STATE, BUDGET, DEFENCE AND SOCIETY: CENTRAL EUROPEAN COUNTRIES IN THE WAITING ROOM

(Economic Policy and Some Methodological and Theoretical Issues)[1]

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"*We are about to offer you an admirable opportunity of applying your - what shall we call it? Your theory? No, nothing is more deceptive than theory. Your doctrine? Your system? Your principle? But you dislike doctrines, you abhor systems, and for the principles, you deny that there are any in social economy. We shall say, then, your practice without theory and without principle.*" *(Frederic Bastiat: Petitition of the Candemakers - 1845).*

Preamble

For many of the participants of this Colloquium, this author included, this might be the last time that they speak in terms of their national currencies: FFR, DM, LIT, etc. Next year they will speak in Euro; others will speak in terms of dollars, tollars, krunas, roubles, pounds, etc. Eleven out of 15 EU countries form the Euro area. Most of them are also NATO members. So, future NATO and/or EU members will join two organizations which are in the process of profound change.

Are the Euro and the European Central Bank two solid pillars of cohesion of the European Union? Or, will they be apples of discord among member countries? What are the impacts of the institutional metamorphosis? Is the cohesion of NATO influenced by the strength/ weakness of the EU? The latter can be considered as one of the two strategic economic industrial pillars of the Alliance, with significant experience in overseas legal conflicts. What will be the contribution of new members to both NATO and the EU? Is security divisible and can it be left to the "markets"? What state for this transitional period?

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The CEE (Central and East European) countries in transition which lived for 40 years under Soviet dominance turned toward NATO and the EU seeking, first of all, protection for their recovered national sovereignty. But, once they join both NATO and the EU, they will have to play by the rules of both organizations and contribute to the BONUM COMMUNE of each, and in the case of the EU, that means also giving up part of their newly recovered sovereignty. This has to be explained to the population of CEE countries.

The governments of those countries will also have to explain to the population that the transfer of their sovereign prerogatives implies both future benefits and immediate adjustment costs. So, in a short time, countries in transition which will join in the "first wave", either NATO or the EU or both, have to live with the adjustment costs of passage from: first, the so-called "command economy" to what this author calls the "economy of transition", and then, to the so-called "market economy". Later, they will have to adapt to the completion of the "marché unique" within the EU. (And then, they might think about joining Euro, if Euro is still around.) In this paper, the author will not take the Euro into consideration. Therefore, attention will be focused on:

- the present situation as an indicator for economic and social evolution in CEE countries;
- the role of the government and public finance in the present transition period;
- the consequences of transitional adjustments on the defence and security sectors;
- some theoretical and methodological issues.

The Economic and Social Evolution of CEE Countries

General outlook

In this section, conventional statistical information on the transition countries of Central Europe are given (see Tables 1A, 1B and 1C that follow).

Table 1 A: Economic Indicators

(*Source*: Erste Bank Country Risk/Research)

