

Microeconomic Issues in the Transition to a Market Economy

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Abstract

In view of the inflationary experiences in most disintegrating socialist economies, the establishment of macroeconomic stability has been a natural focus of the intellectual and policy debate about the reform. However, evidence from developing countries suggests that a one-sided preoccupation with macroeconomic issues may be unfortunate, as macro stabilization programs tend to unravel in the presence of an inadequate micro adjustment. This finding is important because the socialist system introduced microeconomic distortions that probably transcend those observed in the third world. The recent developments in Poland, Yugoslavia and the Soviet Union also support the hypothesis that macro stabilization will be difficult to achieve in the transforming socialist economies in the absence of adequate micro-adjustments.