

Summary of Bank's 1990 Economic Symposium

By Gordon H. Sellon, Jr.

Within the past year, the Soviet Union and other countries in Eastern Europe have begun a radical transformation from centrally planned to market-oriented economies. As part of this process, these countries have initiated comprehensive economic reforms, including the development of new financial markets and institutions and the creation of independent central banks.

To assist policymakers in these countries, the Federal Reserve Bank of Kansas City sponsored a symposium on "Central Banking Issues in Emerging Market-Oriented Economies," at Jackson Hole, Wyoming, on August 23-25, 1990. At the conference, officials from the Soviet Union, Poland, Czechoslovakia, Hungary, Yugoslavia, Bulgaria, and Romania exchanged views with western experts on the role of central banks during and after the transi-

tion to market-oriented economies.

This article highlights the issues raised at the symposium. The first section provides an overview of the challenges facing policymakers in the newly liberalized economies and identifies the main issues discussed at the conference. The following four sections summarize the viewpoints of the program participants and their policy recommendations.

I. Overview

The purpose of the Bank's symposium was to open a dialogue between policymakers in the East and West. As part of the exchange of information and ideas, policymakers in the Soviet Union and Eastern Europe described economic and financial reforms currently underway in their countries and identified problems to be overcome. In response, western experts discussed the role of central banks in market-oriented economies and suggested possible solutions to these problems.

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Challenges in emerging market-oriented economies

Policymakers in the Soviet Union and Eastern Europe have a common goal—to transform their economies from a system in which resources are allocated by central planning to a system in which resources are allocated by prices established in competitive markets. Reaching this goal will require considerable institutional changes. Legal systems will have to be altered to establish individual property rights, state ownership of resources will have to be transformed into private ownership, and accounting systems will have to be introduced to accurately determine the financial status of business. Most importantly, households and firms will have to adapt to a world in which they gain the economic freedom to choose but lose the protection of the state against job loss and bankruptcy.

A key element of the reform process in each of these countries is the development of financial markets and institutions. Under central planning, commercial banks and other private financial intermediaries played no role in the allocation of savings and investment. Moreover, the state or central bank served only to channel funds to state-owned enterprises according to the central plan and to finance state deficits by printing money. Currently the Soviet Union and countries of Eastern Europe are in the process of establishing a commercial banking system, money markets, and capital markets. These countries are also attempting to establish central banks separate from the commercial banking system and independent of the financing operations of the government.

In each of these countries, serious roadblocks lie in the path of economic reform. While some of the obstacles are political, many are economic. In several of the countries, deficit spending financed by money creation has led to a severe problem of inflation. In these countries, restrictive policy measures to curb inflation add

to the economic costs of reform.

A related problem in some countries is the so-called monetary overhang, the accumulation by households of large currency balances that could not be spent because of shortages of consumer goods. Unless neutralized, these balances could cause an upsurge in domestic inflation or an increase in imported goods that would drain foreign exchange reserves.

Finally, some of the countries have severe external and internal debt problems that may hinder the reform process. Those countries with large foreign debts are faced with diverting resources from domestic development to repay these loans. Other countries have firms and financial institutions that, because of past losses, are technically insolvent. These institutions either must be closed or recapitalized if they are to play a role in a market-oriented economy.

Central banks and economic reform

At the symposium, western experts stressed that central banks can play a key role in the reform process currently under way in the Soviet Union and Eastern Europe. In the course of the discussion, broad agreement emerged on three issues: first, the primary focus of central banks should be to maintain price stability; second, central banks should play a role in developing and supervising new financial markets and institutions; and third, central banks should support the establishment of currency convertibility early in the reform process.

Many participants viewed inflation as a serious threat to the reform effort. A burst of inflation early in the reform process could undermine the credibility of the program. Moreover, without overall price stability, firms and households would have difficulty responding correctly to relative price signals. In this situation, newly developed markets might not allocate resources efficiently.