	1995	1996	1997	1998e	1999f
Czech Republic					
GDP (nom US$bn)	50.04	56.2	49.0	52.0	57.0
Industrial production (yoy)	9.2	6.8	4.5	5.6	8.2
Unemployment (%)	2.9	3.5	4.5	5.8	5.8
FDI (cum. US$bn)	4.1	6.6	7.6	9.0	9.0
Forex rate (US$ ann.avg.)	27.3	27.2	32.1	35.8	38.5
Trade balance (US$bn)	-3.7	-5.9	-4.5	-4.6	-4.6
Govt. budget bal. % GDP	0.6	-0.1	-1.1	-1.0	-1.0
Hungary					
GDP (nom US$bn)	44.7	48.8	45.0	47.0	50.0
Industrial production (yoy)	4.6	3.4	11.1	10.2	9.9
Unemployment (%)	10.4	10.5	10.4	10.2	9.8
FDI (cum. US$bn)	8.8	13.3	16.3	18.5	18.5
Forex rate (US$ ann.avg.)	125.7	152.6	186.3	210.5	216.8
Trade balance (US$bn)	-2.4	-2.6	-1.7	-1.8	-1.9
Govt. budget bal. % GDP	-6.7	-3.2	-4.2	-4.7	-4.7
Poland					
GDP (nom US$bn)	119.3	134.4	133.5	145.0	155.0
Industrial production (yoy)	9.6	8.7	11.3	8.5	8.0
Unemployment (%)	14.9	13.2	11.5	10.4	10.0
FDI (cum. US$bn)	8.5	13.7	20.3	25.0	28.0
Forex rate (US$ ann.avg.)	2.42	2.70	3.29	3.55	3.78
Trade balance (US$bn)	-6.2	-12.7	-15.9	-17.8	-17.8
Govt. budget bal. % GDP	-2.6	-2.5	-1.8	-1.4	-1.2
Slovakia					
GDP (nom US$bn)	17.3	18.8	19.0	21.0	22.0
Industrial production (yoy)	8.4	2.5	2.7	3.2	3.5
Unemployment (%)	13.1	12.8	12.5	13.1	13.0
FDI (cum. US$bn)	0.6	0.8	1.1	1.2	1.2
Forex rate (US$ ann.avg.)	30.0	31.3	33.7	38.2	39.3
Trade balance (US$bn)	0.0	-2.3	-1.5	-1.7	-1.6
Govt. budget bal. % GDP	-1.6	-4.4	-5.6	-5.8	-6.2
Slovenia					
GDP (nom US$bn)	18.7	18.6	18.2	18.9	19.2
Industrial production (yoy)	2.0	1.0	1.3	2.8	2.5
Unemployment (%)	13.9	13.9	14.4	14.6	15.0
FDI (cum. US$bn)	0.6	0.8	1.1	1.4	1.6
Forex rate (US$ ann.avg.)	118.5	135.4	159.7	168.7	185.8
Trade balance (US$bn)	-1.0	-0.9	-1.0	-0.9	-0.9
Govt. budget bal. % GDP	0.0	0.3	-1.1	-1.0	-1.0

Table 1B: Economic Indicators

(*Source*: Erste Bank Country Risk/Research)

	1995	1996	1997	1998e	1999f
Bulgaria					
GDP (nom US$bn)	13.0	9.2	9.0	9.8	12.0
Industrial Production (yoy)	4.6	-3.3	-9.5	4.5	4.5
Unemployment (%)	12.5	11.1	14.0	14.5	14.0
FDI (cum.US$bn)	0.5	0.7	1.3	2.0	3.1
Forex rate (US$ ann. Avg.)	67.2	174.4	1673	1750	1780
Trade balance (US$bn)	0.1	0.1	0.4	-0.1	-0.5
Govt. budget bal. % GDP	-6.7	-11.3	-2.8	-2.5	-2.5
Croatia					
GDP (nom US$bn)	18.1	19.1	18.0	19.5	21.3
Industrial Production (yoy)	0.3	1.3	3.4	3.5	4.8
Unemployment (%)	17.4	15.6	16.8	16.9	16.0
FDI (cum.US$bn)	0.1	0.4	0.7	1.0	1.5
Forex rate (US$ ann. Avg.)	5.2	5.4	6.3	6.3	6.4
Trade balance (US$bn)	-2.9	-3.3	-4.8	-4.5	-4.8
Govt. budget bal. % GDP	-0.2	-0.1	-1.0	-1.7	-2.5
Romania					
GDP (nom US$bn)	35.5	35.4	36.0	48.0	56.0
Industrial Production (yoy)	9.4	9.0	-5.2	-2.1	6.9
Unemployment (%)	8.9	6.3	8.8	11.4	12.5
FDI (cum.US$bn)	1.1	1.4	3.6	4.8	6.3
Forex rate (US$ ann. Avg.)	2033	3083	7200	8600	9500
Trade balance (US$bn)	-1.2	-2.5	-2.3	-2.8	-2.6
Govt. budget bal. % GDP	-4.1	-4.9	-3.9	-3.6	-3.4

