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IRIS
Quarterly Report
(October - December, 1993)

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Project No. 01-5-29711
BOA No. ANE-0015-B-00-1019-00
USAID Project Office: PRE/SMIE
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This report describes the activities of IRIS in the second quarter of Fiscal Year 1994 (October - December, 1993) as well as the activities that IRIS has programmed for the next quarter, January - March. The report concludes with a summary of how these activities represent progress toward the program goals described in the IRIS FY 1994 Annual Plan.

IRIS Activities in the Second Quarter (for a review of activities in Chad, India, Mongolia, Nepal, Poland, and Russia under the Economics and Institutions project and the Commercial Law Reform Initiative, see attached country quarterly reports)

1. Dissemination of information to build awareness of the role of institutions in economic development:

a. On October 9th, Dr. Mancur Olson spoke on the role of institutions in economic growth at the Michigan State University Colloquium on Political Economy. On the 14th, he presented a seminar on "Communism and Capitalism under Dictatorship and Democracy" to the Center for International Security Studies at Maryland (CISSM). On October 28th, Olson spoke on "The Rise and Decline of Nations in Retrospect" at the Swedish Prime Minister's office. On December 17th and 18th, Professor Olson spoke at a conference at Oxford University sponsored by the Centre for Economic Policy Reform.

b. Dr. Philip Keefer spoke on "Institutions, Credibility, and the Costs of Rent-Seeking" at the World Bank on December 10th.

c. IRIS/Poland Director Ronald Dwight addressed the Bankers' Roundtable of the Szczecin City Council on 'Barriers to the Development of Banking in Poland,' and the University of Szczecin on the "Transformation of the Polish Economy to a Market Economy." At the European Insolvency Practitioners' Association meeting October 14-17, Dwight gave a presentation on the political aspects of legal reform in Poland, the importance of legal infrastructure in development, and problems of the interaction of the bank-enterprise act with bankruptcy law. At the International Bar Association's November 5 seminar on Energy and Natural Resource Law, Dwight spoke on "Asset-Backed Loans and Collateral Law Reform in Poland."

Fifteen papers were added to IRIS Working Paper Series:

Emerson M. S. Niou and Peter Ordeshook, "Notes on Constitutional Change in the Republic of China: Presidential versus Parliamentary Government," IRIS Working Paper No. 77, October, 1993.

Laszlo Urban, "Privatization in Hungary: Ownership Changes Involving the Former State Enterprises," IRIS Working Paper No. 78, July, 1993.

Julie Anderson Schaffner, "Employer Size, Wages and the Nature of Employment in Peru," IRIS Working Paper No. 79, September, 1993.

Barbara Geddes, "The Initiation of New Democratic Institutions in Eastern Europe and Latin America," IRIS Working Paper No. 80, October, 1993.

Enrico C. Perotti, "A Taxonomy of Post-Socialist Financial Systems: Decentralized Enforcement and the Creation of Inside Money," IRIS Working Paper No. 81, November, 1993.

Bryan Jack and Mancur Olson, "Warr Neutrality and the Natural Egalitarianism of Voluntary Public Good Provision," IRIS Working Paper No. 82, September, 1993.

Lynn D. Nelson, "A Critical Perspective on the Yeltsin Economic Reform Program," IRIS Working Paper No. 83, November, 1993.

Alexander S. Bim, Derek C. Jones and Thomas E. Weisskopf, "Privatization in the Former Soviet Union and the New Russia," IRIS Working Paper No. 84, October, 1993.

Richard Clarida and Ronald Findlay, "After Maastricht: Public Investment, Economic Integration, and International Capital Mobility," IRIS Working Paper No. 85, September, 1993.

Michael Carter and Frederic Zimmerman, "Risk, Scarcity, and Land Market: The Uneven Economics of Induced Institutional Change in the West African Sahel," IRIS Working Paper No. 86, November, 1993.

Michael Carter and Frederic Zimmerman, "Mediating Risk Through Markets, Rational Cooperation, and Public Policy: Institutional Alternatives and the Trajectories of Agrarian Development in the West African Sahel," IRIS Working Paper No. 87, November, 1993.