Government deficits and the monetary

overhang were seen as the biggest obstacles to price stability. Western experts agreed that budget deficits in the Soviet Union and other countries should be reduced or eliminated. They also stressed that central banks should have a degree of independence from the treasury or finance ministry so that deficits would not continue to be monetized. To reduce the inflationary potential of the monetary overhang, western authorities suggested a variety of solutions including the sale of state assets as part of a privatization process, the creation of new savings instruments, and currency reform.

Central bankers from western countries also focused on the difficulties of conducting monetary policy in the transition period. Without financial markets and with only a rudimentary banking system in the emerging market-oriented economies, the traditional channels of monetary policy are not operational. Moreover, because of the difficulty of defining and measuring monetary aggregates, central banks may not have short-run guides to the effectiveness of policy. In these circumstances, many participants felt central banks would have to rely on quantitative credit controls and discount window credit to conduct policy. To implement a restrictive monetary policy, some participants suggested controlling the total amount of central bank credit. Others advocated pegging the exchange rate to a country with a low inflation rate as a method of importing a restrictive monetary policy.

Western experts also agreed that central banks could play a leading role in developing new financial markets and institutions in the Soviet Union and other emerging market-oriented economies. They stressed the importance of establishing stable, safe, and efficient systems of monetary payments and financial intermediation. To this end, central banks should help develop money and capital markets and create a modern payments system. More importantly, central banks should develop a system of prudential supervision and regulation

that encourages financial intermediaries to make fair and accurate judgments about the creditworthiness of firms and households.

There was also a broad consensus reached at the symposium on the issue of currency convertibility. Participants agreed that current account convertibility should be established relatively early in the reform process. Opening up domestic markets to foreign goods has several benefits for the emerging market-oriented economies. First, convertibility provides a benchmark for market prices of goods that is missing in centrally planned economies. That is, convertibility provides the guidance of prices already established on world markets. Second, convertibility introduces the discipline of world competition, forcing domestic producers to become more efficient or fail. Third, convertibility provides consumer goods to households previously accustomed to shortages and rationing. In addition, with the appropriate exchange rate, convertibility may boost exports, providing both a stimulus to the domestic economy and increased foreign currency reserves. Most participants felt, however, that because of the danger of capital flight, full currency convertibility should be postponed until later in the reform process.

Despite broad agreement on these three issues, significant differences of opinion emerged in other areas. One controversial issue was the choice of a fixed or flexible exchange rate system. Supporters of fixed rates cited the monetary policy advantages of pegging the domestic currency to that of a country with a strong commitment to price stability. They also emphasized the use of foreign prices as a benchmark for establishing a domestic price system. Proponents of flexible rates focused on the large resource adjustments that would take place in the reform process. In their view, a fixed nominal exchange rate placed too much of the adjustment burden on real exchange rates and on the prices of domestic, non-traded goods. In addi-

tion, if a country had too few foreign exchange reserves, it would be difficult to set and maintain a credible fixed exchange rate.

Differences of opinion also surfaced on the speed of the reform process and the sequencing of reforms. For example, a number of participants argued that the creation of money and capital markets should occur early in the reform process. Other participants suggested that banking reform should have priority. While there were a number of proponents of the rapid or "Big Bang" approach to reform such as occurred in Poland, other attendees favored a more gradual reform process. However, most participants felt that the timing and sequencing of reforms would probably differ from country to country depending on the severity of current economic problems and on the degree of domestic political consensus.

II. Issues and Options

Four presentations at the symposium surveyed the major issues and outlined the policy options for central banks in emerging market-oriented economies. In his keynote address, Paul Volcker provided an overview of the role that central banks play in a market economy. John Crow then examined the difficulties of maintaining price stability and monetary confidence during the transition to a market economy. E. Gerald Corrigan focused on the role of central banks in establishing an efficient, safe, and sound financial system. In the final presentation, C. Fred Bergsten and John Williamson explored the issues of currency convertibility and the choice of an exchange rate system.

