightly so. But lots of lobbying like this went on.

Soon, though, the EU's economic and political relations with the neighbouring transition economies came to be formalised in a series of so called Association Agreements, and the countries benefiting from these agreements came to be known as the Associated States. These were the very same states that joined the EU in two batches, namely in May 2004 (8 states) and in January 2007 (2 states). As soon as the agreements were first signed, generally in the period 1992-1994, the EU made clear that it saw the states concerned as 'on track' for eventual full EU membership. At the time, however, there was no clear and agreed timetable in place, and no firm promise from the EU as to when accession was likely to occur. Not surprisingly, the lack of a timetable was a disappointment to many political leaders in the new democracies, impatient as they were to get on board the EU 'train' (or, as some would say rather cynically, the EU 'gravy train').

The Association Agreements included lots of provisions to do with scientific and technical co-operation between East and West, educational exchanges, political dialogue, and the like. But in essence, they were really just elaborate trade deals, providing for the lowering of trade barriers between the EU and the Associated States. The barriers in question included both quantitative restrictions on trade such as quotas (where trade would be allowed up to some fixed limit), and the more conventional tariffs (i.e. taxes on trade flows, which in almost all cases means taxes imposed on imports). Moreover, the trade provisions were quite generous, with the EU agreeing to lower its trade barriers more rapidly than the partners were expected to do so, both sides agreeing that all barriers would disappear within a decade at most.

As one might guess, though, these generous deals were not all 'sweetness and light', since there were some limitations on them. For one thing, each agreement included a list of so called 'sensitive products', products where the EU was reluctant to allow easy access to its markets. For each Associated State the sensitive products list was a bit different - I've never really understood quite why - but generally the list included such items as steel and steel products; much of the food sector and agriculture; parts of chemicals; and a few other sectors. Initially, up to half of the potential exports from some of the Associated States to the EU fell in these sensitive areas, implying that the EU's generosity in terms of opening up its markets was a good deal less significant in practice than it had seemed on the surface. Many economists, including me, argued whenever we had the chance that the EU should have been more willing to open up its markets more fully right from the start. After all, EU markets were hardly likely to be seriously disrupted by this new competition from the East, even in the so called sensitive products; and it is well understood that trade access is often far superior to financial aid as a means of helping countries to develop. Nevertheless, although the EU initially took a fairly cautious approach to trade liberalisation, by 2000 or 2001 most trade barriers with the Associated States had largely disappeared, including those applied to sensitive products.

All trade agreements also include conditions called 'rules of origin' that specify where the materials and intermediate products used to make the traded products covered in the agreements are allowed to come from. The reason for such rules is to prevent countries that are not part of a trade deal from benefiting from it. For instance, when the EU and Hungary had their trade deal in the 1990s, the EU did not want Hungary to import lots of steel from Russia, transform it into machinery of some sort, then export it to the EU, as that would give Russia a way of circumventing the EU's trade restrictions on Russian steel. Now, you may or may not think that these restrictions on Russia's trade are reasonable, but Hungary had to live with them. The 'rules of origin' for Hungary simply stated that anything Hungary exported to the EU had to be largely made from inputs produced either in Hungary or in an EU member country. That sounds quite reasonable, doesn't it?

In practice, the rules are administratively highly complex and often prevent trade partners from exporting some of their competitive products, so they do limit the benefits of trade liberalisation. More importantly, in the early years when Poland, Hungary, Czech Republic and so on all had their trade agreements with the EU in place, they could not buy inputs from each other in order to make products for export to the EU. Thus Poland could only use inputs from Poland itself, or from the EU, in order to produce exports for the EU; it could not buy inputs from Hungary, say. This is a completely absurd situation, economically and politically, and many people said so very forcefully. But it wasn't until the end of the 1990s that the EU finally saw sense and permitted much more flexibility over the 'rules of origin' applied to the Associated States - they finally allowed each partner to source its productive inputs either from the EU or from any of the other Associated States (technically, this was known as 'diagonal cumulation' of rules of origin, as I'm sure the reader really wanted to know). The relaxation was long overdue!

Going beyond trade, the Associated States quickly understood that in order to join the EU as full members, they would have to construct well functioning market economies for themselves. Naturally, all these countries were already busy doing that as they dismantled the remains of their former central planning systems and put in place the policies and institutions needed for a market economy. But the EU requires all new member states to fulfil a much more stringent set of conditions than this. Specifically, new members would have to satisfy the three so called Copenhagen criteria (so called because they were agreed at an EU Council meeting held in Copenhagen in 1993), namely: (i) to establish democratic states guaranteeing respect for the rule of law, human rights and protection of minorities; (ii) to establish functioning market economies with the ability to cope with competition and market pressures within the Union; and (iii) to take on the obligations of membership including full participation in economic and monetary union (e.g. by agreeing to adopt the Euro in due course).

To those of us well used to living in the European Union, conditions (i) and (ii) don't sound too unreasonable, and don't sound as though they would be especially troublesome for new countries, while condition (iii) doesn't sound too bad either. However, the reader should note that three of the established member states of the Union have insisted on various opt-outs from EU rules - thus the UK, for instance, has made clear that it has no intention of joining the Euro-zone, despite the fact that the country actually meets the conditions for doing so more fully than many of those states that have already joined. The European Commission, supported by recent European Council pronouncements, has made clear that no other countries will be allowed to opt out of any part of condition (iii). Personally, I must admit I find it quite hard to understand this as anything other than an exercise in bureaucratic tidiness, since I cannot see why other member states should not have the option of a Euro-zone opt-out if they so desire.

Fulfilling condition (i) actually turned out to be unexpectedly tricky for some of the Associated States. Allowing political parties and running elections, more or less fairly conducted, was relatively easy, though some of the parties that popped up in some countries - often quite briefly - were quite bizarre, and probably too many of the new leaders were too closely linked to the former, discredited communist system. But where else were new party leaders supposed to come from? This part of the story of change was never going to be entirely straightforward. But far more difficult were the questions of the 'rule of law' and the protection of minorities. These two issues are still not fully settled in all the new states - and even less so in those countries more distant from the EU, unlikely to be considered for membership, such as Russia or Uzbekistan.

The 'rule of law' is one of those handy phrases that is often bandied about by journalists and other commentators on the state of various countries around the world. However, it is actually a very tricky and complex notion that combines several different things. Here, I shall simply try to convey the core content of the 'rule of law' idea, focussing on those aspects most critical for the economy. First, then, the 'rule of law' is basically about protecting private property and business contracts, both from harmful behaviour by other individuals and from the state - the latter is not as fanciful as it might appear, as there are plenty of poorly governed states where successful business people run a serious risk of expropriation or excessive taxation. Second, it follows that suitable laws need to be in place, with good enforcement. Third, the courts and the legal profession should be independent of the state, professionally competent, and free from the taint of corruption, with the courts handling cases - whether civil or criminal - reasonably expeditiously.

