

Informal Suggestions for Transforming the Albanian Economy

by

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This report contains informal suggestions for creating a market economy in Albania. These are not official recommendations of the United States government, nor are they exhaustive comments on how to improve the performance of the Albanian economy. Rather, they represent selected private suggestions by the authors concerning the development of appropriate structures for significantly improving economic performance. In many instances, an attempt has been made to take into account policies suggested by either the Democratic party or the trade unions.

The authors recommend a strategy based on attracting foreign investment, as opposed to one based on seeking massive foreign assistance. However, we oppose any foreign investment which suggests a return to the situation of the 1930's, when Italian investment was aimed at creating "La Quinta Sponda D'Italia" (The Fifth Coastline of Italy). Our approach is to encourage joint ventures in which Albanians and Americans join in partnerships benefiting both nations.

We suggest shifting the focus of the economy away from dependence on a small number of state owned mineral extraction and processing facilities. The restructured economy would be a mixture with a small number of privately held facilities in the mineral sector and a large number of private small businesses. Our plan also contains suggestions for laying the groundwork for creating a Tirana Stock Exchange.

Adopting policies that welcome foreign investment and create modern job placement and retraining programs would be accompanied by shutting down as soon as possible the country's antiquated, environmentally disruptive, and unsafe mines and factories. We also include specific suggestions for pivotal sectors of the economy.

Our hope is that these ideas will stimulate ongoing and fruitful discussion within Albania at this most crucial juncture in its history.

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I. Basic Philosophy

A. Background

Economic performance is declining sharply in Albania, due to mismanagement, prolonged shortages of raw materials, and antiquated technology. Working conditions are inhumane and incentives to work hard are nonexistent; both factors contribute to low levels of production. Factories pollute the air and poison the water supply to a degree no longer found in developed economies, reducing agricultural production, killing people, and increasing the incidence of disease.

Aggregate production fell 20-25% in the first quarter of the 1991 relative to the same period in 1990. Heavy industry is running at 65% or less of 1990 levels. Light industry is operating at no more than 60% of capacity and perhaps 70% of agricultural production (which is down by 30% or more from the equivalent period in 1990 anyway) is spoiling. The production of agriculture-related products has fallen greatly; for example, urea output is down 40% due to a lack of crude oil, the production of which is itself well below levels reached nearly twenty years ago, thanks to reliance on 1928-45 equipment. Inflation is running at 30% per year; when food is

available, it is too expensive for most people to buy. The answer is obvious: scrap the old centralized system and move quickly to privatize as much as possible of the economy. However, as important as privatization is to revitalizing Albania's economy, **how** it is done is even more important.

B. Fairness

Privatization must be both fair and sensitive to domestic politics. On the one hand, we recommend that housing not already privatized (some rural homes are already private, usually built or purchased by the occupant, who does not own the land) be given free of charge to heads of households. On the other, we suggest that the special housing (**shtepi prita**) previously reserved for members of the nomenklatura be turned over to the people or to a holding company acting on their behalf. These displaced individuals would then be required to buy their own homes elsewhere at market prices.

C. Make it Easy

In order to ensure public support, the rules must be easy to understand. The bureaucratic mechanisms implementing those rules must also be designed to make decisions quickly and

efficiently to the advantage of the people.

D. Foreign Investment/The Value of Joint Ventures

Albania is cash and technology poor; the system must attract foreign capital and technology. In order to compete on the world market for investment funds, special incentives will be needed, such as allowing at least partial foreign ownership of natural resources such as chrome and oil. However, it is also important to protect Albania from being "bought out," while simultaneously creating a long-term commitment to integration with the West. This is a difficult balancing act.

The creation of conditions encouraging formation of joint ventures is one of the pillars of our plan (see Chapter III for details). Post-reform Albania will consist of three sectors: (1) wholly Albanian-owned enterprises; (2) wholly foreign-owned enterprises, which are restricted to certain sectors, e.g., commercial banking and hotels; and (3) joint Albanian/foreign ventures. With the exception of activities in category (2), all ventures must include at least one Albanian partner (individual or company). However, the majority of the stock may be owned by the foreigner, so as to provide an incentive to bring his/her capital and technology onto the Albanian market.

E. Handling Dislocations and Price Increases

The system must be flexible enough to handle the inevitable price adjustments and labor dislocation that accompany the transition process, yet innovative enough to come up with mechanisms specifically designed for Albanian conditions.

F. Access to Information

For the reforms to succeed, there must be new thinking on freedom of the press and access to information, allowing Albanians complete freedom to learn about the world around them. We believe that television, radio and newspapers should be privatized as soon as possible; we also recommend forbidding political-party control over TV and radio. In addition, we suggest that a modern national library network be established with electronic links to the outside world, so that the public at large and business leaders in particular will be able to see how others solved problems now faced by Albania.

G. New Organizations will be Needed

Success will also require a set of special organizations designed to move Albania from a centralized economy relying on

large production units to one that relies on small and medium-size private enterprises. As seen in the rest of Eastern Europe, the former were inherently incapable of adapting to changes in consumer needs (demand) or producing at the least cost (supply).

Recommendations for four new organizations form the core of our paper. Two will protect the people, the workers and their environment from the unintended side effects of industrial activity, **thus meeting one of the main demands of the unions.**

G1. Protecting the environment and the workplace: The stress placed by the trade unions on the horrifying state of working conditions and of the natural environment is quite justified. A Parliament-established **Environmental Protection Agency (EPA)** would monitor industrial pollution, preventing future Elbasans and the resultant reduction of agricultural production and harm to public health.