Derek Jones and Svilen Parvulov, "Industrial Organization in a Restructuring Socialist Economy: Evidence from Bulgaria," IRIS Working Paper No. 88, November, 1993.

Pradeep Shrivastava, "Urban Informal Credit in India: Markets and Institutions," IRIS Working Paper No. 89, May, 1992.

Stephen L. Elkin and Jyl Josephson, "The Transition to Republican Government," IRIS Working Paper No. 90, November 1993.

Stephen L. Elkin, Bartłomiej Kaminski, and Cass Sunstein, "Communism, Constitutionalism and the Transition to Market-Based Democracy," IRIS Working Paper No. 91.

One reprint was added:

Jon Elster, "Constitution-Making in Eastern Europe: Rebuilding the Boat in the Open Sea," *Public Administration*, Spring/Summer 1993. IRIS Reprint No. 34.

Seven proposals were selected for support under the IRIS/India Scholars program:

Govinda Rao and Tapas Sen (National Institute of Public Finance and Policy), *"Political Economy of Expenditure Policies at the State Level in India"*.

Ashok Gulati (National Council for Applied Economic Research), *"Liberalization and Reforms in Selected Agricultural Marketing Institutions"*.

Dilip Mookherjee (Indian Statistical Institute, New Delhi) and Arindam Das-Gupta (National Institute of Public Finance and Policy), *"Reforms in Indian Income Tax Enforcement"*.

Ashok Guha (School of International Studies, Jawaharlal Nehru University), *"Overlapping Jurisdictions in Economic Administration with Reference to India"*.

E. Sridharan (Center for Policy Research), *"Coalition Theory and Indian Politics: Implications for Public Policy"*.

Kenneth Kletzer and Nirvikar Singh (Department of Economics, University of California, Santa Cruz), *"Fiscal Federalism: India's Institutions and Their Economic Impact"*.

Anil Deolalikar (Department of Economics, University of Washington) and Prem Vashishtha (National Council for Applied Economic Research), *"The Cost and Financing of Government Health Services in India: Potential Reforms and Problems"*.

Future Dissemination Activities:

Another round of Scholars grants will be made in March. Applications are due by February 1st.

3. IRIS Research

IRIS's growing list of working papers and reprints document continued research accomplishments. The impact of previous IRIS research is reflected in publication in leading journals, attention in the US and foreign press, and inclusion in the policy-making process in countries in which IRIS has a presence.

The findings of the IRIS Index project are taking shape in the form of papers by Philip Keefer, Steve Knack, and Christopher Clague on interrelationships among property rights, inequality, democracy, and economic development. These results are scheduled to be presented and discussed this spring at fora including meetings of the Eastern Economic Association, National Bureau of Economic Research, and Public Choice Society.

Expected Impact

Increasing recognition of the importance of the institutional determinants of economic growth, and of IRIS's unique expertise in this area, have made its publication series and public events a central forum for the promotion of ideas related to democracy and economic reform. This has led to mounting demand for IRIS support among developing countries and those undergoing the transition from communism, as reflected in the initiation of IRIS projects in Russia and India, as well as in the undertaking of new initiatives by other IRIS country projects.

Progress towards Achievement of Fourth Year Objectives Established in IRIS FY 1993/94 Annual Plan

1. An extensive study by IRIS consultant Jacques Monette of customs fraud in Chad culminated in a conference organized by IRIS/Chad director Karen Russell and chaired by USAID/Chad Mission Representative Anne Williams. The conference was attended by representatives of the private sector, the Chadian government, and the international donor community. A follow-up meeting will be held in February.
2. IRIS/Chad supports the formation of a branch of the West African Entrepreneurs' Network (WAEN)

