

4. Liberalization.

Free market prices fundamental condition for market coordination, better allocation of resources and economic efficiency.

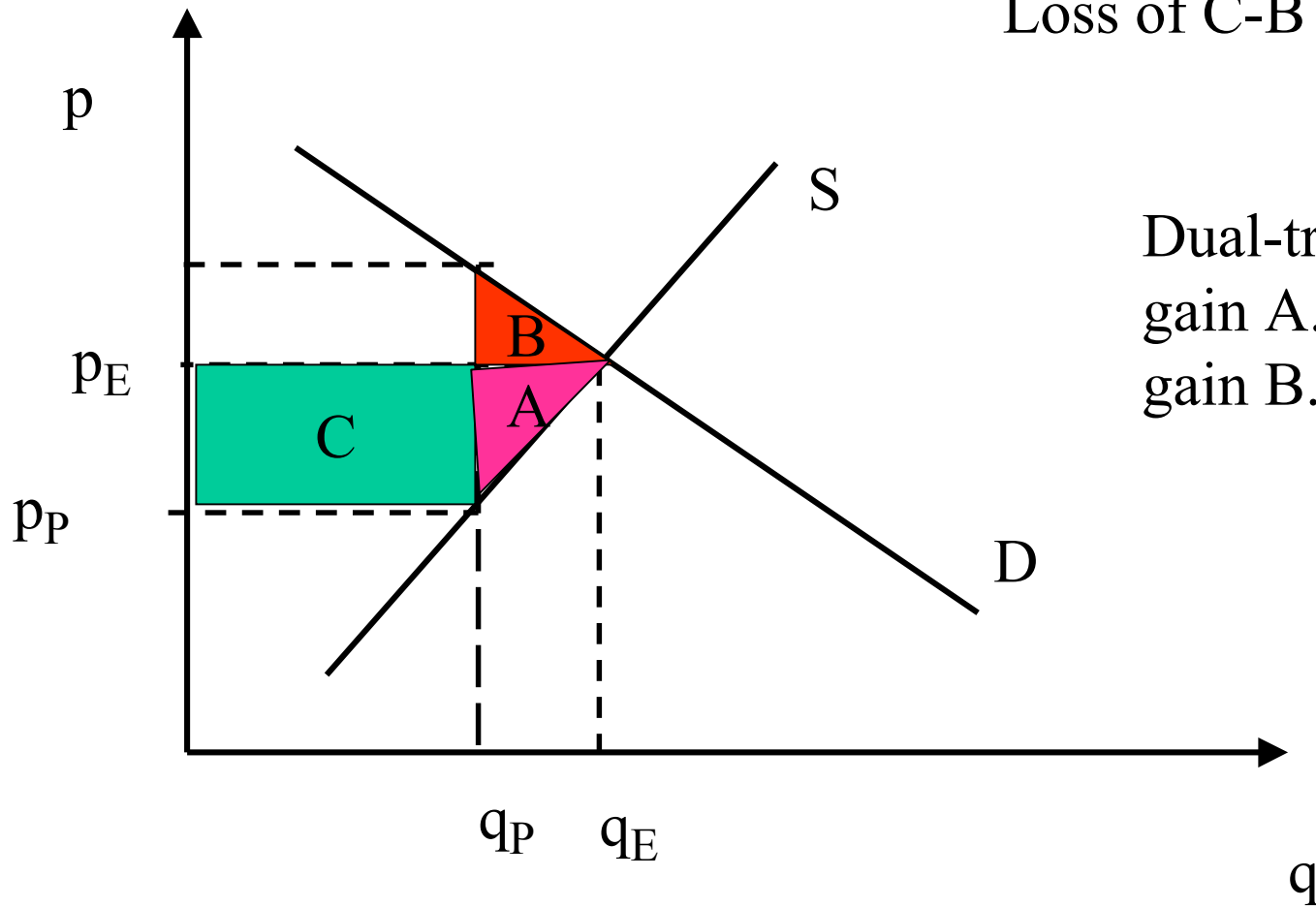
However, redistributive problem. Many potential losers from price liberalization. => political economy problem.

Share of Administered Prices in the Consumer Price Index (in %).

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Poland	11	11	11	10.6	12	12	11.6	10.6	10.6
Hungary	16	11	10.9	10.8	11.8	12.9	12.8	15.9	
Czech republic		27.9	18.3	17.9	18.1	17.4	17.4	13.3	13.3
Slovenia			23.7	19.8	18.4	22.5	22.4	20.4	17
Slovakia				21.8	21.8	21.8	21.8	14.9	14.9
Bulgaria	70	24	16	26	43	46	52	14.4	15.8

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Romania	85	47	29	20	18	18	18	7	
Armenia				8.9	12.8	6.2	7.7	7	6.9
Azerbaijan					77	77	8	6	6
Belarus		90	80	70	60	45	30	27	
Estonia					21.1	18	24	24	24
Georgia					13.4	13	13	8.3	
Latvia			6.1	6.1	16.6	16.6	17.8	19.6	20.4

Full liberalization: gain of $A+C$ for producers.
Loss of $C-B$ for consumers.



Dual-track: producers gain A . Consumers gain B .

Dual-track discussed in USSR. Not chosen in practice.

- Political will of reformers to break away from old system
- “ “ “ “ “ “ “ “ USSR
- Goszakaz did not work in Russia prior to 1991. Afterward, government too weak.