Taken together, these are enormously demanding conditions, rarely satisfied fully. In the first eight transition countries that joined the EU in May 2004, the European Commission was nevertheless reasonably convinced that the conditions were met to quite a high degree. However, with the next two, Romania and Bulgaria, that entered in January 2007, serious reservations were entered even very late in the day, with concerns over judicial appointments, the efficiency of the legal systems, and possible corruption. There were also worries about the failure of these two countries to stamp down on mafia-type activities by various criminal groups. Beyond the EU, it is quite clear that Russia comes nowhere near satisfying the conditions of the 'rule of law', with arbitrary intervention by the state not uncommon in major business deals, property rights being poorly protected except for those with strong elite connections, and widespread corruption in the courts (implying that the desired verdict in a civil business dispute can often, in effect, be 'bought').

The proper protection of minorities also turned out to be a complex and controversial issue, as many of the new states turned out to have minority groups that had not enjoyed much protection under the old regimes or even under the new democracies in the early post-communist years. For different historical reasons, Poland, Hungary, the Czech Republic and Slovenia had fairly homogeneous populations, so for them the minorities issue was never a major one, except to the extent that very small minorities such as the Roma people (gypsies) needed more protection and stronger civil rights. But Slovakia had its Hungarian minority, as did Romania in Transylvania, and Bulgaria had a Turkish minority group. For the Baltic States, the issue was exactly the reverse, the main group needing protection in these countries being the former dominant group, namely the Russians. Each of the Baltic States has quite significant Russian minorities, and in the immediate aftermath of independence all three states wanted to compel all citizens to learn their respective national languages. Also, they were reluctant to accept Russian as an official language and wanted to make it difficult for Russians to own property or enjoy other civil rights. As a result, we had the somewhat bizarre spectacle of the EU leaning heavily on these countries in order to compel them to accord their Russian citizens their full civil rights. Fascinating, and probably an aspect of the EU accession process that no one thought much about until it actually hit them!

Condition (iii) of the above list, taking on the obligations of membership, basically means that each prospective member state had to incorporate into its domestic legislation and administrative practice all the rules and regulations that define how the EU functions politically, legally, and economically. Collectively, these rules and regulations are known as the *acquis communautaire*, or simply as the *acquis*. I have never seen a single document that represents the *acquis*, but this is not surprising as it is estimated to run to perhaps as much as 70 to 80,000 pages of text, a truly formidable volume of material. Not only has this all now been incorporated into the laws of the new member states, but in order to achieve this, everything had to be translated into each of the relevant languages. Thus EU enlargement has been a bonanza for well trained interpreters and technical translators, the only drawback being that much of what they have had to translate has undoubtedly been almost unbelievably boring (in my opinion, at any rate).

The *acquis* itself is currently divided into 34 substantive sections, or chapters, plus an undefined chapter 35 to catch any issues that do not fall under the other chapter headings. So far, chapter 35 has remained empty, perhaps surprisingly. Rather than list all the chapters, let me just give a handful of examples by way of illustration. Thus chapter one concerns the ‘free movement of goods’, chapter six ‘company law’, chapter 11 ‘agriculture and rural development’, chapter 14 ‘transport policy’, chapter 25 ‘science and research’, chapter 29 ‘customs union’, and chapter 34 ‘institutions’. Most of these are moderately self explanatory, though the last refers to EU-level institutions and procedures, including both the modifications to these needed to accommodate new member states, and arrangements made in the new states to ensure that they can participate fully in the EU institutions (e.g. the European Parliament, the Council, the Commission, and diverse EU-level committees).

It is worth pausing now to ask whether and to what extent the *acquis* represents a sensible economic mechanism. For the countries discussed here, there wasn’t any real option. But does the *acquis* add up to a mechanism that one could happily recommend to other countries? In my view it is a mechanism that is highly complex, reasonably well suited to fairly prosperous countries with competent and reasonably honest bureaucracies, and takes for granted that we are dealing with countries with well developed social welfare systems and so on. Even in established member states these conditions don't always hold, hence the often reported subsidies to Italian and Greek farmers for non-existent olive groves or vineyards. But these states are rich enough to be able to tolerate some economic foolishness like this, including some corruption. For the new countries, especially the smaller ones (e.g. Slovenia), or the poorer ones (e.g. Bulgaria and Romania), adopting the entire *acquis* must have been costly and difficult. For other countries not joining the EU, I don't think one could sensibly advise more than partial implementation of the *acquis*, perhaps focussing on the chapters most concerned with competition policy, the operation of markets, and trade conditions.

Quite early in the transition, nonetheless, most of the Associated States started to implement the *acquis* well in advance of the formal negotiations on accession. When the official negotiations started in April 1998, they proceeded by focussing on one or more chapters of the *acquis* at any given stage, initially bilaterally (EU plus one potential member state) and later multilaterally (EU plus the whole set of applicant states involved in the negotiations). Thus opening chapter X meant that this chapter was now under discussion in the given negotiation, and closing the chapter meant that agreement had been reached (at least provisionally) and that the discussions could move on to other chapters. Step by step, the negotiations continued through the various chapters, sometimes with easy agreement, sometimes with some very hard bargaining.

Not surprisingly, the toughest negotiations concerned agriculture - specifically, how to implement the Common Agricultural Policy (CAP) in the new states, with the final agreement delaying full application of the CAP to our new Eastern partners until 2013. Also the budget and the EU's financial transfers to the new states were not easy areas to agree on, though in the end everything was settled. In terms of countries, many observers considered that the negotiations were basically about Poland, since it was by far the largest of the Associated States, with a population of about 40 million, and it had a very large and relatively inefficient agricultural sector. All the other countries were comparatively small and had less significant agricultural sectors, so whatever was decided about the CAP was less likely to be a major problem for them. It is well known, after all, that EU enlargement is easiest when the new countries are small, rich and have relatively small agricultural sectors, which explains why the mid-1990s enlargement that brought in Finland, Sweden and Austria as new member states was so unproblematic.

By the end of 2002 the first wave of applicants - eight countries from Central and Eastern Europe plus Malta and Cyprus - were able to agree with the EU a formal Treaty of Accession. This then had to be formally approved (ratified) by each of the EU's existing member states plus all of the incoming states. This is normally a fairly slow process, but it was accomplished in time for the new states to join the EU as full members in May 2004, as scheduled. What a long and complex process, but finally the enlargement to bring in the new Eastern European states did indeed take place. Given all this, the next accession of Bulgaria and Romania in January 2007 was in many ways just a minor extension of what had already happened, though given the relative poverty of these two countries, and the immaturity of their political and legal systems, their accession brought several new problems to the EU. It remains to be seen how well these will be handled in the enlarged Union.

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Fifteen-twenty years of transition

By now, as we have seen, ten of the countries that abandoned the communist system in the years 1989-91 are full members of the EU. It is therefore worth standing back briefly to sketch how the countries have changed since around 1990, to assess where they might be heading in terms of their future development, and to remark on a few other issues.

All ten countries have changed enormously since 1990. Living standards have generally recovered from the initial post-communist recessions of the early to mid-1990s, and in most countries 1990 income levels were surpassed some years ago. However, the benefits of transition have not been evenly spread. Some, mostly the new entrepreneurs, have grown indecently rich extremely rapidly; many others are significantly better off than before, notably those who are well qualified and work hard. The educated young have done especially well in most countries. Many in the public sector are probably very little better off than before, and some may even be worse off; while the main losers from transition are many pensioners (whose entitlements never recovered from the early 1990s burst of inflation), and the relatively unskilled workers who were employed in the big, socialist era factories, many of which proved to be uncompetitive in the new conditions, and had to close or drastically scale down their operations. Regions gaining lots of new businesses have prospered, regions losing many older ones have suffered greatly. In the rural areas, too, some farmers have done well, others are struggling to manage.

