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Albania's Economy in Transition and Turmoil 1990-97

Edited by
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Albania's Economy in Transition and Turmoil, 1990-97

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Preface and Acknowledgments

This book is one outcome of a project devised in 1993-94 by Gramoz Pashko and the late Jim McGilvray---after several years of cooperation between the Faculty of Economics of the University of Tirana and various departments of the Business School of the University of Strathclyde in Glasgow. Gramoz Pashko was at the time a Member of the Albanian National Assembly and was on the staff of the Tirana Economics Faculty, and he had been Deputy Prime Minister in the first post-Communist Government of Albania in 1991. Jim McGilvray was Chair of the Economics Department at Strathclyde; was a former Director of the Fraser of Allander Institute for Research on the Scottish Economy; and had been extensively involved in academic cooperation with countries in Eastern Europe.

The project was to devise a series of studies on various aspects of the Albanian economy during its 'transition to the market'. On each study one or more Albanian scholars would work in cooperation with one or more foreigners. The aim would be multiple: to assemble a body of information for outsiders interested in Albania; to provide locally-based teaching material for use with Albanian students of economics; and to clarify policy issues. Alexandros Panethimitakis and Pavlos Karadeloglou, economists at the University of Athens, joined with Pashko and McGilvray in backing the project, which was adopted for financing by the European Commission under its Phare programme in 1994. Contact was made between a number of Albanian academics and workers of corresponding interests in Greece and Scotland. But the completion of the project, already somewhat behind schedule, was thrown into jeopardy by the sudden death of Jim McGilvray in November 1995 and the difficulties faced by Gramoz Pashko as a prominent oppositionist---difficulties that led him to leave Albania for a considerable period until after the election of 1997. It was suggested in the latter half of 1996 that Anthony Clunies-Ross should step into Jim McGilvray's role as 'Coordinator' in order to bring the project to completion by the last day allowed under the contract with the European Commission. At Gramoz Pashko's request, Genc Ruli, another distinguished former-Minister---he had held office as Minister of Finance in both the first coalition government and the first Democratic-Party-led government---agreed to be the Tirana Partner; and Pavlos Karadeloglou was prepared to continue as the Athens Partner. The imminence of the final date meant that the great bulk of the writing had to be completed during the extremely disturbed first half of 1997.

Nevertheless eleven studies were completed, and parts put into Albanian.

After the traumatic events of 1997, it seemed more than ever important that Albania's highly distinctive experience of 'transition' from Stalinist hermit-kingdom should be recorded and presented in perspective. This book attempts that task, drawing on the work of the thirty-two people listed above as Contributors. It would have been unsatisfactory to present the original eleven studies, however edited. They were diverse in character. They had a teaching brief which did not quite fit the present purpose, and some of them were too specialized for the kind of readership at which we could aim. There were also gaps which it now seemed possible to fill.

So what we try to do here is to give a unified account of the political economy of Albania from 1990 to 1997. An attempt at overall interpretation of the experience is made in chapter 2. Chapters 5 to 14 deal topic by topic with what happened in economic institutions and performance from 1990 until 1996. Chapters 3 and 4 give accounts of some of the background to these events. A section in chapter 15 deals with the economic developments of 1997. There is a Summary at the end of each of these chapters. Lessons that might be drawn, especially from the 1997 events, are outlined in the Summary at the end of chapter 15. Priorities for policy, as we see them now in 1998, are recorded in chapter 16. Anyone aiming to get the gist of the book's message might read chapters 1, 2, and 16 and the Summaries at the ends of the other chapters.

The eleven original studies have been extracted, sometimes *verbatim*, and in these cases no quotation-marks or source-references to them have been given. The authors of those studies are in effect the joint-authors of this book. However, some of the studies are cited in the text for further information, and all are listed, with asterisks, in the Bibliography. Petar Sudar has acted as Co-editor with Anthony Clunies-Ross. Though as far as possible Contributors have been given a chance to comment on drafts of the chapters that draw on their own work, it would have been impossible to issue the book as representing the agreed views of thirty-two people from opposite ends of Europe or to have them all check every assertion made. So we as Editors take full responsibility for the opinions and interpretations expressed in it and for any and all inaccuracies. We regret that the character and length of the book have meant that we have had to omit valuable elements in the studies, including some of the most original work.