G2: Occupational health and safety: An **Occupational Health and Safety Administration (OSHA)**, also established by Parliament, would require shops, mines and factories to provide safe working conditions. OSHA would, for example, require that miners be provided with protective masks and that competent,

professional medical staff - now there are often only midwives at the mines - be assigned to factories. At the Fier fertilizer facility, for example, sulphuric acid pours out of a corroded pipe and people are burned nearly every week. OSHA would prevent such situations from occurring. (See chapters on EPC and OSHA for details.)

G3: Breaking up state properties to the advantage of the people: To ensure that privatization is conducted in an orderly, fair manner to the best advantage of the people, the third organization we propose is a Parliament- founded **holding company** that acts as though it were the executor of the vast, complicated estate of an individual who left no will.

For simplicity, we' will refer to the holding company as the **Albanian National Investment Company**, shares of which would be owned by all Albanians. (*) Its job would be to catalogue the State's holdings, assess their value and break them up into the

(*) This concept is similar to the one announced on June 27, 1991, by Prime Minister Bielecki of Poland. Our plan would invest part of the proceeds of the privatization of the economy in Western mutual funds.

smallest economically viable units in preparation for privatization, either through outright sale or formation of joint ventures. It would also be responsible for disposing of nonviable properties. In order to foster Western confidence, yet also not allow Western dominance, both Western and Albanian experts would sit on its Board of Directors.

G4. The need for small and competitive businesses: Among the principal reasons why the East European economies failed was their overcentralization and heavy reliance on monopolies (such as the one that the former communist government suggested for the mineral industry) and excessively large production units. As already mentioned, such a system fails to deal effectively with changes in tastes and needs or to produce at lowest cost. Resource allocation is frequently irrational. For example, Albania has spent a considerable amount of its hard-currency reserves on oil exploration, yet has discovered very little. **There is an alternate approach.** The main source of employment growth in the U.S. and Western Europe over the last twenty years has been small firms. This could be replicated in Albania. It is the small-business sector that we expect to absorb many of the workers displaced from large state enterprises being closed or restructured. Our recommendation is to adopt a **decentralized system of small and medium-size**

companies subjected to as little regulation as possible.

Under the ANIC is a fourth body, the **Small-Business Commission** (SBC), which assesses proposals for privatizing small ventures and funds training and start-up costs. The idea is to move in the direction of Italy, Greece, Portugal and Spain, where 85%, 93%, 79% and 77%, respectively, of manufacturing firms employ fewer than ten workers. While not suggesting that all firms must be small, we recommend including a high proportion of the labor force in a system of small shops, factories and farms. Some work in that direction seems to have already begun under Steven Kola of TEKNOIMPORT, who is trying to set up a myriad of small joint ventures around the country, such as the Simod Italian shoe project and the Lorenze handmade pipe project.

We also envision the **SBC** encouraging the growth of infrastructure-related companies, e.g., firms that move refrigerated produce from farm to market, storage/delivery-related cooperatives, house-repair firms, and so on.

H. Eliminating the Old Institutions

While it is extremely important to immediately begin the task of creating new economic institutions, it is equally essential

to **destroy early on the ability of pre-existing centers of authority to prevent systemic change.** We do not advocate scrapping the entire system of cabinet-level ministries. However, their number and function should be severely reduced. Those that survive should have their staffs radically cut and their activities limited to the those of the equivalent ministry in a Western economy.

However, we do not recommend firing all of the bureaucrats in the ministries based on their past political affiliation. Doing so would create a witch hunt; many officials were not members of the Party of Labor and are sympathetic to creating a market economy. **However, clearly there must be a change in the way they do their jobs. Functions peculiar to a centralized economy must be eliminated.** Fresh blood with a definite affinity for a market economy will have to be installed at the management level as well as at the office level. Otherwise, the bureaucracy will be tempted to act in the old ways. Moreover, managers of larger enterprises will also rely on the established ways of doing things while the old bureaucratic structure is intact. In fact, this is one of the reasons why Schwinn-Csepel of Hungary is doing poorly.

I. Tearing Down Administrative Barriers

Both the privatization of existing small economic units and the creation of small infrastructure firms will do much to alleviate the labor dislocation caused by the break-up of the current system. Small, low-tech firms tend to be labor intensive, making labor absorption easier than in larger enterprises or even small, high-tech firms.

However, no model will work very well until the current political and administrative barriers to the functioning of a market economy are eliminated. In other words, there must be minimal licensing requirements, essentially limited to environmental and labor-safety issues. Zoning to ensure that environmentally disruptive industrial activities are not located in residential neighborhoods may also be desirable. Finally, protection of foreign and domestic intellectual property is extremely important.

J. New Laws

We suggest a number of new laws designed to create a streamlined market economy. For example, we recommend that workers be given the right to negotiate over their own salaries

and that firms (not the government) provide pensions for privately employed workers. Insurance institutions will increasingly be needed as state-sector workers become private-sector workers, small-scale property owners, and even entrepreneurs. Bankruptcy laws will be needed to protect the rights of the creditors when firms fail.

K. Suggestions for Specific Sectors

We conclude with some specific suggestions on critical sectors of the economy, such as agriculture, mining, transportation, and so on.

II. How to Privatize Using A Holding Company

A. Creation of A Holding Company

Al: The Albanian National Investment Company: A mechanism is needed to professionally audit all Albanian state assets, dispose of them to the best advantage of the people and, to the extent possible, turn them into viable private economic entities. The body should also set the stage for establishing a national system of small private businesses, as well as other new organizations needed to support the emerging economy. These include a credit organization to stimulate the creation of small businesses, a body to ensure that working conditions are safe, and a body to protect the natural environment.