Thus the picture is incredibly diverse, differing in detail from one country to another. The diversity, not surprisingly, makes for quite complex and sometimes fractious politics, since with such big changes occurring over a very short period, the associated interest and pressure groups are often stronger - and certainly more vociferous - than we are used to in countries that have only experienced relatively gradual change in recent decades. Nevertheless, it is probably the case that in most of the new countries, few people would seriously want to return to the old days of communist dictatorships and centralised economic planning. The new market systems, built up so painfully during the 1990s, are here to stay.

Not only have the economies changed, but also the appearance and 'feel' of each country. At the most superficial level, what visitors notice first - as compared to the past - are the ubiquitous advertising hoardings and, in the cities especially, the neon lights and illuminated buildings. Everything feels much more commercial and westernised than it did. The cities and towns used to be gloomy and dull, with even the most important buildings often neglected and in disrepair, the only illuminated signs being exhortations to build communism ever more effectively in the current five-year plan period. All that has long gone, along with all the red flags, the red stars, and the hammer and sickle symbols of the past. Most major cities and towns, moreover, have undergone a remarkable facelift, with buildings cleaned, repaired and painted, roads and other public infrastructure repaired and modernised. Even the museums have been modernised to reflect the new political economy, with communist-style history and imagery mostly gone, or relegated to a small corner where it is clearly treated as an aberration in the country's development. But all this change still leaves each country with a massive legacy of poor quality socialist-era housing, much of it in the form of huge apartment blocks around the edge of major settlements. It will take another decade or two to replace or upgrade all of that. Some of it might simply fall down!

Accompanying the commercialisation of every-day life, each country has experienced the usual inflow of foreign investors bringing in the standard western brands like McDonald's, Burger King, Pizza Hut, and the like, plus the well known international hotel and car hire chains, and usually other branded products - electronics, clothing and other fashion goods, and cars. These are what visitors notice right away, often with pleasure because they imply that in key respects the country being visited will offer familiar goods and services - for many visitors, this familiarity is reassuring and makes the country seem less 'strange'. Sometimes, though, all these standard western products can make the country seem a bit too familiar, and the visitor has to look around with some determination to find interesting restaurants, shops and so on that reflect more authentically the country's traditions and history. Personally, I've never found it very appealing to travel somewhere only to find so many of the same things I'm used to at home, as I prefer 'abroad' to remain as different from home as possible. Ordinary people in each of the new democracies, however, might well also appreciate the new goods and services now available to them after decades of privation and widespread shortages, though some no doubt will still prefer the traditional domestically produced items.

So now that EU enlargement has happened, what are the prospects for the ten new members from the East? Will they catch up with our living standards, for instance, or will they jog along more gently, perhaps growing economically but still lagging way behind the more prosperous countries? These are undoubtedly important questions, but it is not yet possible to give definite answers. For the last few years the countries have been growing a bit faster than the EU's average growth rate, in a few cases much faster, implying that some catch up is taking place. But the experience of long established member states suggests that catching up is by no means guaranteed - in practice it will depend upon a mix of good fortune and good policies.

In this regard the development experience of Greece and Ireland since around 1980 is quite instructive. Back then, both countries had per capita incomes of around 75% of the EU average, but by 2005 or so their economic performance had diverged considerably. Thus Ireland's income per capita is now around 125% of the EU average, while Greece languishes close to where it started in relative terms. Since 1980, therefore, Ireland has grown about twice as fast as the EU as a whole, while Greece has grown at about the same rate. This massive difference is not easy to explain, though some of the relevant factors are clear, notably Ireland's good use of infrastructure funding from the EU, its emphasis on improving education, on R&D, and on attracting inward investment - while Greece scores badly on all of these, and is also often thought to be relatively corrupt, with a good deal of public spending depending on patronage politics rather than economic efficiency. No doubt this is far from the full story, but it does illustrate the point that convergence to EU living standards is not something to be taken for granted. For the new member states, therefore, the interesting question is whether their futures will be more like Ireland or more like Greece. For the first eight new states, I am cautiously optimistic about their prospects; while for the next two - Bulgaria and Romania - I think there will be some catching up from their very low initial position, but I would not be at all surprised if they then settled down to a slower pace of development, as Greece did. In all cases, how well these countries do will depend not only on their economic policies, but also on their politics.

And in many of the new EU member states, the politics has been nothing if not interesting. Diverse parties have gained office, with quite big swings to right and left since 1990, the governing parties or coalitions have exhibited varying degrees of competence, honesty, and political courage, and popular engagement in the political process has ranged from total apathy right through to mass demonstrations against an unpopular government. There are many people living in the new states who, apparently, feel quite disillusioned with the 'new' politics, but I suspect this is partly due to a degree of nostalgia - largely misguided, in my view - for the certainties and stability of the former communist regimes, partly due to a considerable amount of naive idealism over what could reasonably be expected from democratic governments. To paraphrase a famous remark by Winston Churchill, democracy is actually a pretty terrible form of government - until you start to think about the alternatives.

Thinking more positively, it is worth simply listing a few features of political behaviour as it has operated in the Eastern European countries since 1990. First, when governments have been voted out of office following a general election, they have always gone - none have tried to hang onto office improperly. Moreover, political parties have formed freely, and have largely evolved without government interference (subject only to basic constitutional safeguards); and elections have mostly been free and reasonably fair. Second, governments have not tended to distort or improperly amend the new constitutions, and they have generally respected the decisions of constitutional courts even when these have gone against them. Third, no governments have been removed by military coup or any other unconstitutional process. Fourth, throughout the region, the media has remained free and extremely lively, with only modest amounts of government ownership and control to distort the picture. Last, public protests and demonstrations have largely been tolerated, with police control mostly restrained and moderate. Compared to the past, these are really outstanding achievements. Moreover, if one looks only a little further to the East, it is clear that many of these conditions are very far from being satisfied - think of Belarus, Russia, or even Ukraine, for instance.

That said, it is still not too surprising that in some countries of the region, many citizens feel a good deal of disappointment in their new governments. This is in part the naivety point made above, where the end of communism aroused such high hopes - but instead of being 'supermen', the new political leaders turned out to be moderately ordinary people, sometimes competent and lucky, sometimes not; sometimes overly tempted by the trappings and spoils of office, sometimes more modest and ethically 'clean'. In part, though, this disappointment raises interesting questions about how people come to be politicians, and how they get to the top, in Eastern Europe. This is actually an issue everywhere, one that is hardly discussed at all even in the academic literature of political science.