Table 1C: Population, GDP, FDI

(*Source*: Various Publications)

	Population (million)	GDP ($) per capita	GDP ($bn)	Cumulative FDI ($bn)	Cumulative FDI ($) per capita)
Poland	38.6	3,575	138	21	550
Romania	22.7	1,493	34	3.5	150
Yugoslavia	10.5	Na	na	Na	na
Czech Republic	10.3	5,049	52	7	680
Hungary	10.2	4,412	45	17	1,667
Bulgaria	8.4	1,190	10	2	240
Slovak Republic	5.4	3,704	20	1	190
Baltics	7.6	2,500	19	7	920
Croatia	4.8	3,958	19	1,5	310
Slovenia	2.0	8,750	18	2	1,000
Ukraine	50.9	1,041	53	Na	na
Russia	148.0	3,142	465	10	70

Balkan countries are briefly mentioned because they are not entering the EU or NATO in the first wave (Greece is in both and Bulgaria is mentioned with CEE countries), and because the very existence of state structures in some of these countries is either questionable, both *de facto* and de *jure* (Bosnia-Herzegovina), or *de facto* only by internal disintegration (Yugoslavia and Macedonia) and by the impotence of the government to establish law and order (Albania). Therefore, and in order to give a complete picture, this author starts by giving essential (?) data about Balkan countries, bearing in mind that Croatia considers itself as a Central European country. The *Economist* gives the following figures for 1997 under the title "Could be better".

Table 2: Could be Better
(Published by the Economist 1/24/98 Survey the Balkans)

	GDP ($) per capita	Population (million)	Current Account Deficit (% gdp)	FDI per capita ($ net)	Military Spending 1996 (% GDP)	Corruption Index (0-9)
Albania	799	3.26	-9	10	1.88	5.7
Bosnia	815	3.7	-30	2.7	28.88	Na
Croatia	4110	4.7	-11	104	10.0	4.0
Macedonia	1845	2.1	-8	7.6	3.0	5.4
Yugoslavia	1456	10.5	-8	78.4	7.0	7.4

The above figures might even be less accurate than those for other countries in transition. The reason is that the situation in the Balkans is such that it is difficult to have precise statistical data.

Statistics or not, it is business as usual, with Cyprus as a financial paradise and crooks are happy with all kinds of embargoes; embargoes are difficult for populations, but are a fertile framework for large profits. So, the area is an example of an emerging economy *sui generis* with the government supplying minimum public services such as: post office, railways, airports, air traffic control, police to keep the mob quiet, money in the central bank (but even this is not a must as one can see in Bosnia and Albania) and what is most important, government officials as compulsory partners in some business. Greek companies in general, and oil companies in particular, are actively working on an economic project in the hope of bringing oil from the Black/Caspian Seas to the Mediterranean, and trying to play a major role in the region with their Orthodox allies. The risk is considerable, as might be the expected profit.

Now, this paper will focus on its main subject: the countries of Central Europe and the relative published statistical data, as in Tables 1A, 1B, and 1C. In the paper presented at the 1996 Colloquium, this author expressed reserves concerning the accuracy of GDP figures for countries in transition: GDP is overvalued by about 20% in those countries. Consequently, other indicators calculated as a function of GDP are over or undervalued. The following table gives GDP figures in some countries, as calculated by this author .

Table 3: GDP of Selected Countries According to the Author

Country	Czech Rep.	Hungary	Poland	Slovakia	Slovenia
1997 GDP ($bn)	39.3	36.0	106.8	15.2	17.0

But, if one assumes that wages represent 70% of the added value (sum of added values = GDP), then the Czech Republic's GDP in 1997 was US$35.5bn (US$1=35CZK). If wages are 60% of the added value, then the GDP is US$41.4bn. (Methodological points will be discussed later.)