To be acceptable to the public, the holding company must also act in a clear, understandable way and be free from political taint. As mentioned in the introductory chapter, to accomplish Thus, we suggest the creation of one or more **holding companies** that would take possession of most state property. The exceptions - i.e., what would continue to belong to the state - would be such security installations as military bases and police stations, as well as such other government properties and assets of national importance as are designated by

Parliament. To simplify the discussion in this paper, we assume for the moment that there will be only one holding company, referred to here as the **Albanian National Investment Company (ANIC)** (*)

A2. Role of Parliament vs. the central government: The ANIC should be an agency of **Parliament**, not the central government. The choice of Parliament is critical because it represents society as a whole. Giving new powers to a central government would be suspect, not least because of the previous governments' association with a single political party.

A3. Purpose: To set realistic values for state property holdings and reduce them to the smallest economically feasible units and then privatize and sell them to the advantage of the nation. To then use the proceeds to partially fund a social security net designed to provide a minimum pension, assist the poor, the infirm and those workers displaced by economic restructuring. Funds would also be used to help fund the

(*) Another option would be to create one agricultural holding company and another one that handles the rest of the economy. In Poland, for example, between five and twenty "investment groups" are to be created and managed by Western investment

A4. Political independence: To avoid politicizing the process, we suggest that the body operate independently of Parliament and the government. Directors could only be removed by a two-thirds vote of Parliament.

A5. People in charge -- Board of Directors: In order to inspire the confidence of Western investors, we suggest that there be a Board of Directors with full authority to hire and fire the managers of all enterprises, to close or sell enterprises or divide or alter them as needed. The members of the Board should be appointed by the Prime Minister for a five-year term, and be subject to approval by Parliament.

For practical reasons, the number of board members should be kept small. We leave this decision to Parliament. However, we suggest that there be three groups represented on the Board.

banks. Due to Albania's small size and tiny Western presence (so far), we recommend that there be only one holding company. development and enforcement of environmental and worker safety laws. In the **new Albania**, we suggest that before any business can begin operations, it must meet both **environmental** and **worker-safety** standards.

Political-party representatives: The first group should consist of representatives from each political party with more than ten seats in Parliament. This is needed to give political balance and recognize the central role of the holding company in the "new Albania."

Labor-union representatives: The second group is also included to foster political legitimacy. Here we suggest three representatives of the labor unions, with no union representing workers from a specific sector having more than one representative. The unions have become a powerful political force. It was they, even more than the Parliamentary opposition, whose actions (a national general strike) brought down the Communists in June 1991. To exclude them would be utter folly, perhaps setting the stage for unneeded labor strife and political instability.

Representatives of the management of new private firms: Normally, the third group would consist of representatives of the managers of major enterprises; but many of these people are those directly responsible for driving Albania's economy to ruin. We recommend instead that there be two representatives of the new private-sector enterprises.

Foreign experts: We would also suggest the inclusion of a number of foreign experts with experience in banking, agriculture, mining, manufacturing, transportation and tourism. International experts as Board members will inspire confidence among international investors. However, in the second five-year term of the ANIC, we suggest that the foreign experts be completely replaced by representatives of (the new) management and labor, thus making the Board an entirely Albanian affair. The experts would then be only advisors.

To avoid conflicts of interest, foreign board members could not own stock in the ANIC or invest in Albanian firms.

A6. Term of existence: The ANIC should complete its work as fast as possible within the bounds of economic practicality. To emphasize the temporary nature of the undertaking, we suggest no more than two five-year terms, unless extended by Parliament. Ultimately, the ANIC will fold when all of its property has been disposed of, leaving in operation a trust fund - described below - that operates similarly to Western mutual funds. Functions such as the Small-Business Commission - described below - might be transferred to the government,

although other arrangements, e.g., becoming an agency of the trust fund (see below), are possible as well.

A7. Ownership of the ANIC: To build confidence and give the Albanian people a real stake in the success of the venture, we recommend that the ANIC be owned by all Albanians. Each Albanian citizen should be given four shares in the ANIC which may not be sold to anyone for two years, nor to any foreigner for five years. This delay is designed to allow the value of the shares to stabilize before being sold and to inhibit panic selling, as well as the possibility that more sophisticated people (foreigners, especially) may take advantage of shareholders before the average Albanian has a chance to understand how the program works.

Note: This concept is similar to that proposed by Prime Minister Jan Krzysztof Bielecki of Poland, except that he turns only 25% of Poland's state industrial enterprises over to mutual funds. We view our idea as an advancement over the Polish plan inasmuch as the ANIC owns all former state-sector enterprises. Thus, Albanians would have a share in 100% of all the holdings of the ANIC, thereby truly democratizing the economy.

A8. A trust fund paying dividends to all Albanians:

Eventually, shareholders would receive dividends from a **trust fund** created from the proceeds from sales and investments. This trust would be a permanent entity, even after the ANIC folds, and operate as a mutual fund holding a diversified portfolio of assets, including investment on international markets. We expect the initial dividends to be small, but if the ANIC and the fund are managed professionally, the value of the shares should increase. The immediate importance of this lies in the psychological effects of teaching Albanians the value of investment. However, in the long term this investment will provide a source of income for Albanians, as well as become the nucleus of a Tirana Stock Exchange (see section L of this chapter on the creation of such an exchange).