The role of central banks

Although central banks can play a variety of roles in a market economy, Paul Volcker emphasized the importance of price stability to the reform efforts under way in the Soviet Union

and Eastern Europe. While noting that central banks are not the only way to maintain price stability, he felt the establishment of a strong, independent central bank was likely to enhance the credibility of the reform effort.

Volcker also identified other responsibilities of a central bank. Central banks can promote the stability of the financial system through supervision and the provision of liquidity facilities. Central banks are also a natural focus for efforts to improve the payments system. Given the enormous need for economic training in these countries, Volcker suggested that the central bank could provide technical expertise and act as a focal point for international contact and interaction.

In Volcker's opinion, the transition from central planning to a market-oriented economy poses especially difficult problems for monetary policy. Because of problems in interpreting interest rates, prices, and monetary aggregates, central banks might not be able to implement discretionary policies. In this event, he suggested that a convertible currency and a fixed exchange rate system might be a useful way to anchor expectations about price stability.

Central banks and the control of inflation

While price stability is an important goal in mature market economies, John Crow emphasized that it is an equally important objective in the reform process under way in the Soviet Union and other countries in Eastern Europe. Without overall price stability, he argued, it is difficult for firms and households to correctly interpret market price signals. Thus, in his opinion, price stability and monetary confidence are central to the reform process.

According to Crow, there are three basic ways the central bank might establish price stability: a fixed exchange rate system, a restrictive policy guided by domestic indicators, and a wage or incomes policy. In Crow's opinion,

each option has some limitations. A fixed exchange rate system promises to enhance domestic credibility only if people believe there is a long-term commitment to the system. This commitment may be difficult to maintain because of the large resource adjustments required during the reform process. Monetary aggregates and other domestic economic indicators used by western central banks may be unreliable because of institutional changes during the reform process. Wage or incomes policies may serve to anchor the inflation rate in the short run but are inconsistent with market-determined prices over the longer run.

Crow also stressed the importance of building financial markets and institutions so that central banks can conduct policy through market-based means. The central bank may want to take a lead role in establishing a money market similar to what occurred in Canada. The development of a money market would not only open channels for monetary policy, but would also allow government deficits to be financed without money creation. Because weak financial institutions can pose a constraint on monetary policy, Crow also argued for a system of prudential supervision.

According to Crow, the newly emerging market economies face three immediate challenges to establishing price stability and monetary confidence. First, fiscal reform is necessary to remove the inflationary force of budget deficits. Second, a privatization program, currency reform, or other means must reduce the inflationary consequences of the monetary overhang. Finally, positive real interest rates must be established to provide incentives for saving and to allow credits to be differentiated on the basis of risk.

Central banks and the financial system

In his presentation, Gerald Corrigan advocated that central banks play a key role in devel-

oping financial markets and institutions. In Corrigan's view, stability of the banking and financial system is crucial to the stability of the overall economy. Financial stability, in turn, requires public confidence in both the banking system and the central bank.

The banking and financial system has two important functions: to mobilize and channel savings to productive investments and to provide a safe and reliable payments mechanism. According to Corrigan, the central bank can improve the efficiency of the financial intermediation process and promote public confidence through a system of prudential supervision and through active involvement in the development of the payments mechanism.

In the reform process, Corrigan suggested giving priority to the development of the banking system. In his view, policymakers need to ensure that the banking system is independent from both the government and central bank. This implies that the banking system should be privately owned or, at the minimum, privately managed. In addition, the central bank should be independent of government financing operations and should not be required to subsidize inefficient financial or nonfinancial enterprises.

Once the banking system is established, Corrigan would give priority to developing a government securities market. This market would assist in government financing operations, open a channel for monetary policy, and could also serve as a model or catalyst for the development of capital markets.