However, one has to bear in mind the fact that in almost all countries under investigation, GDP in 1997 **decreased** in absolute terms. In the "stop period" the trade deficit, more often than not, is absorbed; Croatia is an exception. But the current account deficit will rise sharply in some countries, like Poland, because of credit expansion. (Domestic supply of credits to households creates artificial demand which cannot be met by domestic offer.)

For the moment, one can conclude from Tables 1A and 1B that both budget deficits *stricto sensu* and current accounts are plus/minus close to zero. But, other sources closer to the CEE countries give a quite different view of current accounts (trade balance) in 1997 as a % of GDP than the data in Tables 1A and 1B.

Table 4: Current Account Balance (1997)

Hungary	Poland	Czech Republic	Slovenia	Croatia
-11	-8.4	-8.8	-4.3	-25

Source: Poslovni Svijet 5/20/98, Zagreb

Foreign direct investment - and this really matters - will soon reach its peak in many of those countries. Sometimes it can be an isolated operation where foreign investors buy markets with the intention of closing the plants but eventually keeping the label or trademark. The reason is that factories in the USA/EU countries have enough capacity to supply the additional demand of CEE countries . In any case, there is an industrial overcapacity in many economic sectors in CEE economies. This is a part of the heritage from *l'ancien régime*.(e.g. 13 sugar factories in Hungary; and also steel mills in many countries). This is one of the causes of the low level of the Q ratio (see below).

These are conventional basic statistics indicating the macro-economic situation in CEE countries. Now, let us move from the macro-economic level to the corporate sector . This sector fuels the state budget both directly (corporate taxes) and indirectly (wages/income taxes, etc.).

The “à la mode approach” of fund managers, who look at what they believe to be promising companies in CEE countries can give some interesting indications. The five, so-called top fund managers (from Baring Assets, GE Investments, Pictet & C°, Fleming and Svenska Handelsbanken) constructed five US$10m portfolios in CEE countries. This is, of course, a very pragmatic and short-term approach and should be taken with reserve. However, this indicates the preferences of money holders, which is an important element.

Table 5: Choice of Fund Managers by Selected Countries

	Hungary	**Ukraine**	**Russia**	**Poland**	**Romania**	**Czech Republic**	**Croatia**
A	10	1	14	9	1	3	4
B	6	1	8	8	1	3	3

Source: CEER/WSJ No 5/1998

A = number of times that a national company was chosen
B = number of companies from each country

About 90% of the companies chosen come from three sectors: energy/oil, banking and telecommunications. In other words, companies from other sectors are “underperforming companies”, or their shares are not on the market, or they are not privatised yet. There are only three Czech companies, and fund managers are critical of the Czech situation. They say it is unregulated, that the banking system is bankrupt and that there are a lot of “crap companies” (CEER/WSJ n°5/1998 p.27). Going further, it is useful to present market capitalisation in some countries in the next table.

Table 6: Market Capitalisation in Selected Countries in US$bn and as % of GDP

Country	**Czech Republic**	**Hungary**	**Slovakia**	**Poland**	**Slovenia**
MC(US$/bn)	16.3	15.1	1.1	13.1	15.0
MC/GDP(%)	31	32	5	9	15

Source: author from various sources

But Table 6 does not answer the one essential question of the economies in transition: **the ratio market capitalisation/book value (Tobin's Q Ratio)**. The reason is that this ratio is a meeting point of economics, finance, accounting, law and public finance.

Table 7: Average Q Ratio for Selected Countries

Country	Czech Republic	Hungary	Slovakia	Poland	Slovenia
Q ratio %	50	60	40	45	70

Source: estimated by the author

In other words, investors ("market") will buy quoted companies for only half the book value (accounting value). In many cases even less. Only telecommunications, energy and banking have Q ratios larger than 1 (at or more than 100%). Knowing that quoted corporations could, under some circumstances, be considered "family silver", then the important questions are: why is the Q ratio so low and what about non-quoted corporations; what are the privatisation costs for tax payers/government?