A9. Making the system democratic: As shareholders, in addition to receiving dividends, Albanians would also be able to vote on company business at annual shareholders' meetings and to give their proxies to representatives. The only restriction on voters' rights would be that they would be unable to change the basic purpose or structure of the organization.

B The Small-Business Commission

B1. Description: **The establishment of small shops and services and small infrastructure-related companies is essential.** As noted earlier, we believe that the performance of the economy will improve dramatically over time if Albania can establish a decentralized system of small and medium-size firms. This process can begin by taking up the labor unions on their demand to allow employee ownership of some firms. Some small shops (perhaps even some small factories) could be sold to workers at below-market rates if the workers can provide a viable plan for managing them. However, these properties should not be given away. Selling commercial property gives it a known value and helps establish a market.

B2. Helping with capital and training: Most workers will not have much capital or training in business administration to make private businesses work. To help fill these gaps, we suggest that the ANIC establish a **Small Business Commission (SBC)**. The SBC would evaluate applications for purchases of former state-sector assets, the funding of courses in business administration, and the funding of low-interest loans to help purchase stock, equipment, and so on.. It is important that the staff employ business professionals from the West as well as Albanians who know local conditions.

B3. Examples: The obvious choices have already been suggested by the Albanian Chamber of Commerce and other government entities. These are cafes, grocery stores, bakeries, repair shops, taxis, and so on. **However, we suggest going far beyond these modest steps.** The SBC should also consider encouraging the development of small infrastructure-related firms, e.g., small delivery services, hardware stores and maintenance shops. We also suggest considering the establishment of small factories, e.g., rug factories for both the domestic and tourist markets, clothing factories, etc.

One particular type of small business that should be encouraged is **trucking**. There are very few refrigerated trucks in Albania, nor much long-term storage capacity; thus, food often spoils before reaching the market and consumers are reduced to eating many types of food only in season, rather than having a wide variety of products available throughout the year. Yet, trucking firms need not be large. In the United States for example, one family, even one person, might own a refrigerated truck. He would then make his living moving fresh produce from farms to grocery stores.

Another type of small private venture that would be especially helpful, particularly to the newly privatized farms in the

Shkodër region as well as to the apple industry in Korçë, would be **storage firms**. On a voluntary basis, small farms would sell their produce to a storage firm which resells it to its own consumers and perhaps even to delivery companies. In this way, small producers who otherwise would have a tiny market would enjoy economies of scale by taking advantage of the large amounts of produce such a venture could deliver on demand. Since the firm has modern storage facilities, apples and other foods could not only be resold in large volume but also be stored until the best price is available.

These two ideas would greatly improve the diet of the average Albanian, who would now be able to buy apples or oranges at any time of year or any location. Sarandë oranges could be eaten anywhere, for example. Growing techniques would have to be improved, of course (see the agricultural section of this paper), but clearly because both the trucks and storage companies would use modern refrigeration technology, spoilage would be cut substantially.

This would mean more produce on the market, which would have the added benefit of lowering prices. Again, the consumer benefits.

As mentioned earlier, for the first ten years, the SBC would be part of the ANIC. When the latter folds, the SBC might become an ordinary government agency, as in the U.S. On the other hand, if there is skepticism that the government can run such a program adequately, other options, such as a non-profit, self-supporting entity, are also possible, perhaps in conjunction with newly created commercial banks.

C. Privatization of Farms

This matter is taken up in detail in Chapter XIX (section A). The basic principles of agricultural privatization follow:

- (1) Land already in private hands before the implementation of the reforms described here would remain private without compensation to the state.
- (2) Existing cooperatives would decide on a voluntary, democratic basis whether to break up or attempt to function under market conditions. State farms would be turned over to the ANIC for privatization.

(3) Two markets for farm land would evolve and such land would in most cases be paid for, rather than given away. In one of these markets, a portion of the land currently belonging to state farms and disbanding cooperatives is reserved for bids from Albanians for five years. Albanians wishing to purchase a piece of land can do so either as individuals or a group. Potential buyers(s) who must borrow would have to present a viable plan for what they intend to do with the land. The SBC or a special facility designed specifically at the agricultural sector would help Albanians with training and start-up capital.

In the other market, foreigners are allowed to bid on any land not reserved for Albanians. However, any such land purchases should be carried out via joint ventures, in the form of partnerships with the ANIC itself or an individual Albanian person or company. It is expected that the ANIC would sell off its share in the venture to Albanian buyers when such can be found.

D. Things that the State Should not Sell

(1) Parks, forests, lakes, museums, historic properties, undeveloped beach front property, and so on, should be

provided to the national or local authorities.

- (2) Dams, post offices and certain utilities should be turned over to the national or local authorities, as appropriate; however, proposals for joint ventures and investment should also be entertained to improve their operation. For example, while a national postal service should be retained, if an entrepreneur can provide certain types of mail service as a private venture, he or she should be allowed to do so. Another possible candidate would be heating companies. It may turn out that an entrepreneur wants to sell natural gas for heating homes. If this service can be provided safely, it should be allowed. Market forces will dictate the price and whether or not the venture will succeed.

E. Things for Which Buyers Cannot be Found

As pointed out by the Democratic party, some property will be impossible to sell because of environmental hazards, or because the facility is too antiquated for investment to be worthwhile. These should be disposed of and the workers retrained for new jobs, in many instances in the new small-business sector.