Acknowledgments

We pay tribute to Gramoz Pashko and Jim McGilvray, scholars and initiators of broad vision, who conceived the project. Anthony Clunies-Ross, as its residual 'Coordinator', expresses sincere thanks to all the

Contributors---among them many good friends---for their cooperation, often under great difficulties, especially to the Tirana and Athens 'Partners' in the project, Genc Ruli and Pavlos Karadeloglou, for their forbearance, and also to Neritan Sejmini, who acted as a genial trouble-shooter on Genc Ruli's behalf. He has been grateful for the support of the two most recent Deans of the Tirana Faculty, Omer Stringa and Dhori Kule, and has depended considerably, for both encouragement and many-sided practical help, on his own Dean, Doug Pitt, and Head of Department, Jim Love. Dauphine Sloan, who was the Brussels contact for the Phare programme, regularly found ways by which the exigencies of the Commission's rules could accommodate themselves to the difficulties that the project faced. One source, so far unpublished except as a discussion paper, we have cited (with permission) so extensively in the chapter on privatization that particular thanks are due to its authors, Iraj Hashi and Lindita Xhillari. There has really been no substitute for their paper on privatization. Mrs Milva Ekonomi, Director of the Institute of Statistics, Albania, several times provided valuable help amid the pressure under which she and her institute were working. A number of other senior Albanian officials have generously made time to give interviews. Fatmir Mema kindly gave a copy of his book on privatization. Mimosa Manxhari acted repeatedly as guide in Tirana, deploying her marvellous capacity for arranging interviews with anyone from traditional-medicine practitioners to Government Ministers. Niall Levine helped, among many other tasks, by proof-reading; and Kirsty Hall put the finishing touches on the copy when the task exceeded the older Editor's word-processing ability.

Albania is different. That makes its story interesting---and perhaps instructive. We hope that some of the interest is here conveyed.

*Anthony Clunies-Ross, Petar Sudar
Glasgow, Midsummer 1998*

List of Abbreviations

AAS	Annual Agricultural Survey
ACFIP	Albania Centre for Foreign Investment Promotion
AO	Albanian Observer
BCCI	Bank of Credit and Commerce International
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CSCE	Council for Security and Cooperation in Europe [later the OSCE; see below]
DA	Democratic Alliance
DP, DPA	Democratic Party of Albania
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product [value of what is produced within the borders of country over a period, net of material inputs but gross of depreciation of capital goods]
IMF	International Monetary Fund
INSTAT	Institute of Statistics, Albania
MNF	Multinational Force
NAP	National Agency for Privatization
OECD	Organization for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PIP	Public Investment Programme
PLA	Party of Labour of Albania [the former ruling party.]
PSA	Socialist Party of Albania
SII, SSI	Social Insurance Institute, Social Security Institute
SYA	Statistical Yearbook of Albania
VAT	Value-added tax
WDR	World Development Report

Note on Albanian Place Names

All Albanian nouns have two sets of forms—indefinite and definite. This applies to proper nouns, such as place-names, as well as to common nouns. When Albanian place-names are used within discourse in other languages, neither form is clearly more appropriate than the other. With one (inconsistent) exception we have aimed to use the indefinite form of place-names. So we write *Shkodër*, *Elbasan*, *Durrës*, and *Vlorë*, and not *Shkodra*, *Elbasani*, *Durrësi*, and *Vlora*—which would be equally correct. The inconsistent exception is over the capital of Albania. Where we are referring to it mainly in a geographical context (as in chapter 3) we call it *Tiranë*, and we use that (indefinite) form also for its District. But mostly (when for example we are mentioning it as capital or as scene of historical events) we use the definite form *Tirana*, by which the city is commonly known abroad.

Note on Albanian Pronunciation

Albanian spelling, having been standardized quite recently, is highly phonetic. The following hints are designed for English-speakers, merely to guard against the worst mistakes.

a, e, i, o, and u are pronounced roughly as in Italian or Spanish: *very* roughly like the vowel-sounds in English *car, care, key, core, cool*. But they may be long or short.

y is pronounced like the French *u* or German *ü*.

ë is pronounced as an 'indeterminate vowel': like the *e* in *terrific*; but, when it occurs at the end of a word, some speakers make it silent. When it occurs at the end of a word, it is said to lengthen the sound of the previous vowel.