This author, with a few others, has always supported the thesis that the net worth of the corporate sector, as a whole, in the CEE countries is **negative**. This does not mean that some corporations do not have positive net worth [= assets (goodwill included) less liabilities greater than one], and many have also one or two valuable assets. (An example of valuable assets can be a building in the centre of Prague, Budapest, Warsaw or Bratislava.) But, companies that have a positive net worth are a small percentage of the corporate sector and the value of an asset does not mean that the company has a positive net worth.

The corporate sector in countries in transition needs, first of all, markets for their products and money for modernisation - all types of modernisation. It has none. Interest rates are high (12%) in comparison to about 6% in the EU. So-called "globalisation", in reality competition, hardly hits these transition countries. Their economies and their assets (corporate, social; such as roads, hospitals, banking and governmental) have to catch up on decades of lost time. Therefore, they cannot compete with incoming competitors who have money, technology and, when necessary, the backing of their governments, e.g. export credit insurance. They cannot build their competitiveness on cheap labour like Asian countries. Their agriculture also meets serious competition and is not ready for the EU. The standards of CEE agricultural products do not meet those of the EU.

Western industrial and agricultural production can easily meet the present level of demand for products in CEE countries. In other words, if corporations from CEE countries do not find their niche, their physical assets will remain just idle capacity because of globalisation. The above general view is necessary when the issue is the role of the state in the transitional period.

The Nature and Role of the State in the Transitional Period

Eight years ago the CEE countries had socialist/totalitarian states. About 30 years ago the EU had a welfare state. What kind of state is the "transitional" state? Or, to put things clearly one has to ask: How does the political elite in the CEE countries perceive the nature of the state? What are the state functions? What do investors need a state for? And regarding NATO - what is the role of the state in defence matters?

In the very beginning of the transitional period, everybody asked for rapid change. The magic words were "market" and "privatisation" (the opposite of "plan" and "etatisation"). The approach was, like in the beginning of the ancient régime, ideological and political and it underestimated the real difficulties and issues were neglected. In most countries, at least until now, voters (society) were not able to rank their preferences consistently and ruling majorities were weak and changed often. They noticed that governments could not deliver what they promised, that unemployment was rising, that control of the privatisation process was lost that there were many irregularities during this process. Voters finally realised that there was a deep misunderstanding because, when voting for the market and privatisation, they had the impression that they were voting for a better life. And that was a wrong impression.

This author has no information about politicians trying to raise the issue of the nature of the state in the transitional period, except that it is a "democracy". They could hardly say something reasonable when faced with; rising unemployment (read social unrest), social security and pension fund deficits, many banks and corporations practically bankrupt, and enormous infrastructure financing needs (roads, ports, railways). Bearing in mind that foreign capital requires high quality infrastructure, governmental involvement in infrastructure financing is a must.

So, theoretically, one could say that the transitional state is, simultaneously, a market actor and a market regulator as is any other EU state. But, with a difference: it lacks instruments and experience to successfully carry out this mission. As a **market actor** it can influence interest rates, social transfers, the supply of public goods, demand for public goods (national defence) and it can distort the market by subsidies (the labour market is subsidized). In many cases it is also, directly, the most important share holder in many corporations and banks. Indirectly, the state controls many corporations through banks. As a **market regulator**, the state is supposed to pass laws in order to regulate markets. In this mission it not only failed, but also contributed to the disfunctioning of markets. Symbolic penalties, when they exist, are incentives for wrongdoing (corruption of officials etc.). The absence of a financial market watchdog and appropriate criminal laws leads to activities which in France and Germany are considered, at the least, wrongdoing and in transition countries are “normal”. A case-in-point is insider dealing: a criminal offence in the EU, but normal activity in CEE countries. The question is: how long will it take the state apparatus in countries in transition to become an effective regulator of economic activities?