3. In November, The IRIS management board of the "Economics and Institutions in Russia" (Cadwell, Murrell, and Olson) met with their IET counterparts (Mau, Kolesnitsyn, and Ulyukaev) and USAID/Moscow (Burke and Pennar) to establish procedures for reviewing research projects for sponsorship and to make preliminary arrangements for a first set of seminars. The IRIS team also met with Deputy Prime Minister Yegor Gaidar, at whose request IRIS organized a team to conduct a seminar on natural monopoly issues with the Working Center on Economic Reform and the Russian Antimonopoly Commission.
4. The Nepal Law Society, following recommendations of IRIS consultant Paul Mahoney, prepared the first draft of a new Contract Law, which was later reviewed by a panel of experts including government officials, businessmen, and MPs from both the ruling and opposition parties.
5. IRIS consultant William Kovacic assisted by Integrated Developers and Managers Association and worked with representatives of consumer protection organizations, high-level government officials, and prominent manufacturers, to complete a draft consumer protection law for Nepal. The Nepali Minister of Supplies has requested continued IRIS involvement as the law advances to parliament and in the regulatory process that follows the law's passage.
6. The Policy Dialogue Committee, in conjunction with the Nepal Rastra Bank, also requested IRIS assistance in studying the loan recovery problems plaguing the two public sector commercial banks, leading to a request by the Bank's Board of Directors for technical assistance in areas including credit policy, management information systems, and human resource development. Exploiting inter-project synergies, IRIS identified Peter Rymaszewski, advisor to the Polish Ministry of Finance and collaborator with IRIS/Poland, to assist Nepal in this area.
7. At a Special December 15th meeting of the Commission for the Reform of the Civil Code (CRCC) -- with which IRIS/Poland has been working since its inception-- held at the request of the new Minister of Justice and Deputy Prime Minister, Wodzimierz Cimoszewicz, collateral law reform was identified as "absolutely top priority." Representatives of the World Bank and European Bank for Reconstruction and Development had strongly encouraged this step in the modernization of Poland's Banking system.
8. A November 15-20 conference on bankruptcy, which brought together 60 Polish judges, Ministry of Justice officials, and representatives of the American Bar Association's Central and East European Law Initiative received extensive and positive coverage in *Rzeczpospolita*, Poland's leading intellectual newspaper.

9. On December 15th, the State Committee for Scientific Research (KBN) approved a new rule on written technology commercialization policies at government-funded research institutes, which will encourage the commercial adaptation of new technologies by Poland's emerging private enterprise sector. This represents IRIS's achievement of one of its major goals in intellectual property law/technology commercialization.

10. A first round of research proposals were solicited from prominent Russian economists under the Economics and Institutions in Russia Project. These proposals address such areas as privatization, the political problems of market reform and federalism, and income distribution and inequality.

11. In December, Lane Blumenfeld relocated to Moscow to direct the IRIS Commercial Law Initiative, which has the objective of assisting and training Russian law makers, judges, and legal practitioners at the Federation level as they develop the components of a commercial law regime necessary for the transition to and operation of a market-based economy. The new Commercial Code will in effect be an economic constitution for Russia.

12. In November 1993, IRIS Director Charles Cadwell and IRIS/Russia Director Lane Blumenfeld met with the Russian Minister of Justice, Yuri Kalmykov, and Chairman of the Supreme Arbitration Court, Veniamin Yakovlev, to review collaboration on commercial law reform. The importance of such reform has been emphasized by all sectors of the reformist camp in Russia, including Yegor Gaidar (Russia's leading reform economist and its former First Deputy Prime Minister) and Sergei Shakrai (a close advisor to Yeltsin and Russia's current Deputy Prime Minister).

13. Following recommendations by IRIS/Mongolia staff, USAID identified priority topics for workshops: "The division of responsibilities and revenues between central and local governments," and "The business court and the relationship between law and economics."

14. The initiation of the *IRIS/India* Scholars program and the ability of IRIS to attract respected scholars, high-level government officials, and substantial attention from the Indian media for its upcoming March conference in Delhi illustrate an intense interest in the IRIS approach in reforming economies.