F. Labor Dislocations, Pensions and the Need for a Social Security Net

Labor dislocation presents an important political and economic challenge. There are likely to be a number of factories that will have to be dismantled, rather than retooled. Farms and factories will also lay off workers as efficiency is increased. This will cause labor dislocations. Although union leaders told Mr. Roeder during his visit that such is expected and will not be a problem, history teaches us that not dealing effectively with dislocations can have explosive results. We suggest a safety net to take care of this problem.

In our view, the **Social Security Administration (SSA)** (fully described in the next chapter) will assist dislocated families so that they will have enough money to buy food and clothing and keep their homes. Those capable of continuing to work and below retirement age should be retrained by the **Small Business Commission** if they cannot find a company willing to do so. Those incapable of further work will have to be placed on a government pension funded by the SSA.

G. Things that Will be Sold

The remainder of state properties, e.g., coal mines, oil fields, former homes of the ruling class, and so on, will be sold off to any investor or investors willing to buy them. However, there should be rules designed to protect the people and their environment, as well as to prevent "a buyout" by foreigners, at the same time encouraging foreign investment.

H. Foreign vs. Albanian Ownership

Except for homes, banks, travel agencies, restaurants, hotels and other small ventures (for which there should be no limit on foreign ownership), when properties are sold to foreigners, a portion should be retained by the ANIC, which itself for the first five years is **owned only by Albanians**. (Every Albanian will be given four shares in the ANIC at the time of its creation.) This portion should be sold off at market rates in the form of shares to Albanian buyers as they can be found. We have here the basis for the second leg of the Tirana Stock Exchange, the first being the issuing of shares in the ANIC to all Albanians (see section L of this chapter).

I. Protecting Albanian Labor

Except when needed skills are not available in the local labor pool, Albanians must be hired. An employer wishing to hire foreigners must demonstrate that Albanians with the required skills cannot be found. This is a common practice in most countries.

J. New Enterprises Unrelated to Previous State Enterprises.

Some foreign companies will want to start new ventures, perhaps a bank, a restaurant franchise, a casino in Vlorë or some other venture unrelated to any existing state enterprise or asset, although they will need to be able to buy or lease land. This should be encouraged. For example, we see the possibility of developing hotel chains and tourist beaches and villages along the entire southern portion of the Albanian coast, a natural attraction for northern Europeans. Laws must be established to make the establishment and maintenance of these **new** ventures as easy as possible. There should be no limit on foreign ownership in these instances. **But all wholly owned foreign ventures would still have to hire local labor and management - except when the appropriate skills are not available - as well as abide by environmental and worker safety regulations.**

K. Disposition of Proceeds

To maintain public support, the disposition of proceeds and assets must be completely open. This is especially true given continuing questions about how the pre-Communist government spent its money and the persistent rumors that the current nomenklatura may be stealing state funds.

As we see it, in addition to start-up funds provided by Parliament (possibly with international financial assistance), the sale of properties would raise funds (with the majority probably coming from the mineral sector in the beginning), as well as dividends from the profits generated by ownership of foreign assets. These receipts should then be split up as follows and a public accounting made every six months.

- (1) Management and operational costs
- (2) Yearly dividend check to each shareholder
- (3) Trust fund for new Social Security System
- (4) Remainder to National Treasury.

L. Creating a Tirana Stock Exchange

One of the great benefits of our plan will be the establishment of an Tirana Stock Exchange with its related institutions (e.g., stock brokerages). The creation of a stock market becomes possible because of three events.

(1) Every Albanian citizen will receive four shares of the ANIC, which they will be able to trade among themselves within two years and with foreigners in five. This means that even the poorest Albanians will have something of value to sell.

(2) Privately hired Albanians are bound to earn more money than Albanians do now. A free labor market will generate wages high enough that they can eventually afford to buy shares in private ventures.

(3) The reader will remember that the ANIC retains a partial ownership of every venture it sells to a foreigner; but it is also obligated to sell off that portion in the form of shares to Albanians (only) at fair-market value, as it can find buyers. In our view, Albanians should be allowed to trade **these** shares at any time.

M. What Happens to the Ministries?

We envision that Albania will continue to have a cabinet or a Council of Ministers with ministries representing the areas typically covered by similar bodies in the West. Thus, there would still be a Ministry of Agriculture, a Ministry of Mines and Energy, and so on. However, it is important to stress that **these ministries will have very restricted functions and very small staffs.** They must not involve themselves in the production processes of the sectors that they represent, except by providing information on business opportunities (both domestic and foreign), facilitating and disseminating the results of research, and other similar activities. **Most of the traditional functions of a ministry in a planned economy, to the extent they are not eliminated, will be taken over by the ANIC.**

III. Joint Ventures: How to Make them Work

A. Introduction

Our vision of using joint ventures as part of the program for developing the Albanian economy differs dramatically from the typical Italian investments before World War II. These investments, which were really a form of colonialism, were called "La Quinta Sponda D'Italia" ("The Fifth Coast of Italy") and were part of a program for integrating the Italian and Albanian economies to the benefit of Rome. This program was nearly completed by 1939, when, e.g., the "Economic, Customs and Currency Convention," linking the lek to the lira, was promulgated.

We also reject the former Chinese practice of dropping poorly designed turnkey plants down on the country. This practice has contributed to Albania's inexorably worsening pollution and declining production. The vision we propose is to develop a system wherein **both nations benefit** because both have a self-interest in the success of the "joint venture" or partnership - what we call a "win-win situation." One way to understand what we are talking about is to look at a recent case in which the venture has fared poorly. A good example is

the Csepel Bike Works of Hungary, a joint venture with Schwinn. It should have worked, but it has not (so far).