Tax laws are apparently business-friendly in all countries. But, the way they are collected are far from that, especially in countries where VAT has been introduced such as in the Czech Republic and Croatia. Also, accounting rules and depreciation rules (depreciation periods too long) artificially increase benefits, so *de facto* marginal rates are higher than legal marginal rates. This is the case in most CEE countries. The evaluation process of companies to be privatised is a textbook case of the failure of CEE states both as market actor and regulator.

For the EU candidate countries there are two new legal concepts to be introduced in **their** budgetary legislation: GDP and GNP. Many have the impression that they are familiar with these two concepts, but this is a wrong impression as will be mentioned later. GDP and GNP are not very accurate. According to a European Community directive from 1989, both have to be established and presented according to the **European System of Economic Accounts** - version 1995. Contrary to its name, this is not an accounting system but a **Statistical Methodology**. So, GDP and GNP are, *per se*, just economic indicators, more or less precise, that suddenly became legal concepts. They serve to impose budgetary discipline (??!!), to establish the “criteria of convergence”, the percentage of share capital in the European Central Bank, etc. The new members will have to transmit their national statistics with methodological explanations to the Eurostat in Brussels. So they will have to upgrade their statistical offices.

Central government budgets on top of their current expenditures have to finance two large deficits: the social security deficit and pension fund deficit and to support “privatisation costs” because both are bankrupt in all countries. In Slovenia, pensions represent 13% of GDP, as in Italy. Pensions are a time bomb in both East and West - it is very difficult to have a precise financial picture on this subject. In reality, nobody knows what the situation is with even a reasonable approximation. In this case, the state has to play its sovereign role. Partial privatisation of pension funds - with the help of foreign insurance companies - is a partial solution. (Local companies do not have the required level of capital or resources.)

Local government finance is also very difficult to evaluate with precision. One could ask why budget deficits are not larger. The reason is that VAT (22% where introduced) and other taxes are collected regardless of the real situation of a corporation: provisions for doubtful claims are not allowed. The other reason which is more important is that banks give loans to corporations in order to pay wages and social contributions. But government and social security do not pay hospitals which are in a state of economic collapse.

The Polish government will pay pensions with privatisation money, some day. The Croatian government does pay pensions, but one month after the due date, etc. They are zero % compulsory loans granted by households to the government. Pension funds and social security are bankrupt. Some call this system “budgetary euthanasia”. Governments of all these countries go to the foreign markets and to the IMF for loans. In order to finance roads and railways about US$50bn is needed immediately for Hungary, Poland, the Czech Republic, Slovakia, Slovenia, Croatia, Romania and the Baltic states. Out of that, US$12.5bn is needed for railways. And, according to the CEER/WSJ private funding is quasi non-existent for this purpose (Eurotunnel, slow pay-back period, etc.). However, some Baltic ports are success stories.

The physical interlinking of the ground transport network of CEE countries with the high speed network of the EU is a heavy financial burden for the taxpayers of those countries. Privatisations costs are the expenditures incurred by governments in order to make corporations which are to be privatised attractive to investors. Banking privatisation in Hungary, the Czech Republic and Poland is a money-losing operation for the government. Some banks had to be assisted five times before their shares were presented to investors. Will modernisation follow privatisation? **The modernisation costs of just civil industries and social infrastructure are, for the next 10 years, equivalent to the 1997 GDP in each CEE country, and even higher in candidate countries.**

Defence Aspects

In the defence sector, governments are free to join NATO. And then what? The Slovenian Foreign Commerce Minister, in his introductory speech, pointed out that NATO membership has an economic value for future members. That is correct for the moment. However, here one has to distinguish two defence policy aspects which Poland, Hungary and the Czech Republic have to take into account: **NATO membership on the one hand and European security and defence identity on the other.** They have to contribute to both; not an easy task.

Defence industries in future member counries will be approached by both US (like Czech Republic airplanes) and Euro defence corporations. And the two are competing with each other. In any case, due to financial reasons, CEE defence industries in general, and those of future members in particular, will have to find some kind of economic *modus vivendi* with NATO/EU industries. This author does not think that the relatively small size of the CEE defence industrial base is an absolute handicap - as he does not see the mega size of US /EU defence corporations as an absolute advantage.