With the following exceptions, most consonants (and combinations) are pronounced very roughly as in English.

c is like the *ts* in *bits*.

ç is like the *ch* in *chew*.

dh is like the voiced *th* in *then*. **th** is like the unvoiced *th* in *thin*.

gj is like the initial consonant sound in *due*.

j as consonant is pronounced like the English *y*, never like the English *j*.

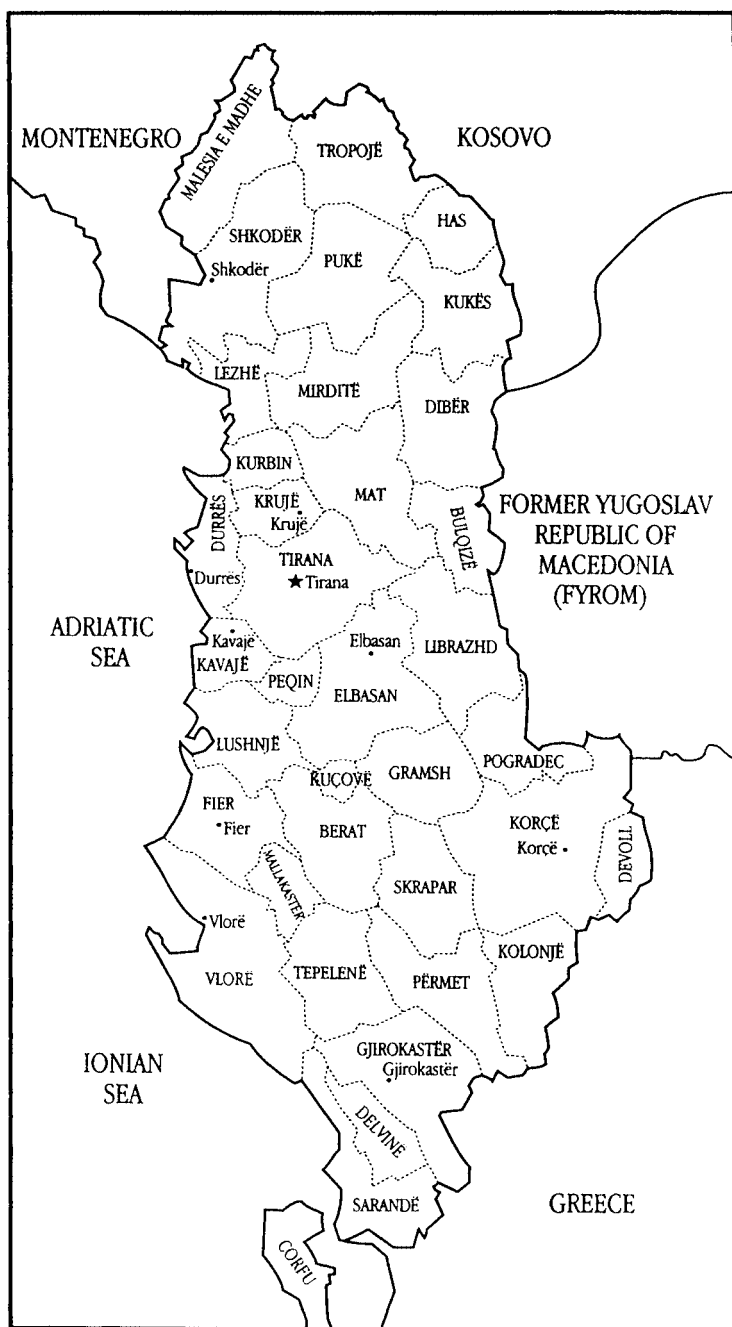
aj or **ai** is like the vowel in *ply*; **ej** or **ei** like the vowel in *place*.

l and **ll** are treated as different letters, as are **r** and **rr**, and pronounced differently, but English-speakers will not readily notice the difference.

q is like the initial consonant sound in *tune*. **x** is like the *dz* in *adze*.

xh is like the *dg* in *edge*. **zh** is like the final *g* in *garage* or *arbitrage*.