Thinking about the matter as an economist, a natural starting point is to consider the 'supply of politicians', in other words, to consider who wants to be a politician and what their motivations might be. Motivations often include an element of idealism, a desire to contribute towards the future development of one's society (either individually, or by implementing a given political party programme), and a belief that one can manage the economy better than the opposition or the current incumbents. So far so good. Would-be politicians also have regard to the rewards that high office brings them personally, in terms of honour and prestige (never to be underestimated), and personal income now and in the future (i.e. after demitting office). Thus countries that choose to set ministerial wages rather low will, in the long run, simply attract bad politicians, bad meaning either corrupt or incompetent. That might not matter in a country with lots of tight checks and balances limiting executive power and its abuse, and where in any event the government does not need to do much - but elsewhere this can be a recipe for disaster. Last, politicians need to think about the potential costs of high office, in terms of security issues, and intrusion into their private lives, for instance by the media or various forms of parliamentary vetting committee and the like. The greater the intrusion and the greater the security risks, all else remaining the same, the more unwilling good people will be to enter politics at the highest levels (because the best people will always have very attractive private sector opportunities), so the lower the likely quality of the typical politician. In this sense, one might conclude that people mostly end up with the politicians they deserve.

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What about the Countries left outside?

So much for the European Union and the recent enlargements of 2004 and 2007. To the East and South-East, the new Union is bordered by states that were also part of the old communist bloc, some of which are potential future members, some of which are not presently considered to have much of a chance. At one extreme lies Belarus, a land-locked country lying uneasily between Poland and Russia, not quite accepting that communism is over and not really interested in market-type reforms. Under the near-dictatorship of its president, Mr Lukashenko, if Belarus wants anything politically, it is (re-) union with Russia, though I rather doubt that such a merger will ever be consummated. At the opposite extreme is Croatia, one of the successor states of the former Yugoslavia, and already engaged in negotiations for EU membership. The country is strongly oriented towards the West, though is politically somewhat tainted as a result of its involvement in the Bosnian wars in the early to mid-1990s. It had to be leaned on heavily by the EU to force it to cooperate fully with the International Criminal Court for the Former Yugoslavia, based at The Hague, but it did cooperate and is determined to be part of the EU as early as possible. I think it will succeed, quite possibly by the end of this decade.

Some other countries are likely to be candidates for EU membership before too long, notably Macedonia and Montenegro. Other EU neighbours or near-neighbours enjoy favourable trade links with the Union, but it is hard to say when, if ever, they might be considered serious candidates for full membership. Such countries include Albania, Bosnia and Herzegovina, Serbia, and possibly even Ukraine. Different factors explain each of these countries' relations with the EU, but this is not the place for a detailed review - it is quite complicated and would take too long. Personally, though, I would be pleased to see Ukraine pursuing economic and political reforms with sufficient vigour that it could be regarded as a credible candidate for EU membership.

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Limits of EU Enlargement?

Thinking about these potential new members, and bearing in mind other possibilities currently 'on the table', such as Turkey, naturally raises the question as to how far the European Union should eventually expand. One way of exploring this is to ask whether there is a 'proper' boundary for the Union, and if so, how it might it determined. Over the years, especially when attending meetings at European Commission offices in Brussels or when meeting officials at conferences in various places, I have encountered a wide range of views on the matter. Mostly these views are opinions that people are willing to express in informal discussion, but which cannot be found in any official documents or reports, no doubt because the matter is highly sensitive politically.

For instance, one view that has been put to me is that the EU is basically about rebuilding or recreating the old Holy Roman Empire, a rather fanciful idea since even at the time of its greatest expanse that never took in the whole of modern France or Italy, so it never included even the original six EU member states in their entirety. Another view, encountered more often, is that in principle the EU is basically an association of European Christian states, coming together because of their common culture and heritage extending back over many centuries. Sometimes this conception is expressed inclusively, so taking in those countries in Eastern and Southern Europe that have adopted the Orthodox variant of Christianity, sometimes not. The former view includes Greece, Bulgaria and Romania (already member states), but also Serbia and Ukraine (not member states); while the less inclusive view would exclude all of these countries. Either notion of a Christian association automatically excludes all Muslim states. Thus Albania, probably Bosnia and Herzegovina (because the Croat-Bosniak 'entity' within it is dominated by the Bosnian Muslims), and Turkey (despite its persistent efforts to build a democratic, secular Muslim state) would all be ruled out by this approach.

Geographically, at least according to standard definitions, Europe extends east as far as the Ural mountains that divide Russia by their north-south line, west of the line being European Russia, and the east is, essentially, Siberia. To the South and South-East, Europe is bordered by the Black Sea, then the Bosporus, the Sea of Marmora, and the Dardanelles, bringing us into the Mediterranean Sea, Europe's southern boundary. On this definition, Greece is in Europe but Turkey is clearly not. Politically, though, Greece found strong support for EU entry at least in part because the country is widely regarded as the cradle of our civilisation, albeit over two millennia ago. And Turkey, too, will need strong political support if it is ever to become an EU member state, since as we have seen it can easily be excluded either on religious or on geographical grounds. Interestingly, the geographical approach, as noted, includes European Russia, though no one to my knowledge has ever suggested Russia as a potential member state. I suspect that Russia has no such ambitions, but if she had, existing EU members - even the largest and strongest of them - would probably balk at the idea of encouraging such a powerful state to advance towards EU membership.

These considerations all concerned possible criteria that could be used to determine whether this or that country ought to be eligible for EU membership (possibly at some undetermined future date). However, as the Union takes in more countries, issues of internal governance also come to the fore, since the EU has to figure out what decision-making mechanisms it needs in order to operate effectively in the world economy. If the EU limits itself to being little more than a large customs union, then once the basic arrangements are in place, there are few fundamentally new decisions to be taken. Hence decision-making procedures don’t matter terribly much, and if the EU appears slow and ineffective at taking decisions, who really cares? For many people, such a modest conception of the EU is just fine. But for others, there is an increasing expectation that the EU should behave more and more like a state in its own right, and for them, how the EU takes decisions is desperately important. This is why there has been such controversy over the proposed constitution for the EU. Moreover, experience of the last decade and more shows all too painfully clearly just how bad the European Union is at taking difficult political decisions, especially where different member states have divergent views as is usually the case. So either we devise governance mechanisms to enable the Union to do better, or we accept that we can’t, and confine ourselves to the business of making the EU as a purely economic entity a success.

Chapter 10. What Can Economists Do?

In this concluding chapter I examine three questions. First, what have we learned from the process of transition to the market economy in Central and Eastern Europe and the former Soviet Union since the collapse of communism in 1989-91? Second, how far should this new understanding lead to changes in how we teach economics, especially microeconomics? And finally, what can economists based in universities do to contribute to the whole complicated process of building markets?

What have we learned about transition?

Surprisingly, perhaps, despite the huge volume of work that has been done on transition by economists, finance specialists, political scientists and many others, there is no agreed model or theory of the transition. We have a pretty good idea about the 'ideal' end point of the process - in other words, a well functioning market-type economy, generating economic growth and improving living standards - but how best to get there from a starting point of central planning is still hotly debated among economists. Some of this debate is often cast in terms of the 'big bang' versus 'gradualism' issue, contrasting economic reforms introduced, as far as possible, all at once, with a more step-by-step approach. In practice, however, the difference between these two approaches is far less than one might suppose, since many of the reforms commenced at the start of a 'big bang' might still take years to implement, while even those countries that went for gradualism mostly introduced price and trade liberalisation extremely rapidly. Besides this debate, and as we noted sometimes in earlier chapters, we can identify some of the mistakes and misjudgements that occurred in the early years of transition, and knowing about these might help other countries to avoid repeating the same mistakes. We also know a good deal about the main conditions that need to be in place for an economy to be able to achieve sustained economic growth.