Central banks and currency convertibility

As the Soviet Union and other countries in Eastern and Central Europe move toward freer markets, currency convertibility and exchange rate systems will become important policy issues. In their symposium presentation, C. Fred Bergsten and John Williamson examined convertibility

options open to policymakers, the selection of an exchange rate system, and the pace of currency and exchange rate reform.

Bergsten and Williamson favored introducing current account convertibility early in the reform process. In their view, current account convertibility is necessary to integrate the domestic economy into the world trading system. Convertibility also allows world prices to be used as a benchmark for developing a domestic price system. Because of the danger of capital flight, however, the authors suggested that capital account convertibility be deferred. They also argued that convertibility should be established with other currencies rather than with gold.

In the early stages of the reform process, Bergsten and Williamson advocated the use of a fixed exchange rate system with domestic currencies pegged to those of major western trading partners. They argued that in the transition period it will be difficult to conduct monetary policy under a flexible exchange rate system. They also believed floating rate systems can become severely misaligned. At the same time, they recognized that changes in par values will be necessary over a longer period as markets and industries are restructured. As to the problem of choosing an initial exchange rate, the authors recommended the domestic currency be devalued to the extent necessary to stimulate a competitive export sector.

Bergsten and Williamson also examined the appropriate speed of currency and exchange rate reform. They noted that, historically, gradual approaches to convertibility have been favored in Western Europe and elsewhere. Given the serious economic problems in the Soviet Union and some other countries, however, the authors suggested a more rapid approach may be preferred.

III. Policymakers from Eastern Europe and the Soviet Union

Policymakers from Czechoslovakia, Poland, Bulgaria, Yugoslavia, the Soviet Union, Romania, and Hungary outlined economic reform programs in their countries and discussed the role of central banks in the restructuring process.

Recent developments in Czechoslovakia

In his luncheon address, Vaclav Klaus discussed the current status of reforms in Czechoslovakia and examined political obstacles to reform. According to Klaus, a number of institutional and economic policy changes were made in the first eight months of 1990. Important measures included: abolishing state planning agencies, creating a two-tier banking system, adopting restrictive monetary and fiscal policies, devaluating the currency and liberalizing trade, reducing subsidies to consumers and producers, and enacting legislation to support the creation of a private sector. At the beginning of 1991, the government plans to introduce a privatization program, price reform, and currency convertibility.

In Klaus' view, there are many political obstacles to the reform movement in Czechoslovakia. Some groups in Czechoslovakia are hesitant to embrace a pure market economy. Other groups continue to believe in a modified planned economy. Thus, debate continues over the extent and pace of economic reform.

Josef Tosovsky provided a more detailed look at currency convertibility in the Czechoslovakian reform program. According to Tosovsky, policymakers favor a rapid implementation of current account convertibility once two preconditions are met. First, a restrictive monetary and fiscal policy must be firmly in place to curtail inflationary pressures. Second, the domestic price system must be liberalized

parallel to the introduction of convertibility. When convertibility is introduced in 1991, policymakers plan to devalue the currency and maintain a fixed rate with either the deutsche mark or the ECU.

Recent developments in Poland

Poland has moved very rapidly along the reform path. As described by Wladyslaw Baka, the Polish program has two objectives: to curb inflationary pressures and eliminate goods shortages, and to make the institutional changes necessary to create a market economy. To accomplish the first goal, policymakers introduced restrictive monetary and fiscal policies, curbed wage increases, adopted currency convertibility and a fixed exchange rate, and liberalized domestic prices. As a result of these measures, inflation has fallen dramatically and a growing trade surplus has increased foreign exchange reserves. At the same time, however, production, consumption, and employment have declined much more than anticipated.

In addition to monetary policy, the National Bank of Poland is involved in restructuring the banking system and in creating new financial markets. According to Baka, commercial banking functions have been separated from the central bank. Privatization of the large, state-owned commercial banks is handicapped, however, by a lack of capital. The central bank is also involved in developing a modern payments system, in creating a money market, and in establishing new accounting and supervisory standards. According to the new banking law, the central bank in Poland is prohibited from financing budget deficits of the state or state enterprises.