Creating an environment conducive to joint ventures requires the fulfillment of a number of conditions, some of which have already been touched on this in paper, but which bear repeating. A short list is as follows:

B. The Legal Environment

We suggest that as quickly as possible, Albania pass simple, well designed laws leaving little or no ambiguity. Simple and straightforward approval and registration procedures that cause as little delay as possible once the partners decide to establish the venture.

One way to understand what we are talking about is to look at a recent case in which the venture has fared poorly. A good example is the Csepel Bike Works of Hungary, a joint venture with Schwinn. It should have worked, but it has not (so far).

Creating an environment conducive to joint ventures requires the fulfillment of a number of conditions, some of which have already been touched on this in paper, but which bear

repeating. These requirements are described in the following pages.

C. Taxes and Customs Duties

Low rates of profit tax on joint ventures are highly desirable. We would advise allowing such ventures "national treatment," meaning that they are subject to the same taxes as domestic firms.

Furthermore, excessive duties reduce the production and profits of joint ventures and are an impediment to investment. Recall that in our section on customs duties, we stressed that such duties be kept to a minimum (despite the pressure to balance the budget). Ultimately, since they reduce profits, they also reduce corporate income tax collections. Customs duties were also a problem for the Csepel/Schwinn venture. Duties and taxes on imported goods rose dramatically after the contract was signed, making the bikes more expensive than planned.

This also raises one of the serious problems with the VAT tax. Although a favorite of Western Europeans, it is probably inappropriate for Albania at the present time. The reason is that it is too complex to administer. To do a proper VAT, you

must keep track of thousands of inputs every month. This requires computerization and training that do not exist yet in Albania, thus arguing for a **simple sales tax levied at the retail level**, as most U.S. states now have.

In the case of Csepel/Schwinn, since the customs officials had few or no computers and no experience in calculating value, they had to hire five people - instead of one with a computer - for just this one venture. Millions of dollars were tied up in the delays on reimbursing VAT, delays that can be as long as six months. Such a situation raises the costs of business, will ultimately reduce production and is a disincentive for investment. Once again, as production goes down, so do sales and thus tax receipts. The key here is make sure that the right type of tax is established at the right time and that the tax/customs staff has both the proper training and equipment.

D. Repatriation of Hard-Currency Profits

Repatriation of hard-currency profits should be allowed. Foreign firms will probably be interested in joint ventures in which something produced in Albania - say, copper wire - is exported to Western Europe. Since for the foreseeable future the lek will not be fully convertible, these firms will expect

the return on their investment to be in hard currency. Of course, the establishment of joint ventures will be particularly difficult before the lek is fully convertible.

E. Establishing a Market in Urban Real Estate

Steps should quickly be taken to establish the **market in land** suggested in Chapter XIX. This market should include both agricultural land and urban real estate. The Hungarian experience suggests that many foreign entities were interested in obtaining such real estate.

F. Signing a Bilateral Investment Treaty with the U.S.

Another disincentive to American investment is the lack of a **bilateral tax treaty, something which should be negotiated as soon as practical.** As has been discovered in the Soviet Union, the absence of such a treaty, especially one with provisions on repatriation of profits and foreign income tax credits, means that American firms face double taxation. Taxes paid in Albania should be credited against taxes paid in the U.S. In fact, **we would argue against taxes on - or at least for minimal Albanian taxes on repatriated dividends, royalties and interest - especially in the early years.**

G. Hiring New Managers/The Fate of the Old Ones

Another failure in the Csepel/Schwinn case was the retention of the old managers. We noted above that the holding company must be able to hire and fire. As the Hungarians found out, keeping old management can be disastrous. It is often a product of the old system, with training only relevant in a centralized economy. **We strongly urge that both the ANIC and the foreign participant in any joint venture have the right to decide who runs the venture, even if in the beginning it means a high degree of foreign management.**

If the Social Security System and the Small Business Commission do their jobs, then the best of the displaced managers (and some are very good' in relative terms) will be retrained and will be able to compete for their old job again later on or for comparable jobs. As stated earlier, once an Albanian can show he is better qualified than a foreigner, he must get any new jobs that come available.

H. Jurisdiction/Negotiating Authority

It is also necessary to pass legislation that **clearly lays out the areas over which the national, district, and local**

governments have jurisdiction. Foreign companies operating in other East European have expressed frustration at having to deal with several layers of government that are themselves unsure as to the matters over which they have responsibility.

We suggest that it be absolutely clear who has the authority to negotiate over joint ventures. Both Occidental Petroleum in Albania and other U.S. firms in the Soviet Union have often found this matter extremely confusing. Under our plan, **the ANIC would have the sole authority to negotiate relative to joint ventures.**

I. Developing Management Skills

Another problem often faced in Eastern Europe is an absence of basic business management skills. We urge the Albania government to avail itself of UNDP programs, U.S. government-sponsored exchange programs and management-development programs at U.S. universities. Otherwise, Albanian negotiators will not understand such basic business matters as accounting, profit, or how to calculate "present value" or depreciation, making negotiating very difficult.

During Mr. Roeder's May 1991 visit, the managers in industry and the officials in the ministries often seemed to have little understanding of the principles of efficient production, price setting and cost-accounting techniques. Training in these areas is critical to Albania's transition to a free market economy, especially to those Albanians who hope to become managers of Western joint ventures. One approach to solving this problem would be to develop a **program in plant management and business administration for current managers and union leaders** at Tirana University using U.S. instructors. In any case, we suspect that many of the larger U.S. investors will be pleased to set up their own training programs.