The first of these conditions is 'simply' to maintain sound macroeconomic conditions, which essentially means keeping inflation down to manageable levels, keeping the government budget balance under control, and paying careful attention to the balance of payments to avoid the accumulation of excessive and unsustainable external debt. Ideally, too, it also means keeping unemployment down to levels that are socially tolerable, even while massive structural change in the economy is going on. Once an economy has settled down along a path of steady growth, governments usually find that they can meet such conditions without too much trouble most of the time, but at the start of transition when a lot was changing very fast and economies experienced massive shocks, it was a very different story.

As we saw, virtually all the transition economies experienced an initial burst of inflation when they relaxed price controls, accompanied by severe foreign trade shocks as the old socialist trading networks disintegrated and new markets had to be found. But different countries in the region managed these events very differently. Most of Central Europe and the Baltic States were commendably quick to get a grip on the situation by operating quite tough macro-policies that soon brought inflation under control, and stabilised the government and external accounts. But elsewhere, both in South-East Europe (as Yugoslavia split into several new states) and in the 12 countries of the Commonwealth of Independent States, attention to sound economic policy was seriously distracted by engagement in various civil and regional wars; and even where there were no wars (as in Ukraine and Kazakhstan, for instance), the new leaders understood little or nothing about how to run a market-type economy. In effect, they experienced a 'baptism of fire', a learning process during which they made many terrible mistakes. The result, as we saw earlier, was that most countries experienced inflation that roared ahead to reach 1000% or even more in the worst year, 1993. Finally, thereafter, the new governments had all introduced new currencies and gradually brought their economies under more effective macroeconomic control. It was a horribly painful and expensive process. But by now it is well understood that a market-type economy (or any kind of economy, actually) will simply not work if the basic macroeconomic foundations are not in place.

For the transition economies, the second condition for getting sustainable growth going again was to build substantial private sectors. At the start of transition, the private sector was tiny in most countries, though Polish agriculture had remained in private hands, albeit mostly comprising very small scale and inefficient farms; Hungary had allowed a variety of small private businesses to operate from the early 1980s; and even Russia, from the late 1980s, was allowing small cooperatives and leasehold enterprises to be established. So some countries had the beginnings of a private sector, but mostly not very much. At the start, then, the question was how to go about building a private sector.

The obvious answer was to privatise all those state-owned enterprises that had long dominated production in the former socialist countries, and the faster the better. Indeed, so 'obvious' did this answer appear that quite a few eminent economists, not previously known for their work on Eastern Europe and hence not really knowing very much about the region, rushed in to offer their advice to the new governments. The message was privatise, privatise! And logically, if it was to be accomplished quickly, in countries with no stock markets or other functioning financial institutions, and with limited personal savings, most of the old state-owned enterprises would have to be more or less given away to the population at large, or to workers and managers. It could even be argued that this approach was in some sense fair, since under socialism all productive assets were already supposed to be 'owned by the people', whatever that might mean aside from being an appealing slogan.

Several countries, notably the Czech Republic (who did it well) and the Russian Federation (who did it quickly, but badly), thus embarked on various forms of so called voucher privatisation whereby vouchers were issued to the population either for free or for a very nominal price. The vouchers were then used to purchase shares in firms being privatised. The big problem with this approach is that it usually did little or nothing to address key problems of these firms, namely their weak management, their poor and out-dated technology, their need for investment to restructure, and their lack of access to (or even knowledge of) alternative markets. However, much privatisation did indeed get done, and at least this process did remove many businesses - both bad and good ones - from the suffocating clutches of the state.

Interestingly, though, if one examines statistics for various countries on the growth of the private sector during the 1990s, one certainly finds the expected rapid growth; but rather than being a consequence of privatisation, much of the observed growth resulted from huge numbers of entirely new private firms, created since the end of communism. In other words, while privatisation can no doubt contribute something towards private sector growth, and did so, a large and surprisingly quick contribution can also come from the formation of wholly new firms. This suggests that rather than concentrating on rapid privatisation, and frequently doing it badly, it would have been far better for many countries to focus on creating good conditions for new businesses to be set up. That should have been their priority - paying attention to fostering what is often called a 'good business environment'.

This is not necessarily an easy thing to do, especially in countries where state control has long been all pervasive, and where the authorities are still reluctant to place much trust in uncontrolled private sector activity. Thus several countries I visited, even as recently as the last five years, all claim to have established good conditions for business, but as soon as one checks the statistics on new business formation it can be seen that this is simply not true. The officials or academics I was interviewing were not lying to me, they undoubtedly genuinely believed that they had created good conditions. Compared to their own past, they certainly had, but that still left them way behind the business conditions prevailing in the more successful economies around the world.

A third condition for growth was the restructuring of much of the old (socialist) production, and a fourth was a wide range of institutional developments to support the operation and proper functioning of markets. I start by discussing restructuring, a controversial and widely misunderstood topic. Some restructuring is going on all the time in all reasonably dynamic and progressive economies. Old industries slowly decline and die, new ones emerge to take their place, often in places and sectors that no one would have imagined a decade or two earlier. Meanwhile, some production stays pretty much the same for long periods, but to prosper it usually needs to modernise to improve productivity. Even within a generally successful sector, there is commonly a lot of change going on. Thus in the food processing sectors of the developed countries, tinned and pickled food has, in recent decades, largely given way to frozen food, while in Central and Eastern Europe this same transformation is still at an earlier stage but now progressing rapidly.

So in 'normal' economies, if I can put it that way, perhaps 2-3% of private-sector production is disappearing each year, while thousands of new firms in a wide range of sectors start up, most of which will fail quite rapidly, a few of which will grow to be the star performers of the future. Hence by the end of a decade of such gradual structural change, perhaps 25-30% of the production that was going on at the start will have gone forever. It will have been replaced by something, but at the beginning of the decade no one could have predicted what (which is why detailed production planning rarely works). A well functioning economy can manage this sort of change, and since new jobs are typically being created as rapidly as old ones are lost, there is no need for it to be accompanied by rising unemployment.

The transition economies in the early 1990s, though, were most definitely not 'normal' economies in this sense. Their economic environment changed very abruptly, and firms that had been protected under socialism for many years, often decades, suddenly found that their formerly guaranteed markets had vanished or declined, and that much of their technology was quickly revealed to be totally out-dated. In these circumstances, it was not just 2-3% of production that needed to 'disappear' each year, but much more, perhaps adding up to as much as half of existing production in the country concerned over a fairly short period - there is a wide range of estimates in the relevant literature, so it is hard to be more precise. This prospect of, effectively, an economic 'meltdown' was quite terrifying for the new governments of the transition economies, especially those that lacked any confidence in the ability of new private sector firms to fill most of the resulting employment gap.