Recent developments in Bulgaria

Ivan Dragnevski discussed financial and banking reforms in Bulgaria and examined some of the problems facing policymakers during the

transition period. According to Dragnevski, the first steps toward banking reform were taken in 1989 with the creation of a two-tier banking system. Fifty-nine new commercial banks were created from branches of the national bank. These banks are permitted to make business and mortgage loans and to accept deposits from individuals. However, these institutions continue to be owned by the state and must compete with larger state-owned financial institutions.

Dragnevski also described policy measures to promote price stability. To reduce the inflationary consequences of a large monetary overhang, he suggested that interest rate ceilings will have to be removed. In addition, since the beginning of the year, a system of credit restraints has limited the lending activities of commercial banks.

Recent developments in Yugoslavia

According to Mitja Gaspari, policymakers in Yugoslavia have concentrated on halting inflation as a prerequisite for undertaking fundamental structural changes in the economy. Emergency measures to curb accelerating inflation include: restrictive monetary and fiscal policies, currency reform, an incomes freeze, elimination of indexation, and currency convertibility.

Thus far, the Yugoslavian program has had mixed results. On the positive side, inflation has come down dramatically, and a large trade surplus has led to increased foreign exchange reserves. However, industrial production has fallen sharply. In addition, wage growth continues to be strong, and a lack of federal control over republic spending raises prospects of renewed budget deficits.

Gaspari also described some of the structural reforms under way in Yugoslavia, including the transformation of banks and other firms to profit-oriented entities. In his view, the large amount of nonperforming loans on bank balance sheets is a serious constraint on the reform process.

Recent developments in the Soviet Union

Victor Gerashchenko viewed inflation as a serious impediment to the development of a market-oriented economy in the Soviet Union. Part of the inflationary pressures are due to the accumulation of large state deficits in recent years. According to Gerashchenko, there are also "price push" pressures on prices. The decentralization of industrial decision-making has allowed some enterprises with monopoly power to raise prices considerably.

To deal with monetary overhang in the Soviet Union, Gerashchenko also advocated increased production of consumer goods, housing reform, and an expansion of investment opportunities for consumers. In his opinion, liberalizing interest rates to permit positive real rates is a necessary step to get households to increase savings voluntarily. He also stressed that the central bank must be freed of responsibility for financing the government deficit if it is to pursue a successful anti-inflation program.

Recent developments in Romania

In his presentation, Mugur Isarescu described the reform process in Romania. In his view, the transition from central planning to a market-oriented economy in Romania involved three steps: dismantling central planning institutions and creating market institutions, converting property from state to private ownership, and establishing a social safety net. Under new legislation, three-quarters of state enterprises have been transformed into commercial companies and are to become fully privatized over time. Other bills encourage private entrepreneurship and relax regulations on foreign investment. Legislation is currently being drafted to restructure the banking system.

On the issue of currency convertibility, Isarescu characterized Romanian policy as "rapid gradualism." That is, convertibility is to

be introduced in stages starting with exporters being able to retain an increasing fraction of their foreign exchange earnings. A system of foreign exchange auctions will then permit companies to trade foreign exchange. The intent is to raise the retention rate over time until full current account convertibility is achieved.

Recent developments in Hungary

Imre Tarafas commented on the difficulty of conducting monetary policy during the transition to a market economy. In Hungary, two factors limiting the effectiveness of monetary policy are the underdeveloped banking system and the lack of financial discipline at firms. The latter problem has made it difficult for the central bank to implement an anti-inflation program. Without hard budget constraints, firms continue to spend when policy is tightened and so place upward pressure on prices.

According to Tarafas, monetary policy in Hungary is currently focused on the current account. Restrictive policy has led to a sizable improvement in the trade balance and foreign exchange earnings over the past year. Because of the price pressures stemming from firms, the central bank has had to devalue the currency. For this reason, Tarafas suggests that a fixed exchange rate system is not feasible for Hungary in the transition period.