Map: Albania's Districts and Neighbours



1 Introduction: Puzzle and Paradox

Albania was a maverick in Cold War Europe, and it has continued to be a maverick among the 'transition economies'. But the paradoxes begin here. Ending the 1980s as the poorest country of Communist Europe, the most isolated and autarkic, and the most extreme in its Stalinism, and then (at least among countries outwith the former Soviet Union) suffering the most severe disruption to production in the first couple of years of its transformation, it appeared by late 1996 to have become the most successful economically over the previous few years. It had been especially quick to achieve a stable floating exchange-rate and fairly stable domestic prices. It seemed set to overtake its 1989 level of production earlier than any of the other European and ex-Soviet transition economies apart from Poland and perhaps Slovakia and Slovenia; and, alone among them, it had apparently experienced growth at 'East Asian' rates for four years. Advocates of *shock-treatment* as the best recipe for transition to the market could plausibly cite Albania in support.

But then, with the collapse of a booming informal financial sector in the early days of 1997, all went into reverse. Much of the productive capacity and many social facilities were physically destroyed, as much of the country fell, more or less briefly, into anarchy. Understandably, in view of these experiences, informed Albanians have varied in their outlook at the start of 1998 from high optimism to extreme gloom.

The immediate causes of the collapse of 1997 are clear enough. The deeper causes---why a financial system of that especially precarious character grew so fast; why there was no official response to the danger-signals; why the multilaterals and foreign aid-givers were not able to make warnings heard; why people reacted so destructively to the collapse; why state control broke down---must remain subjects of puzzle and debate. The lessons are not nearly as clear as we should like them to be.

Equally the success of the years 1993 to 1996 raises puzzles of its own. If the key to success was the early shock-treatment applied, the question arises *why* politically such radical policies *could be* followed in Albania rather than elsewhere. We believe that there are plausible answers here that remove some part of the mystery.

Transition Economies

This book tries to see and evaluate Albania's experience in the 1990s against that of the other *transition* economies. We need to explain how exactly we are using the term.

No one had heard of the transition economies before 1990. They were the product of the extraordinary events of the last two months of 1989. At first the term referred to the Soviet Union and those eight countries within Europe that were, or had once been, members of its alliance. Transition meant the move from a largely-command to a market economy.

China was not normally included because the timing of its (spectacular and economically successful) transformation was so different. The process started in China about 1978, but gradually and without an explicit goal, and it encountered nothing much like the painful shocks that have characterized the transition economies of Europe. Vietnam, Laos and Cambodia are also not included. Vietnam, like China, has not so far given up the form of one-party rule. Mongolia, however, to that point a genuine Soviet satellite, which changed direction at about the same time as most of the rest, might naturally be classed with its European brothers.

From 1992 the number of transition countries had multiplied, with the fragmentation of the Soviet Union and Yugoslavia. East Germany had joined West Germany in October 1990, and Czechoslovakia had broken into two at the start of 1993. Since the Soviet Union divided into fifteen and Yugoslavia into six, this would give (without Mongolia) a total of twenty-eight. However, we shall follow for convenience the list used by the European Bank for Reconstruction and Development, and (ignoring Bosnia-Herzegovina, Serbia and Montenegro, as well as Mongolia) treat the transition economies for purposes of comparison as twenty-five. They are divided into the twelve within the CIS (the Republics of the former Soviet Union minus the three Baltic states) and the remaining (non-CIS) thirteen, which we shall call 'Central European'. There is no particular logic about this list. Five of the CIS twelve are just as completely outside Europe as is Mongolia. Confining the comparisons to the twenty-five is a matter of convenience.

The Processes of Transition

Transition from state- and collectively-owned command-economy to market may be seen primarily as a matter of *liberalization* and *privatization*. But these processes require that new techniques for stabilization should be adopted, since the old necessarily tend to be

abandoned with liberalization. So we can see *stabilization* under the new conditions as the third key process involved.

On the face of it **liberalization** is easy. It means simply removing restrictions. But, given the assumption that these are not all removed *at once* (as they seldom if ever are), the sequence in which this happens is of some importance. Getting the sequence wrong might mean not only introducing new distortions but also disturbing production and income, and destroying enterprises that had every reason for surviving. Liberalization from the extremes of a command economy paradoxically requires new forms of regulation and supervision.