Some countries dealt with the problem by adopting quite tough policies right from the start, cutting subsidies and directed credits to business as fast as they could, thus signalling that enterprises would only survive through their own efforts; such policies were usually accompanied by rapid moves to facilitate setting up new businesses. Others were more cautious, continuing to protect some major firms while still leaving most to the vagaries of the new market forces. These two groups include most of the countries that joined the EU in 2004. Their restructuring has been extremely painful, and has been accompanied by a good deal of unemployment and other forms of social and economic distress. Nevertheless, for the most part these economies are now well placed to grow quite normally, gradually catching up with the more prosperous EU partners, and with restructuring in the future proceeding at normal, and therefore perfectly manageable rates. Investment rates in profitable businesses have long been high enough to support such a process.

Other countries, notably Russia and several other CIS members, proceeded with restructuring far more circumspectly, fearing the social and political effects of large-scale unemployment and being slow to create good conditions for new business. The result was often a longer period of stagnation and even decline before growth resumed again, and even 15 years after the start of transition there remained a huge backlog of unfinished restructuring from the socialist period. This approach therefore delayed some of the pain of restructuring, spread the burden over a much longer period, but in the end might easily cost more than the faster restructuring undertaken elsewhere. That said, restructuring is undoubtedly a difficult and politically risky aspect of the transition, and too much of the external advice to the region took insufficient account of the difficulties.

Last, I comment on some aspects of institutional reforms in the transition economies. Their importance was again often misunderstood or underestimated at the start of transition, at least in part because we teach so little about such matters in standard western-style economics courses. As a result, in both East and West, few economists - or anyone else for that matter - were particularly well equipped to offer good advice about building institutions, so this aspect of transition was a learning process for everyone. The institutional reforms needed to build a market-type economy are both complex and diverse, as well as sometimes being highly technical and extremely boring. The latter points sometimes made it hard to mobilise effective political support even for rather important reforms, since politicians didn’t find them ‘sexy’ enough and most of their constituents didn’t understand them anyway. In this category would come such reforms as the adoption of international accounting standards for firms; the introduction of VAT and other standard types of tax; the development of effective competition policy; developing laws to define and protect private property rights; protection for minority shareholders in companies; improvements in banking regulation; and so on. Even in the more developed countries, hardly anyone knows much about such arcane issues and policies, and mostly they are just 'there', quietly working away in the background of our lives, given little or no thought. For the transition economies, everything had to be created *ab initio*, and it proved a difficult business, fraught with risks, delays and mistakes.

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Teaching economics

Economists are famous (or should that be 'infamous'?) for making what often seem like quite bizarre and arbitrary assumptions about the economic behaviour of firms, households and even governments. Many of our assumptions, I would argue, are perfectly reasonable simplifications of highly complex social problems, designed to make their analysis a bit more tractable, and hopefully rather more understandable - but I suppose I would say that, being an economist myself!. Sometimes, though, we make assumptions even without realising it that drastically change the nature of a given problem and give rise to misleading or over-simplified conclusions. In this regard, the experience of the transition economies since 1990 or so has been highly instructive. For on the one hand, over-simplified models resulted in some remarkably naive advice being offered to the new democracies about how their markets ought to work following early reforms; and on the other, observing how these markets really worked - or didn't - provided a salutary reminder about the fragility of much of our basic economic analysis, and suggested the need for a good deal of re-thinking. Let me now, through a few simple examples, illustrate what I mean and sketch how I think it should be changing our approach to teaching some of our elementary economics. My examples include the simple model of *supply-and-demand analysis*; thoughts about *managerial behaviour* in the course of privatisation; and the key idea of *comparative advantage* in the analysis of foreign trade. Lots of others could be given, but I simply want to convey the flavour of what I have in mind without overburdening the reader.

To enable me to discuss *supply-and-demand analysis*, I shall insert here the book's only technical diagram, and hope the patient reader will bear with me while I explain it as briefly and clearly as I can. In Figure 10.1, the horizontal axis, labelled *x*, represents the quantity of some good that consumers demand, and firms supply; for concreteness, think of *x* as the number of eggs bought and sold in a given week. The line DD is then what we call the demand curve for eggs, or simply the demand. It shows how many eggs households want to buy, as the price (labelled *p* on the vertical axis) varies; thus as the price falls, households want to buy and consume more eggs each week, which seems to make sense. That's why the demand curve DD is drawn sloping downwards to the right. The upwards sloping line SS is the supply curve for eggs. Thus it shows how many eggs the farmers want to supply to the market each week, the farmers wanting to supply more if the price is higher - hence the upward slope. If the market functions properly, we expect it to settle down where supply equals demand, for otherwise the farmers will be accumulating eggs they can't sell, or households will face shortage conditions. While this sort of imbalance did occur quite often under communism, it is rather rare in market-type economies. Thus we expect our market to settle down, more or less, at point E in the above diagram. We refer to E, when we want to be mildly technical, as the market equilibrium.

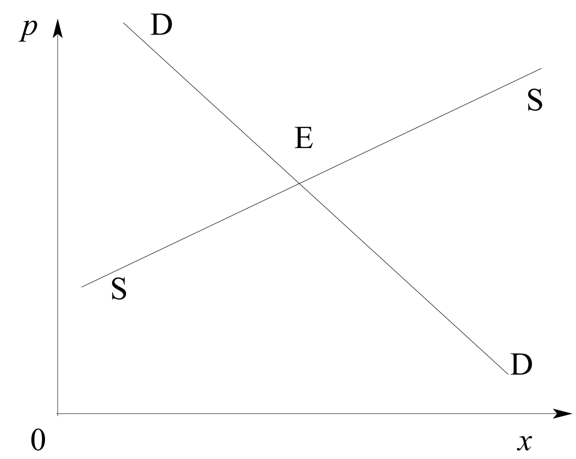

Figure 10.1. Supply-and-demand model

This is pretty much the story we tell our students in one of their first lectures in economics. However, what we don't tell them about, because we usually take it for granted without giving it a thought, is the set of underlying institutional assumptions that are needed to make this supply-and-demand model work properly. We assume, for instance, that before we buy our eggs, the farmers who supply them have secure property rights - in other words, the farmers own the eggs until we buy them, and if we try to steal them rather than buying them, the farmers' property rights will be protected both by the police and by the courts. Moreover, the act of buying some eggs is, legally, a transfer of ownership, so if anyone tries to steal my eggs once I have bought them, my rights will then be protected just as the farmers' were. In buying the eggs, furthermore, I normally hand over some money, so for this to work the farmers from whom I am buying have to trust that I will not try to cheat by using counterfeit money, or by offering a cheque that subsequently bounces. Last, as a consumer I cannot always be sure of the quality of what I buy until some time after the sale, so it is useful to know that if I find some of my eggs to be bad, I can get my money back or get some replacement eggs. Normally, though, I need to be able to trust the farmer not to cheat me by trying to sell me bad eggs instead of fresh ones.

This is already quite a long list of conditions, even for a simple product like an egg. Think how much more complicated things could get if we were dealing with the market for something such as a car, a house, or a complex service like a foreign holiday. We hardly ever think of the above conditions because most of the time our markets do work, firms don't cheat us, and we don't try to cheat them. The police and courts might be lurking in the background of every transaction, but they are hardly ever needed in a well functioning market economy, because most of the time, most people are honest, on both sides of the market.