IV. Western Discussants

Western experts examined central banking issues in the reform process in the Soviet Union and Eastern Europe and proposed solutions to some of the problems identified by policymakers in these countries.

Central banks and the control of inflation

Martin Feldstein focused his remarks on the

problem of controlling inflation in the Soviet Union. According to Feldstein, a prerequisite to market reform in the Soviet Union is a sound monetary and fiscal program aimed at eliminating budget deficits and absorbing the rouble overhang. Principal methods of cutting the budget deficit include: increased tax revenues, lowered subsidies, and reduced spending on heavy investment and the military. To reduce the rouble overhang, Feldstein preferred voluntary approaches, such as the creation of attractive savings instruments for consumers.

Lawrence Kudlow described some of the problems hindering the movement of western capital into Eastern Europe. Kudlow argued that currency risk must be reduced before western investors will be willing to commit funds. Thus, he emphasized the need for currency convertibility and the use of fixed exchange rates or other methods of reducing exchange rate risk. He also noted that bureaucracy and excessive state regulation made it difficult for western investors to function in Eastern Europe.

Allan Meltzer emphasized the importance of price stability in the reform process. He argued that overall price stability is necessary if relative prices are to act correctly as signals for resource allocation. Price stability, in turn, requires fiscal and price reforms. The central bank will not be able to establish credibility in its commitment to price stability unless it is free of requirements to finance deficits of the state and state enterprises. In addition, an efficient market economy requires price flexibility. Thus, Meltzer cautioned that once market prices are established, governments must resist pressures to cushion the impact of wage and price changes.

Georg Rich also saw price stability as important for newly developed markets to play their proper allocative role. To maintain price stability, Rich suggested the central bank choose a monetary anchor at the beginning of the reform process. This step is necessary to create

stable price expectations and to ensure that the central bank is removed from deficit financing requirements. Rich indicated a fixed exchange rate might provide a useful short-run monetary anchor. Over the longer term, however, he thought the central bank might switch to a domestic monetary or credit aggregate to allow the exchange rate to shield the economy from external shocks.

Niels Thygesen commented on the merits of fixed exchange rate systems for promoting price stability. In his view, the European Monetary System provided a useful guide to central banks in Eastern Europe. According to Thygesen, the EMS has led to convergence toward lower inflation rates within the European Economic Community. Thus, he suggested that Eastern European countries should consider fixed rate systems with their main trading partners in Western Europe.

Central banks and the financial system

Andrew Crockett argued that reform of the financial system in Eastern Europe and the Soviet Union is crucial to the success of the overall reform effort. Specifically, a reliable payments system is central to the development of an efficient system of resource allocation. And, an effective system of financial intermediation is essential for savings to be allocated to the most productive investment opportunities. Crockett identified four steps toward financial reform. First, commercial banking activities must be removed from the central bank to create a decentralized, competitive banking system. Second, effective settlement and clearing systems must be introduced. Third, reforms must extend beyond the banking system to the development of money markets. Finally, the central bank must develop a system of prudential supervision and regulation.

Mervyn King emphasized the responsibility of the central bank for ensuring financial stabil-

ity. He noted that, in the West, central banks emerged after the development of financial markets. Their primary responsibility was to provide stability and prevent financial crises. In Eastern Europe, the challenge is reversed—how to create a system of privately owned commercial banks from a centralized system. According to King, central banks in these countries will be faced with the conflicting responsibilities of promoting competition while maintaining safety and stability.

Philippe Lagayette suggested there are important linkages between central bank responsibilities for monetary policy and financial stability. Because central banks must move interest rates to conduct monetary policy, the financial system must be strong enough so that financial crises do not result when policy is changed. To ensure financial stability, Lagayette argued that the central bank must have responsibilities for supervision and regulation.