Privatization raises difficult questions throughout. In what units will state or collective property be transferred, to whom, for what price and on what conditions? Should former private owners or current workers or occupants have any priority over the rest of the public in the acquisition of particular assets or enterprises or dwellings? Should relevant experience be a requirement for coming into possession of particular types of property? Should the rich have priority in obtaining privatized assets (as is almost inevitable if the assets are auctioned for cash)? In the absence of open auctions, can favouritism be avoided?

Stabilization in transition may also be a delicate matter. In the face of liberalization, there is typically a conflict between saving existing enterprises and jobs on the one hand and preventing the excessive issue of money on the other. So in the short term maintaining output and real income is likely to compete with price stability. Numerous groups will be battling to save their particular interests; and yet if all vocal forces are to be satisfied the rest of the public will suffer. There will be the consumer-burdens of inflation, which will also aggravate all the uncertainties of the situation to the detriment of useful investment and enterprise, and in addition spending on important public purposes will probably be neglected. The quest for price stability has to be pursued with some attempt to limit collateral damage, and against political pressures that have the potential for threatening the position of a government and even endangering civil order.

Apart from these essentially *transitional* problems of stabilization, there are questions to be decided about a *continuing* stabilization regime---what disciplines over fiscal, monetary, exchange-rate and wage variables should be followed in order to combine price stability with steady income growth. Getting the best trade-off here requires judgments of how the particular economy behaves: whether real wages in the private sector, for example, adjust rapidly to clear labour markets or whether they have an institutional life of their own; whether accordingly relative prices tend to return to their previous alignment after some change in the nominal exchange-rate or in world prices.

A further need in transition to the market is for the development of

new **safety-nets** to provide a rudimentary living for those displaced from work by the changes.

But the creation of a functioning market economy goes well beyond liberalization and privatization and the stabilization measures and safety-nets that must accompany them. There is also a need for what is broadly called **institutional development**: that is for systems of formal and informal rules, together with the organizations to develop, interpret and enforce them, and also what might be called habits of mind---perceptions of how the new environment works and of what reactions are appropriate within it.

What is needed is not merely commercial statutory law appropriate to such an economy (general law on business organizations, contracts and civil wrongs), but also courts and practitioners that can interpret the law, and agencies to police it. There must also be laws to impose taxation on private economic agents. Also needed with more or less urgency are laws and agencies to regulate the production or delivery of particular kinds of service where the consumer or user needs guarantees of safety, reliability, or quality; or where competition may be deliberately limited; or where (as in financial institutions and markets) apparently rational behaviour on the part of a number of individual participants may risk systemic collapse. These laws too need their interpreters and enforcers. In some cases the state (within a basically market-led economy) may need to set up, or deliberately to foster, certain types of essentially commercial institution, such as particular forms of financial intermediary.

More subtly, and not directly within the gift of the government, a market economy needs some understanding among members of the public of how such a system may be expected to work. It also needs certain norms of personal behaviour if it is to operate efficiently. A measure of trust and trustworthiness must exist and some readiness to respect the law. There needs to emerge a recognition of the distinction between legitimate and criminal ways of pursuing pecuniary self-interest.

The Dubious Success of Transition to Date

The record of economic growth or recovery so far across the transition countries taken together has not been especially encouraging. If policy-makers in early 1990 could have seen the EBRD's recent Table (1997a, p.7) estimating changes in GDP between 1989 and 1996 in the twenty-five that we are considering, they might well have hesitated. In only one of the twenty-five (Poland) was estimated GDP in 1996 higher than in 1989, and in only two others (Slovenia and Slovakia) was it 90% as high or more. In Albania it stood at 87%. In the twelve CIS countries GDP altogether in

1996 was at only 51% of its level in 1989, and in the remaining thirteen taken together it stood at 91%. If the outcome could have been foreseen, a strategy likely to see GDP *reduced* by a half, or even by 9%, over six or seven years could hardly have seemed an attractive one.

Let us admit that GDP comparisons of periods between which a country's price-system has radically altered must have an arbitrary element; and also that GDP in and after transition may be under-stated in relation to GDP before, both because the unrecorded economy will probably have expanded and because what is produced conforms more closely to what people want. Yet the gap for the CIS economies (except Uzbekistan) and for some others is so huge that these reservations are not much consolation. For the peoples of many of the transition countries, living standards have become not only less secure and more unequal, but also *far lower on average*.