Major Activities Anticipated for the Period January - March, 1993

IRIS and the Washington Area Forum on Economic Reform (WAFER) will sponsor a series of seminars to bring together academics and policy-makers involved in political and economic reform. These seminars include:

Dr. Serguei Glaziev (Russian former Minister of Foreign Economic Relations)
 "The Russian Economic Liberalization: Progress Report" (January 25th)

Dr. Joseph Stiglitz (Council of Economic Advisors)
 "The Chinese Experience: An Alternative Paradigm for Economic Transition"
 (February 10th)

Jeffrey Sachs (Harvard University) and Andrei Illarionov (Chief Economic
 Advisor to former Prime Minister Yegor Gaidar)
 "Current Developments in Russian Economic Policy" (March 4)

Ambassador Thomas Simons (Coordinator of US Assistance to the NIS,
 Department of State) and Mr. Andrei Ye. Bugrov (Executive Director for the
 Russian Federation, The World Bank)
 "Democracy and Development: What Role for Donor Organizations in
 Promoting Reform?" (March 23rd)

IRIS will also sponsor talks at the University of Maryland, College Park, by Dr.
 Glaziev on "Institutional Reform in Russia," and by Dr. Oleh Havrylyshyn on "How
 Patriarchs and Rent-Seekers Hijack Transition Economies."

A ceremony marking the rededication of IRIS's renovated building on the University
 of Maryland campus will feature brief remarks by Senator Paul Sarbanes and USAID
 Deputy Administrator Carol Lancaster on the direction of US foreign assistance
 programs.

IRIS, with the assistance of USAID/India and the Indian Institute of Foreign Trade,
 will sponsor a major conference in New Delhi on "Institutions, Incentives, and
 Economic Reforms in India" (March 4-5). This event, organized by the director of the
 IRIS/India project Satu Kähkönen and chaired by IRIS principal investigator Mancur
 Olson, will involve prominent Indian researchers as well as members of the Indian
 government, press, and business community. Sessions will address governance and
 the political economy of reforms, legal and regulatory constraints to public and
 financial sector reforms, fiscal federalism and tax enforcement, institutional reform in
 the agricultural and energy sectors, and industrial and trade policy reforms.

A March of April workshop, sponsored by IRIS and organized by the Unit Trust of
 India, will teach representatives of Nepal Stock Exchange firms the essence of the
 proposed Company Law Act. This continues extensive IRIS assistance to the Stock
 Exchange. Ravi Peiris, former General Manager of the Colombo Stock Exchange, Sri
 Lanka, will spend January in Kathmandu for IRIS.

Studies in Nepal of the deregulation of the fertilizer and petroleum industries and the
 implementation of a Value-Added Tax are to be completed, as is a draft of a study of

the environmental impact of the carpet industry.

Meetings will be held in Poland in January to plan the central economic registry underlying the reform collateral law.

A Polish copyright law is expected to be enacted in late February, which will help Poland retain its Most Favored Nation Status with the United States and create a solid legal framework that will encourage foreign investment. IRIS legal consultant Gerard Sardoch was involved, and IRIS plans to work with Polish lawyers in preparing an English summary of Polish intellectual property law for foreign investors.

At the request of Deputy Prime Minister Gaidar, IRIS will send a team of Robert Thorpe, Peter Murrell, and James Langenfeld to conduct a seminar on natural monopoly issues with the Working Center on Economic Reform (Sergei Vasiliev) and the Russian Antimonopoly Commission.

Funding decisions will be made on research projects to be sponsored under the Economics and Institutions in Russia project, with plans to be made for the presentation of preliminary results at a conference in Moscow in the spring. The proposed conference agenda includes panels on the politics of reform, problems of economic integration, privatization, and taxes and income distribution.

IRIS/Russia and the Private Law Research Center will appoint a joint editorial board to monitor the translation and development of a Russian version of the supporting commentary to the Uniform Commercial Code.

Drawing on its experience in Poland, IRIS assist the Russian government in drafting a statute creating a registry system to implement laws creating a security interest in land and movable property.

The IRIS Center will collaborate with the Russian Ministry of Justice in its seminar series on the role of economics in a market democracy and the function of the rule of law in a democratic system of government.

Attachments: Quarterly Reports for Chad, India, Nepal, Mongolia, Poland, the Economics and Institutions in Russia project, and the Russia Commercial Law Reform Initiative.