Central banks and currency convertibility

Richard Cooper focused on the role of currency convertibility in the Soviet Union. In his view, current account convertibility would have a number of beneficial effects including: introducing effective competition, aligning Soviet prices with world prices, providing more consumer goods, and stimulating export industries. As preconditions for convertibility, Cooper emphasized that enterprises must have hard budgets and that an antiinflationary macroeconomic policy must be in place. In these circumstances, he favored establishing convertibility at a fixed exchange rate.

Jacob Frenkel also emphasized the importance of current account convertibility. For convertibility to be successful, however, Frenkel argued that four preconditions must be met. First, an appropriate exchange rate must be in place. Second, adequate international reserves

must be available. Third, macroeconomic stability must be established, including the elimination of budget deficits and the monetary overhang. Finally, the price system must be reformed and state enterprises must be privatized or become profit-oriented.

Arnold Harberger viewed currency reform in Eastern Europe from the perspective of similar reforms in Latin America. While favoring current account convertibility and fixed exchange rates, Harberger noted that the speed of reform and the choice of exchange rate systems depend upon a country's economic situation. Thus, in some circumstances in Latin America, gradual movements to convertibility using currency auctions have been quite successful. For a rapid or "Big Bang" approach to work, Harberger argued that macroeconomic stability must be established prior to convertibility.

V. Overview Panelists

In his summary of the issues raised at the symposium, Leonhard Gleske emphasized the importance of price stability and currency convertibility to the reform programs in Eastern Europe and the Soviet Union. According to Gleske, monetary stability is vital if market prices are to provide correct signals for resource allocation. Domestic monetary stability is also a prerequisite for establishing current account convertibility.

Gleske also observed that monetary stability is not sufficient to ensure real growth in these economies over the longer term. Equally important are structural policies aimed at increasing the supplies of goods and services. To be effective, Gleske argued that structural policies must change both institutions and attitudes. By improving the supply response of the economy, structural policies will promote price stability.

In his closing remarks, Alan Greenspan examined the differences in the roles played by financial institutions in centrally planned and

market-oriented economies. He noted that the key function of commercial banks in a market economy is the reduction of financial risk through diversification. If successful, banks can reduce real interest rates, increase investment, improve productivity, and raise standards of living. Central banks can assist in this effort by providing liquidity facilities, supervision, and payments system services.

VI. Conclusion

The process of economic reform is well under way in Eastern Europe and the Soviet

Union. The move from a centrally planned to a market-oriented economy requires fundamental changes in the legal, economic, and financial systems of these countries.

Participants at the Federal Reserve Bank of Kansas City's 1990 symposium agreed that central banks can make important contributions to the reform efforts. Central banks can promote a stable macroeconomic environment and can play a role in developing new financial markets and institutions. By supporting the establishment of currency convertibility, central banks can also assist in the integration of these countries into the world economic system.

Central Banking Issues in Emerging Market-Oriented Economies

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August 23 - 25, 1990

Moderators

LORD GORDON RICHARDSON, Chairman, Morgan Stanley International
JEAN GODEAUX, Former Governor, National Bank of Belgium

Issues and Options

The Role of Central Banks

PAUL A. VOLCKER, Former Chairman, Board of Governors of the Federal Reserve System

Monetary Policy and the Control of Inflation

JOHN W. CROW, Governor, The Bank of Canada

Central Banks and the Financial System

E. GERALD CORRIGAN, President, The Federal Reserve Bank of New York

Currency Convertibility in Eastern Europe

C. FRED BERGSTEN, Director, Institute for International Economics

JOHN WILLIAMSON, Senior Fellow, Institute for International Economics

Policymakers from Eastern Europe and the Soviet Union

Policy Dilemmas of Eastern European Reforms: Notes of an Insider

VACLAV KLAUS, Minister of Finance, Czechoslovakia

Recent Developments in Poland

WLADYSLAW BAKA, President, National Bank of Poland

Recent Developments in Bulgaria

IVAN DRAGNEVSKI, President, National Bank of Bulgaria

Recent Developments in Yugoslavia

MITJA GASPARI, Deputy Governor, National Bank of Yugoslavia

Recent Developments in the Soviet Union

VICTOR V. GERASHCHENKO, Chairman of the Board, State Bank of the U.S.S.R.