While it would no doubt be difficult to reconstruct what advisers, from Western countries and the international organizations, typically expected at the start of the decade, it now seems likely that they often over-rated the speed of adjustment to changing incentives and the degree of reform that could be accomplished by simple processes of transferring property rights and removing restrictions, and that they often underestimated the institution-building that would be necessary and how difficult it would be.

Albania and its Record in Transition

We consider, in chapters 5 to 9 below, the Albanian experience of liberalization, privatization, stabilization, safety-nets, and, as far as we are able, institutional development. Particular faults may arguably be picked with certain aspects of the first four processes. Privatization in 1996 was not yet complete, though quite advanced by the usual standards of transitional economies at the time. The wisdom of opening the economy so abruptly to world competition is at least debatable, though many would defend it vigorously. But on the whole, in the perspective of the mid-1990s, there appeared to be far more to commend than to criticize. In a number of respects (to adapt the English proverb) the proof of the pudding seemed very well attested by the eating. That things eventually (if briefly) went so badly wrong we have, by elimination, to attribute to a failure or failures in institutional development. This diagnosis possibly raises more questions than it answers. In particular, it does not tell us whether the failures were those that any government, with reasonable human foresight, could have remedied.

So, viewing the scene in 1998, we must try to explain both spectacular success and a spectacular setback. In the next chapter we shall consider a

number of the features that have made Albania unique or at least distinctive, and we shall begin to speculate on how these might fit together in such a way as to resolve the paradoxes.

2 Albania's Distinctiveness

Albania's distinctiveness among the transition economies may be seen in its starting-point; in the policies adopted; and in the responses of the people taking part, as reflected by the economic outcomes. We shall outline these various elements and then tentatively suggest how they might fit together.

Starting Point

Barring the Caucasus, Albania still holds an undisputed place as the poorest country in Europe. It is also, by conventional GNP-per-capita measures, one of the poorest of all the twenty-five transition economies---surpassed in 1995, according to the World Bank (*WDR 1997*, pp. 214, 248), only by Tajikistan, Azerbaijan and Georgia (all of them recently theatres of war). Albania's GNP per head cited for that year is US\$670. There is no estimate on a purchasing-power-parity basis. Yet we guess that the *hidden economy* in the 1990s has borne an unusually large ratio to the recorded economy on which this estimate is based, so that true GNP per head (even translated conventionally by the exchange-rate) may be substantially greater. By the mid-1990s *inward transfers*, moreover, added an amount probably equal to about 20% of GNP to what is called *national disposable income* (what the population and government actually have to consume or save). So the very low GNP-per-head estimate is almost certainly misleading as a pointer to potential living standards. However, Albania is definitely *classified* as a **low-income country**.

Fitting with this ranking is Albania's **high proportion of workforce in agriculture**. This is given by the World Bank for 1990 (*WDR 1997*, p. 220) as 55%, much higher than in any other of the transition economies in that year and comparable to Pakistan or Indonesia. Inferences from figures provided internally would put it slightly lower, at 50.5% (36.7% in collectives and 13.8% in state farms). Official estimates of the share of the net *value of output* coming from agriculture in 1990 put it at 39%. This proportion of GDP from agriculture *even in 1990* would match with some of the poorest countries if measurements used are comparable. The World Bank's estimate *for 1995* (*WDR 1997*, p.236) makes the proportion of GDP originating in agriculture 56%, higher than for *any* of the 47 other low-income countries listed except Georgia and two of the very poorest countries in the world, Tanzania and Ethiopia.

But does the picture of Albania as a low-income country, like Malawi or Chad or India, really hold up? Certainly the **health and education indicators** do not fit very easily. Its life-expectancy at birth of 73 years (1994) is more typical of upper-middle-income countries; its infant-mortality (31 per 1,000 in 1994) suggests a middle-income country; and its primary-school and secondary-school enrolment rates would also not be out of place among upper-middle-income countries. Such divergence between rankings on official GNP per head and rankings on health and education indicators is not unusual: China and the State of Kerala in India have shown similarly high ratings in spite of apparently low average income. But Albania's record in health and education has provided an important benefit to its people and a productive asset which talk of the country's material poverty should not obscure.