Two good universities for this kind of training are Fordham University, which is now running a joint venture in the Soviet Union to train Soviet managers, and the Fuqua School of Business at Duke University which offers a three-week training course in business management.

IV. Social Security System

With privatization taking hold, most Albanians will **eventually** earn their salaries from private companies, not the state. The state should therefore begin to move away from being the sole provider of pensions, leaving much of that responsibility to private companies as something to be negotiated between workers and their firms. In addition, as already noted, as firms become more efficient due to the introduction of more efficient technology, workers will be let go. If an entire factory is demolished, all or perhaps most of the workers will have to be laid off, unless a new private venture takes them on. **Such people will need state protection.**

In place of the *status quo*, we recommend creating a **social security system** funded by a trust fund established by the ANIC and financed by payroll deduction (i.e., by deductions from workers' pay). Its objective would be to handle the needs of only (a) the unemployed, (b) the very poor, (c) the infirm, and (d) people for whom the remainder of their working lives is too short to be able to earn a private pension.

Under this new system, Parliament creates a legal guarantee of a minimum monthly stipend for all Albanians at the time of

retirement, permanent disability or involuntary lay off. For a variety of reasons, such as the size of a company, some Albanians may not be able to achieve the minimum payment from their companies. The **social security check** makes up any difference between the legal minimum and what the citizen earns from other sources.

The size of the check should vary according to the date on which the beneficiary entered the system. For example, someone who is now retired or who is close to retirement would receive the full amount, **plus a premium** in recognition of the fact that he or she does not have enough working years left to earn a private pension. Succeeding generations would not receive the premium, since they would benefit from private pensions.

V. Creation of a Modern Banking System and a Convertible Currency

A. Background

Symptomatic of the structural crisis in Albania is the status of the banking system. Access to international capital markets is quickly closing, thanks to reduced available funds abroad and an Albanian national debt of over \$500 million, of which the government is in arrears to the tune of over \$300 million.

There is clearly nowhere near enough hard currency in Albanian banks to cover the debt, nor is there likely to be soon.

Indeed, some experts told Mr. Roeder during his visit that hard currency reserves would be extinguished by the end of June or July at the latest.

The reasons for this problem are many, but essentially boil down to a lack of knowledge of modern banking and reckless risk taking. One of the central bankers during an interview with Mr. Roeder pulled out a 1935 textbook on economics and said it was the latest work he had.

B. The Need for an Independent Central Bank

We will not make any specific suggestions concerning the banking system, leaving this to the IMF. However, we cannot emphasize too strongly the need to create a central bank that performs the functions of such an entity in the Western world. The central bank must be insulated from political influence, so that it can do its job in a competent and professional manner.

C. The Need for Private Commercial Banks

There must be a system of private banks providing interest-bearing savings and checking accounts, as well as loans to private firms. Private banks will eventually be one of the principal engines driving investment in new Albanian private ventures. We have suggested that the ANIC do this now only because no viable alternative exists. We recommend that the SBC continue to operate after the ANIC shuts down. But private banks, especially those with access to foreign lending, will be able to respond quickly to new private venture proposals by Albanians, some of which may be on a large scale.

Currently, Albanians cannot really create a company unless they have all the required funds on hand, a virtual impossibility

for such undertakings as a multi-floor department store or a medium-sized factory. Nor do they often have enough of their own money to buy a large house, especially one with many amenities. Commercial banks will play an important role by loaning funds to Albanians with the ability to repay, **which increasing numbers will be able to do as salaries begin to climb.** In addition, since banks will offer interest-bearing accounts, Albanians will have a incentive to save, which is obviously a critical factor in developing a strong economy.

D. The Need for a Convertible Currency

It goes without saying that **one of the pillars of a developed market economy is a fully convertible currency.** Albanians already understand quite well the problems associated with not having one. Unlike, for example, the citizens of Greece, in the last fifty years Albanians have been unable to change lek freely into dollars (or Deutsche marks or lira). Now that it is possible to travel abroad, it is particularly frustrating that even after a lifetime of hard work so few Albanians have enough hard currency to do so.

Although there is unanimity on the fact that at the **end** of the reform process Albania will have a convertible currency, there

is little agreement on the correct path to getting one. Most reforming formerly planned economies - e.g., Bulgaria until February 1991 or the Soviet Union at present - go through a phase with **multiple exchange rates**. One rate is for tourists and approximates the black-market rate and there is an additional one (with a much more highly-valued currency) for commercial transactions. Such multiple exchange rates create obvious distortions in the economy and are not necessarily desirable.

Most countries have what is known as a "managed fiat" currency. This means that the currency is not backed by gold or other precious metals and that the central bank attempts to keep the exchange rate from fluctuating excessively through buying and selling the currency. Unfortunately, Albania, like most formerly planned economies, has far too little in the way of hard-currency reserves to keep its exchange rate within a desired range. Since this option is unavailable, at some point it will probably have to let its exchange rate float freely (downward, for the foreseeable future).

One interesting option, recommended by certain Western authorities for East European countries, is to tie the value of the currency to a basket of commodities. In the Albanian case,

this is particularly attractive because the country is rich in such commodities as oil, chrome, and copper. In any case, our best advice on this complex issue is to **follow the guidance of international financial organizations such as the IMF.**

E. A Warning on Bank Ownership

In developed Western economies there is a great variety of forms of ownership of producing enterprises and financial institutions. However, the experience of other reforming formerly planned economies suggests that certain forms of ownership are **ill-advised**, especially during the transition period. We have in mind in particular the practice in Yugoslavia of having **banks owned entirely by a small number of large industrial firms.** This resulted in a great deal of pressure by the firms on the banks to make bad loans, which were an important cause of the financial collapse of the Yugoslav economy.