The defence procurement policy in CEE countries that are short of cash is an even larger problem than for governments of existing NATO members.

Strategically speaking, no one can say where the enemy is or what the threats or risks are. Peace-keeping missions are not a success story and do not require military divisions on such a scale, nor such a volume of hardware.

Due to the difficult economic situation, governments have introduced a policy of downsizing manpower and hardware refitting. The refitting market is booming and it seems that the military industries of those countries have found a niche. But Russia and Israel are serious competitors. The Czech Republic, Ukraine and Russia refitted T-72, among others. Slovakia has kept its military industry almost the same as it was during the Warsaw Pact, with strong links towards Russia.

Budgets are a small percentage of GNP. Money spent on wages and minimum current maintenance represents around 80% of defence expenditures in all countries. It seems that in Slovenia wages represent about 50% of the budget. In other words, there is little left for R&D. In this respect, the international division of military missions within the Alliance has its economic justification and contributes to the cohesion of NATO. On the other hand, western defence industries have smaller markets. Still, the costs of joining NATO will be considerable. No one has done cost/benefit analysis of adhesions for both NATO and new members.

It is the opinion of the author that the greatest benefit of adhesion for both NATO and the new members is insurance against extremism (internal and external). Privatisation, and after that modernisation, will put a great burden on the population of those countries with rising discontent a likely outcome. Being in NATO, these countries run no risks of seeing extremists "democratically" seizing power.

Some Methodological and Theoretical Aspects of the States' Role in Transition

A theory of the transitional state is yet to be elaborated, partly because this period for CEE countries will be long. But, primarily, it is necessary to get rid of the "politically correct" way of speaking and to perceive the phenomena clearly. To start, the problem in transition countries is that capitalism is introduced in those countries but there is no capital. Private ownership and capital need markets. And markets cannot function without capital, because markets satisfy solvent demand **and not needs**. When needs are close to the demand (solvent) then a country is stable. In the CEE countries the gap between needs and the capacity to satisfy them (solvent demand) is large. Economic research should focus attention on this issue.

Government officials did not apply International Accounting Standards (IAS). Corporations are evaluated as a going concern. This means that the loss of markets and other economic changes are not taken into consideration for evaluation.

They would be if IAS were applied. So, corporations are considered to be in the "business as usual" situation (the technical term is "going concern"). In that case, corporate asset evaluation is done *grosso modo* on the historical cost basis. If IAS were applied, that would mean that the loss of markets is taken into consideration. Then, corporate assets are valued at their liquidative value and this can make a big difference: not only financially, but also legally, one should not sell shares of bankrupt companies to the public (households). But privatisation is done under the pressure of "employment policy".

Calculating GNP/GDP and adapting the statistical methodology to the Eurostat methodology (regardless of its shortcomings) is a must for future member states. They still rely on tools from the ancient régime and the base year used for calculating GDP is unknown to this author. Fixing a new "base year" requires huge methodological work and requires "mobilisation" of numerous qualified personnel. Once the base year is fixed, then the figures for the following years are calculated (estimated) in % of variations. The base year in France today is 1980! GDP growth should not be considered as growth of money on a savings account.

En guise de conclusion

The difficulties that CEE countries are facing and will face in the near future are large. The "market" cannot provide solutions for all of them. The market also needs an arbitrator. So, the state and statesmen still have an important role to play. But, first, they must transform their socialist-educated bureaucrats into efficient and honest civil servants in charge of bonum commune, which is extra commercium. Then, a new wave of privatisation could take place. And a new model. But, for countries that are still in the process of privatisation, the model should be changed. In principle, the new one would be simple. Those that are willing to privatise (buy) and have cash should set up a company and then this new company could buy **assets** (not shares): buildings, plans, equipment, etc., of companies that the government offered for privatisation. But, why simple, when complicated is more lucrative?