In its *command-economy* period Albania enjoyed all the typical institutional features of **Stalinism**, if anything in an **extreme and rigorous form**: collective and state farms, with a very small part of arable land in private plots; state-owned industry; a ban on private trade and enterprise and on commercial investment from abroad; centrally-directed allocation of labour; state management of all external transactions; domination by the single Party of all spheres of social life. After the completion of the collectivization of land in 1967, if not before, the market mechanism must have been virtually unknown except in illicit transactions. There was no system of justice independent of the government; and civil courts had a very limited range. There was a fairly rigorous distinction between peasants and others; a person classified as a peasant needed a settlement licence to relocate in a town, and, unless there was some official reason for the move, this was extremely hard to get. Moving into or out of Albanian territory was banned, except in rare privileged cases (until *inward* tourism began to be allowed in the mid-1980s), and unauthorized attempts were severely punished.

In all this Albania might seem to have been extreme rather than unique among Communist countries. But there was a further combination of factors that made it truly distinctive. This is the combination of **smallness** and **political isolation**. The famous bunkers that still dot the Albanian countryside in their hundreds of thousands, facing prospective enemies from every direction, are a reminder that the country was a self-proclaimed Ishmael among nations---its hand against the hands of all men. After Tito's break with Stalin in 1948, all its immediate neighbours were enemies. From soon after the death of Stalin in 1953, Enver Hoxha's ideological doubts about the USSR, added to differences over trade strategy, led to a gradual breakdown in relations to the point at which, soon after the Sino-Soviet split of 1960, aid and trade were sharply interrupted (Brancati, 1996, pp.86-87). After that, there were no states in Europe that

Albania could regard as well-disposed to its experiment. Its remaining ally, China, was thousands of miles away to the east and could have been of no military help in case of attack. And then, from 1971, over a period spanning the death of Mao in 1976, relations with China too gradually deteriorated to the point of a complete break by 1978 (Brancati, 1996, pp.91-93), after which Albania had no allies at all. Though there were kind words still for Vietnam and Cuba, all the ruling Communist parties of the world were by then in Hoxha's view revisionist.

Hence, for much of the forty-five-year period after the Second World War, Albanians could not even take advantage of the controlled movement of people among Communist countries that prevailed over the rest of Central and Eastern Europe. There were also no Western tourists until the mid-1980s. Receiving broadcasts from the rest of the world was severely punished, though quite a lot of it went on surreptitiously---there was a thriving underground trade in devices to help reception of Italian television. Yugoslav television was often jammed by the authorities.

Moreover, because of the smallness of its population, Albania's withdrawal from the world must also have been far more crippling to science and scholarship than the same degree of isolation would have been for say the Soviet Union, with about a hundred times as many people. Given that only an extremely privileged few were allowed to study abroad, scholarly and scientific transfer from the rest of the world took place almost entirely through publications brought in---and then only in safe disciplines. Even foci of underground dissent would surely have found it much more difficult to sustain themselves in a rather small and intimate Tirana than in Budapest or Prague, let alone such a huge city as Moscow. It was a common saying that the authorities knew the state of the teeth in your mouth. With virtually no travel either way until 1985 and no approved neighbours, the introduction of any unauthorized publications into Albania must also have been extremely difficult.

All religious activity was banned, under severe penalties, from 1967 (Harxhi, 1995, p.15), so that another potential source of critical thought and outside influence was, as far as possible, eradicated. If the aim of policy had been to keep Albanians knowing very little of the rest of the world, it must probably be rated as successful as any such policy in an age of telephones and radio and television can be. That is to say it did not leave Albanians entirely unaware of contrasts between their own life and the life of their neighbours, but, because it virtually eliminated *dialogue* with outsiders or any *public dispassionate examination* of these differences, it probably presented them in distorted form.

Yet it is perhaps significant for later events that collectivization of agriculture was not complete until 1967 (Brancati, 1996, pp.82-83), more than thirty years later than in the Soviet Union and a decade later than in

China. There seems in Albania to have been reluctance, if not passive resistance, toward collectivization, which at least delayed the project in spite of the strong commitment of the regime to it. Hoxha had after all promised during the War to give land to those who worked it, not to take it away from them, which is what collectivization seemed to mean.

