

ON THE PAPERS BY BAKOS AND KIMURA

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I Comments on the paper of Professor Bakos

I think that this is an excellent paper which gives us a nice overview of the transition experience of Hungary since 1990. I am persuaded by some of his important conclusions. In particular,

(1) The Hungarian reform implemented until 1990 did not help much in the transition of the Hungarian economy to market since then. Internally the dominant state ownership was untouched and externally the economy was deeply integrated with the other COMECON economies.

(2) The large budget deficit has been a serious constraint on the investment of industry by driving up interest rate. Correcting the budget deficit, however, requires a difficult political decision for cutting social expenditures.

(3) The government has an important role to play in promoting the resumption of the growth, since marketization and privatization of the economy does not automatically guarantee the growth as is now clear from the experience of Hungary as well as those of the other transition economies. More active technology and labor policy is important in this connection.

There are a couple of points which may require further elaboration or which I do not agree with.

(1) Maintaining a competitive exchange rate is very important to promote export to the OECD markets as well as to promote investment in Hungary. The recent stagnation of the export may be due more to the overvalued exchange rate rather than to the lack of industrial policy as the author claims.

(2) Reducing the real interest rate will become feasible only by correcting the fiscal situation even if it is politically difficult. Easing monetary policy as the author seems to suggest is only effective temporarily and will necessitate tighter money in the future.

(3) In order to correct the fiscal situation, curtailing the tax evasion may well be given a high priority.

II Comments on the paper by Professor Kimura

Since I am an economist and, furthermore, educated in the USA in economics, I may not be quite qualified for commenting upon this paper. However, I would like to venture to make some comments:

(1) It is important to note that culture does change as economy develops. We might recall how pessimistic a picture Gunnar Myrdal in his *Asian Drama* presented for the future of Asia which were regarded as “soft states”. But, of course, Asia is thriving now. I also recall that my teacher, Professor Bhagwati, who was teaching at MIT, referred to the report of an Australian engineer, who was invited to visit Japan by the Meiji Government: His conclusion was that Japan would not industrialize since its people were not industrious.

(2) Some evils like bribery or evasion of law, which Professor Kimura regards as being a part of Russian “culture”, are, in my view, not inherent to Russian culture at all. They have been the response to the socialist system where government and party officials have so much discretion to allocate resources and to enforce law.

(3) China did not postpone political reform in order to smooth the transition process. It simply did not wish to introduce political democracy since the Chinese Communist party has wanted to maintain the Communist dictatorship.