But in the early years of building their market economies, many of the transition countries found that these conditions not only could not be taken for granted, but they actually failed. This is why general advice to free prices and open up all the markets was not always such a success. Actually, for markets like that for eggs, as discussed above, getting the right conditions in place was not very hard; apart from anything else, most countries already had formal or informal farmers' markets for such items. But getting housing markets to function at all well proved a lot harder, since many people lacked any legally enforceable title to what they thought was their property, and result was a fair number of horror stories in which thugs of various kinds basically booted people out of their homes, or paid them prices way below the market rate. Shocking, but not that surprising when no one had really thought to put in place the right sort of institutional framework. And in some countries, unscrupulous crooks proved all too quick to spot the 'gap'. In this sense, you could say that the private sector found 'solutions' to deal with the problem of missing institutions, but they were not necessarily very pleasant ones.

Turning attention to *managerial behaviour*, the snag with most elementary microeconomics as taught today is that there is really no room for the manager - there is nothing for him or her to do. We simply assume that firms choose the output level that maximises their profits in the prevailing market conditions, and pay their taxes according to the established rules, end of story. Often, this is not too terrible a starting point for some useful analysis, but again we rarely emphasise to our students some quite critical assumptions hidden within this model. As a result, some bad mistakes and misunderstandings occurred when we tried to apply the simple model of competitive, profit-maximising firms to state-owned firms in the transition economies undergoing privatisation and restructuring. For our standard model assumes that the firms we deal with are going concerns, that their managers are honest, that their capital assets 'belong' to the firm and cannot be taken away from it, and that financing structures are 'sound'. Especially in the early transition years, there were many firms - both state owned and those already undergoing privatisation - for which assumptions like this made no sense at all. More importantly, the implications of this were frequently underestimated, with significantly damaging effects for the economies concerned.

Thus in the early to mid-1990s, and to a lesser extent even later, the managers in many state-owned or recently privatised firms could see that under the new market conditions the firms had no economic future. Hence instead of running them as going concerns as we normally assume, managers had an incentive to play an 'end game' in which they tried to get out of the firms as much as possible before their final collapse. In the weak or absent regulatory environment of the time, that was often not very difficult and lots of different methods evolved quite rapidly. A couple of examples should illustrate the sort of thing I mean. One trick used quite widely was to set up a new private company, transfer assets to it from the original company while valuing them at very low prices, leaving the old company with few real assets and all the debts it was already carrying - then if it finally folded, the creditors would get virtually nothing. This left the original manager with a new private firm carrying no debts and owning whatever valuable assets he had managed to transfer from the original company. This practice was often legal, and even where it wasn't it could be argued that it was creating some economic value from the mess of the state-owned business - to an extent the manager was starting to act like an entrepreneur, and this was surely desirable? Perhaps so. On the other hand, through lax accounting and other devices, managers effectively stole valuable assets and then paid little or no tax on the profits of their subsequent business; they also left many of the old firm's workers high and dry.

A second trick was the following. The managers would continue running their firm, probably paying themselves high salaries for doing so, and 'financed' this by not paying their taxes or social security contributions (these were usually related to the wage bill), and by delaying payments to some suppliers, notably the suppliers of major utilities such as electricity and other types of energy supply. Because many of the post-communist states were weak and ineffective in the early years, and tax systems were poorly administered, firms could get away with this sort of irresponsible behaviour for years. Eventually, the government would get its act together and catch up with these miscreants. But by then, the available funds would have been spent or hidden away in secret bank accounts (often abroad, such as in Cyprus), the managers had probably built themselves nice new houses, and when the firm finally failed it was unusual for the managers to be seriously penalised.

One of the most important, and most misunderstood ideas in economics is the idea of *comparative advantage*. The idea goes right back at least to the works of David Ricardo in the early nineteenth century, and the principle essentially states that countries should export those goods and services in which they have a comparative advantage, and import those in which they do not. In this context, a country has a comparative advantage in producing something if its relative costs of doing so are favourable as compared to the relative costs in other countries. Thus even if a country is a low productivity, quite inefficient producer of everything (in other words, it is simply a poor country), it might still have a comparative advantage in producing, say, labour-intensive manufactures such as textiles and clothing, for export. Such trade is efficient, in the sense that it boosts both the exporting county's incomes, and incomes in the rest of the world.

When we teach our students about comparative advantage, especially in introductory economics courses, we tend to emphasise trade in dissimilar products, such as exporting wheat in exchange for imports of machinery. Sometimes we do point out to students that a great deal of international trade nowadays is actually trade in similar products, such as the UK both exporting and importing cars. This practice is not as daft or as inefficient as it might seem, by the way. For on the production side, making cars gets a lot cheaper if firms can operate at large scales of output (technically, we say there are increasing returns to scale), but then they might be producing far more cars of a certain model than a given home market can absorb. So such large plants can only be successful if much of their output is exported. On the other hand, if consumers like a wide range of cars to be available on the market - having moved a long way from Henry Ford's famous dictum relating to the old Model T, 'our customers can have any colour of car they want, so long as it is black' - they will need a mix of domestic production and diverse imports to satisfy them. Thus in Eastern Europe, many car plants were established or modernised in the 1990s, and while these did supply their small domestic markets, they also relied heavily on securing good access to the much larger EU market. So we could probably do a better job of teaching students about this increasingly important aspect of trade.

More importantly than the type of trade, we also treat comparative advantage as something that is more or less given, as if it were an immutable property of each country. But this is simply not so, partly because both technology and people's preferences and desires are constantly in flux; and partly because countries, and major firms within them, often take active steps to influence their competitiveness in the world market. New countries and firms thus learn how to produce and export profitably both long established products, such as steel, industrial chemicals and ships; as well as newer ones, such as cars, computers and mobile phones. Countries that used to be world leaders often fail to adapt to the new conditions, their former competitiveness is eroded, and they get left behind by new entrants to the world market economy.

One might have expected, for instance, from traditional ideas of comparative advantage, that the more successful firms in Central and Eastern Europe would be those that took advantage of the region's relatively low wages, but this has only turned out to be the case to a limited extent. Instead, firms in the region see themselves as catching up with their more prosperous neighbours, and they know that low wages can only, at best, provide a very temporary advantage. Hence many firms are investing in new technology on the assumption that wages and living standards will rise quite fast, and they expect to remain profitable even when wages are much higher than they are now. In the more forward-looking countries, such as Hungary, this kind of thinking is supported by the government which is already actively promoting the notion of Hungary as a modern 'information society'. In some parts of the world, this might be not much more than an empty slogan, but given Hungary's high general education standards it has to be taken more seriously. Who knows what Hungary will be producing in 10-15 years' time? But whatever it might be, much of it will be extremely advanced, sophisticated goods and services, highly competitive internationally, and able to support a very high-wage economy (and I say this with a good deal of optimism, despite the rather poor macroeconomic performance displayed by recent Hungarian governments). This conception of actively transforming and modernising an economy through active engagement with the world economy still plays too small a part in most of our teaching.

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Vodka and Pickled Cabbage by Paul Hare

What can university-based economists do?