Beside limitation of contact with people and ideas from abroad, there was also a strong tendency toward **autarky** in Albanian trade policy. The aim was that, as far as possible, the country should be self-sufficient. One of the grievances against the USSR in the Khrushchev period was over its attempt to have Albania specialize in certain primary products (Brancati, 1996, p.86). The pursuit of autarky meant that, judged by the criterion of comparative advantage, resources were unduly directed into 'heavy industry' (capital goods and semi-processed materials) and, within agriculture, into field-crops and particularly wheat. From the 1970s or earlier, attempts were made to carry cultivation to the hilltops (Brancati, 1996, p.89). Some of the effects of that enterprise are highly visible in Albania today, with olive-trees growing on steep places and summits where you would expect forest or rough grazing. Exports were virtually confined to minerals with a fairly low degree of processing and some farm products. Minerals made up about 60% of export value in 1970 and 1980 (Brancati, p.97). Albania's low labour-costs were not exploited so as to permit it to specialize internationally in labour-intensive manufactures.

As was common among Communist countries, the **direction of foreign trade** was politically conditioned, but in Albania's case this had extreme effects as the Hoxha regime switched its allegiance to and from the major Communist powers. In 1950 it had no import or export trade except with Comecon countries, 62.7% of its exports going to, and 37.4% of its imports coming from, the USSR. Though in 1960 these percentages were still 49.9% and 56.3%, there was by then some trade with China and a trickle with non-Communist countries. But from 1970 until the late 1980s (indeed apparently from about 1961) there was *no trade at all with the USSR*. In 1970, 25.9% of export trade and 56.9% of import trade was with China, but then in 1980 there was *no trade with China either way*. Non-Communist countries (industrial and developing) accounted for more than half of both import and export trade in 1980, but markedly less, both proportionately and absolutely, in the mid-1980s. (Details can be found in tables labelled Figures 12 and 13, in Brancati, 1996, pp.114-115.)

Albania's **population growth** between 1980 and 1990, at 2.1% a year, though not specially high for a low-income country and lower than in the previous decades, was very fast by European standards, and above (mostly well above) those of the other future transition economies. The age structure meant that the population of working age was growing faster than the population in total.

To summarize: by the standards of the transition economies, Albania started the decade very poor though with fairly good health and education indicators; with an exceptionally high proportion of both workforce and output agricultural; strongly Stalinist in its economic organization; its population small and exceptionally isolated in terms of interaction with outsiders; highly inward-oriented in its trade, with an unusual degree of zeal for self-sufficiency and a consequent bias towards heavy industry and foodgrains; having a history of repeated disruptions in its trade direction because of changing political allegiances; and undergoing a high rate of population and workforce growth.

Important to developments in the 1990s were also the **neighbours** that Albania happened to have: to the south and southeast, to the northeast and north, and across the Adriatic to the west---Greece, Yugoslavia and Italy respectively.

Transformation Policies

The most striking feature of Albania's transformation policies is the speed with which a number of critical reforms were accomplished. They have to be seen against the fact that Communist (Party of Labour of Albania, PLA, PPS) control was not popularly challenged until late in 1990, and the Communist monopoly of government was not ended until two months after the election of March-April 1991.

Albania's authorities lost no time in **liberalizing**, especially after the installation of the Democratic Party government that followed the election of March 1992. The state monopoly of foreign trade was ended in 1991, and quantitative restrictions on imports and exports were largely removed from the 15th September of that year. Thereafter, though duties on imports were introduced, and until 1994 there were export duties (and until 1995 export-licensing requirements) on certain goods (Muço, 1996, p.57), Albanian products had to compete on price in home and foreign markets with those from other countries. By the start of 1996, there were no quantitative restrictions or embargoes on either imports or exports other than for health, environmental, and public-order reasons. State enterprises were subject to hard-budget constraints by late in 1992. In August 1992, prices of a number of goods, said to cover nearly 75% of all prices (Muço, 1996, p.56), were either raised or freed. Most price controls and subsidies on basic consumer-goods were removed by 1994 and even the control on bread prices by 1996. At the end of that year the only subsidized goods and services (other than in health and education) were electricity, rural water, rail and urban-bus transport, and school-books. Other utilities' prices remained controlled but not subsidized.