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EAST GERMANY

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Economic Transition in Hungary and East Germany

**Gradualism and Shock Therapy
in Catch-up Development**

Johannes Stephan





First published in Great Britain 1999 by
MACMILLAN PRESS LTD
Houndmills, Basingstoke, Hampshire RG21 6XS and London
Companies and representatives throughout the world

A catalogue record for this book is available from the British Library.
ISBN 978-1-349-41260-0 ISBN 978-0-230-59658-0 (eBook)
DOI 10.1057/9780230596580



First published in the United States of America 1999 by
ST. MARTIN'S PRESS, INC.,
Scholarly and Reference Division,
175 Fifth Avenue, New York, N.Y. 10010
ISBN 978-0-312-21991-8

Library of Congress Cataloging-in-Publication Data
Stephan, Johannes.
Economic transition in Hungary and East Germany : gradualism and
shock therapy in catch-up development / Johannes Stephan.
p. cm. — (Studies in economic transition)
Includes bibliographical references and index.
ISBN 978-0-312-21991-8 (cloth)
1. Hungary—Economic policy—1989– 2. Hungary—Economic
conditions—1989– 3. Germany—Economic policy—1990– 4. Germany—
Economic conditions—1990– I. Title. II. Series.
HC300.282.S74 1999
338.9431—dc21 98-44286
CIP

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Softcover reprint of the hardcover 1st edition 1999 978-0-333-75143-5
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08 07 06 05 04 03 02 01 00 99

To my friend and intellectual companion **Thomas Haberer**

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List of Abbreviations

BIS	Bank for International Settlement
bn	billion
CEEC(s)	Central East European Economy(ies)
CEFTA	Central European Free Trade Area
CMEA	Council for Mutual Economic Assistance (also known as Comecon)
CoCom	Coordinating Committee of the Consultative Group, or Coordinating Committee for Multilateral Export Controls
DIW	<i>Deutsches Institut für Wirtschaftsforschung</i>
DM	Currency of the Federal Republic of Germany
EBRD	European Bank for Reconstruction and Development
ECE	Economic Commission for Europe
ECU	European Currency Unit
EEPU	East European Payments Union
EPU	European Payments Union
EU	European Union
FI	Financial institutions
FRG	Federal Republic of Germany
ft	forint (Currency of Hungary)
GDP	gross domestic product
GDR	German Democratic Republic
GDR-mark	Currency of the German Democratic Republic
HSHC	Hungarian State Holding Company
IAW	<i>Institut für angewandte Wirtschaftsforschung</i>
IFC	International Finance Corporation
IFW	Institute for World Economics, Kiel
IMF	International Monetary Fund
IWH	<i>Institut für Wirtschaftsforschung Halle</i>
mn	million
NBH	National Bank of Hungary
OECD	Organisation for Economic Co-operation and Development
OTP	Hungarian National Savings Bank
PSE(s)	post-socialist economy(ies)

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PU	payments union
SB	<i>Statistisches Bundesamt</i>
SOE(s)	state-owned enterprise(es)
SPA	State Property Agency
SVR	<i>Sachverständigenrat</i>
THA	<i>Treuhandanstalt</i>

Series Editors' Preface

This work advances the understanding of systemic change from planned economies to competitive monetary economies by contrasting the practice of the East German *shock therapy* with the Hungarian model of *gradual management* of systemic change. The core of the book is a theory of economic development based on a paradigm of a 'monetary economy'. The problem of economic convergence can be attacked either by catching up with the standards of mature monetary economies, or, on the other hand, by peripheralisation. For economic policy during transition of the governing economic system the message is clear: *priority should be given to monetary stability.*

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JENS HÖLSCHER
HORST TOMANN

Acknowledgements

Particular thanks go to **Jens Hölscher**, **Michael Kaser** and **Hajo Riese** without whose help and guidance this project would not have been possible.

JOHANNES STEPHAN