This is not an easy question nowadays, but when I entered the academic profession in the early 1970s it was more straightforward. For in those distant days, when I was at Stirling University, academic economists were allocated a normal share of the departmental teaching, and were expected to contribute towards the routine departmental administration, but were otherwise astonishingly free and flexible. Universities were then expanding fast, so there were lots of new academic jobs all around the country, yet our modern systems of staff appraisal, teaching evaluation, and research assessment had not yet been thought of. We worked away with remarkably little accountability to anyone, in ways that people often think of now as shockingly lax.

At Stirling, my colleagues were pleased when I embarked on research but didn't appear to care in the slightest what I actually did. The fact that I chose to work on something unfashionable like central planning in Eastern Europe, and that my work was often published in area-studies type journals rather than in the mainstream economics journals, bothered them not at all. Thus research was appreciated as a useful contribution to the department's academic life, but there was no attempt by the department to influence anyone's chosen research topic. There are actually not many jobs where one can enjoy such immense freedom, and the fact that I could study whatever I wanted, at whatever pace suited me, was one of the principal reasons why I became an academic. It's not a decision I have ever regretted for myself, though over the years the substantial deterioration in relative academic pay combined with the much heavier accountability and monitoring of new staff does seem to me to have made an academic career far less attractive for younger people.

As academics, how do we come to study what we do? Whatever we do, it obviously needs to be intellectually interesting in the sense of posing some challenging questions, otherwise we would soon be bored or run out of worthwhile research topics. But most research is also, to an important extent, a social activity in the sense that it involves colleagues and research partners, so it is also helpful that the places and people involved are congenial. This is why I remarked much earlier in the book that I quickly came to like Hungarian food and drink, Hungarian colleagues, and the Hungarian language - in themselves, these details have little directly to do with the research, but they are absolutely critical in sustaining one's interest and motivation to pursue particular research topics. Not only that, I strongly believe that it is very hard to understand many situations without visiting the places concerned, talking to people there, collecting data 'on the spot', and so on. One also needs to understand the history, the workings of the old, communist economic system, to see what really has to change and to understand how it might change. Hence the extensive travel reported in various chapters above.

As part of the trend towards making academia more accountable, it is sometimes suggested these days that our research ought to be 'useful'. This is one of the sillier ideas to have surfaced in connection with debates about our universities and how they should operate. One of our research councils even, for a time, asked those applying for research grants to explain how their research would improve the competitiveness of the British economy, or even improve UK exports (and although slightly modified now, the idea has not gone away). In practice, it was never hard to make up stories to enable this part of the application form to be completed, but it did seem to me to be stretching things a bit when I had to try and explain how a study of the non-farm rural economy in Armenia would help UK exports. It's just nonsense having to think in those terms.

In case the reader might be wondering, I should add here that I am not fundamentally opposed to the idea of research being 'useful'. What I object to is the idea that some external body, or even colleagues within my own institution, can really judge what is useful or not, and for whom. It seems to me that most of us are simply unable to make such judgements, and that if we try, we are likely to be mistaken. Something we think is useful today might be commonplace and of no interest in a few years' time, and more importantly, much that appears abstruse, dull and uninteresting in the present might in due time turn out to be hugely relevant (another fashionable adjective I don't like very much) and influential. The fact is, we simply don't know, and can't know.

My own experience, in a way, bears this out. Thus for twenty years, I studied a part of the world that most people regarded as of little interest, with only a handful of colleagues in the UK sharing a similar fascination with Central and Eastern Europe, none then in my own institution. My interest enabled me to undertake some absolutely intriguing and often entertaining travel, plus a couple of spells of sabbatical leave in the United States (mid-1970s and mid-1990s). Almost no one in government, whether at UK or EU level, either knew much about the region or thought it especially important, except in terms of the on going military competition between the two superpowers, the USA and the Soviet Union. Then along came the dramatic events of 1989-91, the collapse of all the formerly communist governments across the region, and the start of transition towards building market-type economies. Suddenly, those few of us who knew something about the region's history, its old system of economic organisation and management, found ourselves in demand. All our 'useless' research of earlier years suddenly became 'useful'. So perhaps most of the time it's best just to let academics study what interests them, without outside interference. And if the authorities from time to time think that more research is needed in some area currently deemed to be 'important' or 'useful', they can always invite academics to bid for research funding in that area. In my view, however, when the authorities operate in this way, they will nearly always prove to be wrong; but now and again they might be lucky, and anyway not much harm will ever be done by funding research in a field that turns out to be less fruitful than hoped.

Both the Scottish Universities where I have worked since the early 1970s, Stirling and Heriot-Watt, have proved to be very supportive institutions as regards my diverse research work and consultancy projects to do with the former communist countries. Partly, I suspect, the support was facilitated by a good deal of ignorance, in that neither institution knew much about what I did, or the region that I studied, and rarely asked. All that mattered was that I pulled in research money now and again, and during the 1990s in particular this happened on a large scale; and that I published articles, book chapters and reports about my work. Over the years, naturally, a great deal of hard work was done on many different countries, but any pressure was the result of my own inner motivation and enthusiasm, and was sometimes an unintended consequence of my difficulty in saying ‘no’ when several studies were offered pretty much simultaneously. Too often, I would want to try to do them all, and I found it extremely hard to manage my commitments more sensibly. However, virtually none of the pressure I experienced came from my institutions, and I have almost never had to think much about research-related performance indicators and the like.

How fortunate I have been! Universities have been changing a lot in the past couple of decades, with tighter general funding and more pressure on academics to perform in line with an increasingly wide range of indicators covering teaching, research and anything else the authorities think of from time to time. The reader might well have detected already that I am not a big fan of these developments, but unfortunately they are simply part of the system we have to live with nowadays. They involve increased bureaucracy in connection with any external funding, a recent move towards full economic costing of research, and much wider use of performance indicators that stress research grants from particular sources (such as the funding councils) and output in the form of high-level journal articles.

There is an amusing irony in some of this. For during my first long visit to Hungary in 1970, staff I got to know in the University there were busy formulating their ‘five-year research plans’. Everyone knew that the targets and indicators they were coming up with made no sense, and understood that such detailed planning of research was a foolish endeavour - but they had to ‘play the game’ because that’s what the authorities demanded. Now, over 35 years later, academics in UK universities are busy playing a game that is scarcely more sensible than this old Hungarian one. We are setting all sorts of targets to guide our research, and most of us know (or strongly suspect) that they will do little or nothing to improve our research, either qualitatively or quantitatively. But we, too, have to ‘play the game’. One would like to think that academics were smart enough to learn from experience, but apparently not.

Nevertheless, these on going changes in our university system mean, I think, that institutions will be less supportive than formerly of my kind of rather eclectic and eccentric academic profile, and will be less interested in international work *per se*, or in policy advice that is not published in good (i.e. highly rated) journals. This would be a great pity. Even so, economists with the right interests and background can still work both on conceptual aspects of transition (this means, in essence, being an old fashioned academic, and 'thinking'), and on lots of interesting and often very practical applied projects of the sort sketched in this book. In doing so, they will inevitably come to learn about and appreciate the history, culture and people of a really fascinating part of the world - accompanied by plentiful vodka and pickled cabbage!