Recent Developments in Romania

MUGUR ISARESCU, First Secretary, Economic and Monetary Affairs,
Embassy of Romania

DECEBAL URDEA, Governor, National Bank of Romania

Recent Developments in Hungary

IMRE TARAFAS, First Deputy President, National Bank of Hungary

Recent Developments in Czechoslovakia

JOSEF TOSOVSKY, President, National Bank of Czechoslovakia

Western Discussants

Monetary Policy and the Control of Inflation

MARTIN FELDSTEIN, President, National Bureau of Economic Research

LAWRENCE A. KUDLOW, Chief Economist, Bear, Stearns & Co., Inc.

ALLAN H. MELTZER, Professor, Carnegie-Mellon University

GEORG RICH, Director, Economics Division, Swiss National Bank

NIELS THYGESEN, Professor, University of Copenhagen

Central Banks and the Financial System

ANDREW D. CROCKETT, Executive Director, Bank of England

MERVYN A. KING, Professor, London School of Economics

PHILIPPE LAGAYETTE, First Deputy Governor, Bank of France

Currency Convertibility in Eastern Europe

RICHARD N. COOPER, Professor, Harvard University

JACOB A. FRENKEL, Economic Counselor and Director of Research, International
Monetary Fund

ARNOLD C. HARBERGER, Professor, University of California at Los Angeles

Overview Panelists

LEONHARD GLESKE, Former Member of the Directorate, Deutsche Bundesbank

ALAN GREENSPAN, Chairman, Board of Governors of the Federal Reserve System

Central Banking Issues in Emerging Market-Oriented Economies

Within the past year, the Soviet Union and other countries in Eastern Europe have begun a radical transformation from centrally planned to market-oriented economies. To assist policymakers in these countries, the Federal Reserve Bank of Kansas City hosted a symposium on "Central Banking Issues in Emerging Market-Oriented Economies," at Jackson Hole, Wyoming, on August 23-25, 1990. The symposium proceedings discuss the role of central banks during and after the transition to market-oriented economies.

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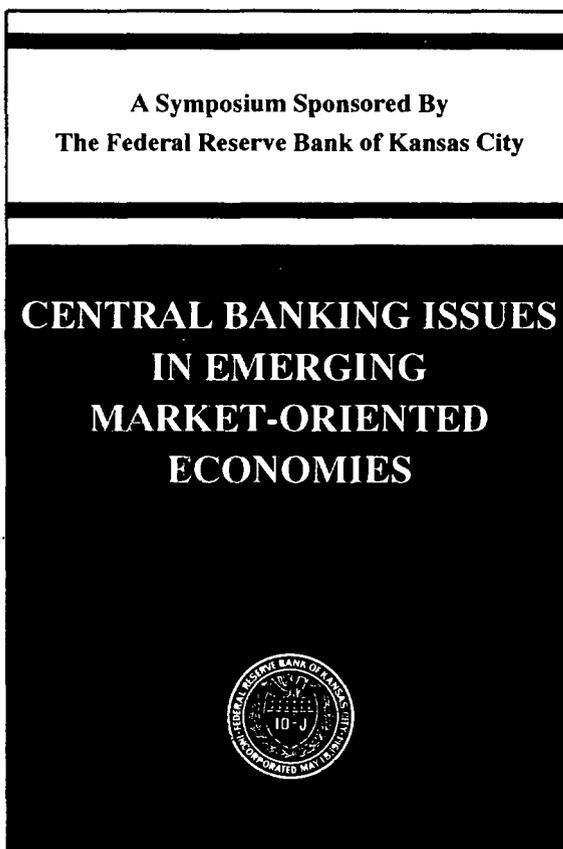
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