On the other hand, some prominent Western economists **recommend having firms partially owned by major commercial banks.** Such financial institutions may take more of a long-term interest in the health of the firm than individuals who own a few shares of

stock and sell them when the firm is going through a difficult period.

VI. The Importance of Saving

We have already addressed the need for a national pension scheme (through the Social Security System) which will work in tandem with the development of private pension plans. In theory, in a market economy, most people should be able to develop their own retirement programs by saving money out of their wages. In reality, however, even the wealthiest economies go through periods, such as the Great Depression of the 1930's in the U.S., when this is very difficult for the majority of the population; it was during this period that the U.S. developed its Social Security System.

The trouble with having a generous national pension system is that what economists call **moral hazard** is created: people whose incomes are high enough for them to save may not do so because they believe that the government is already taking care of their retirement needs.

In our view, especially in the early years of the new economy, Albania **must** have a social security system of the type described in Chapter IV. This system acknowledges that Albania is undergoing a transitional phase from a centralized economy to a market economy. It provides for relatively generous

pensions for those late in their working lives, while restricting all others to a minimal government pension. The latter would be expected to save for retirement themselves, in many cases through a pension plan provided by their employers.

We oppose creating the types of compulsory savings plans promulgated by some governments, despite the fact that such plans may lead to higher national saving. Such schemes place too much power in the hands of the central government.

In the United States, we have both a national social security system with involuntary deductions at a fixed proportion of our pay and private saving schemes regulated by the laws governing financial institutions. The social security system provides us with a pension on retirement - or in the event of a disability preventing one from working - which is indexed to inflation. It is not, however, an investment which provides us with a return in the form of interest or dividends.

With U.S. private pension plans, the pensioner/investor receives a given payment at regular intervals throughout the year. This money can either be spent or reinvested at the pensioner's discretion. These payments are a return on the investments which the pension fund has made over the years.

The investor must choose his/her plan carefully after a comparison of the performance of several plans. More generally, a Western investor has an enormous choice of investment vehicles, both domestic and international. Thus, he or she must keep up with economic developments around the world.

Ideally, and certainly in the long run, Albanian investors will also have many options for what to do with their money. As understanding of the market economy grows and there is a free flow of information about opportunities at home and abroad, fewer people will have to rely on government pensions from social security.

However, because of the small size of the Albanian economy and the lack of experience with personal saving, we recommend a compromise between the two models. For the first five years private employers would withhold 5% of an employee's salary each pay day. These funds would be placed automatically in a private saving account of the employee's choice. When emergencies arise, employees would be able to withdraw some of their savings.

The chief advantage of this approach to saving is that it would begin to ingrain in the average Albanian the value of saving

part of his income. Once the five-year period is over, he/she would then have the option not only to pick the saving **plan**, but the **amount saved** as well. This saving development plan both helps Albanians to save for their long-term retirement needs and provides a stimulus to private commercial banks and other financial institutions.

VII. Taxes and Duties

A. General Issues

One of the first priorities should be establishing a tax system with "fair" tax rates - i.e., based on the ideas of fairness held by the Albanian people - that bring in enough revenue to keep the government running, but are not so high that they create disincentives to hard work or investment. For example, tax rates on successively higher income levels should not rise so steeply that people do not try to obtain more responsible jobs or to start new private companies.

Taxation is such a complicated area that what may be best for Albania in the long run may not be practicable at the present stage. By the same token, tax policy should be designed so that the taxes employed at the beginning of the transition to a market economy lay the groundwork for what will be adopted when that economy is fully functioning.

Funding for government activities should be from customs duties, corporate and personal income taxes, and a value-added tax, as well as receipts from sales of assets and dividends from the Albanian National Investment Company (see below).

In our view, **tax policy in the early stages of the transition should not discourage consumption of basic commodities that can be provided by the small-business sector.** In the long run, as stated in section V, personal saving should be encouraged. Thus, once the required administrative apparatus is in place, and the small-business sector is on its feet, reliance can be placed on the "credit-method" **value-added tax** commonly used by EC countries. There are two advantages to the use of such a tax. First, as a tax on **consumption**, it encourages saving by households; they avoid the tax if they do not buy goods and services. Second, the EC method collects the revenue either before the retail stage or from large retailers. Thus, the problem of attempting to collect tax from a huge number of tiny retail establishments with little experience with the necessary paper work is avoided.

B. Personal Income Tax

In any developed market economy, this tax is a mainstay of the fiscal system. With respect to this tax, we recommend:

- o All forms of income should be taxed at the **same rates**, including interest and dividend income, capital gains from real-estate sales, royalties, and so on.

- o The tax rates should be **mildly progressive**, with, say, three rates ranging from 5% on low incomes to 15% on middle incomes, up to 25% on the highest income category. There should be a level of income below which no taxes need be paid. This level should be above - perhaps twice as high as - the minimum level of income guaranteed by the social security system.

- o **Personal exemptions** may be used, but should be limited to the number of dependents.

- o Some Western economists have argued that **itemized deductions** should not be allowed at all, with the possible exception of charitable contributions. These deductions are usually used to bring about certain social outcomes, such as encouraging home ownership or voluntary support of charities. The more extensive they are, the more difficult it becomes to administer the tax system and the more the appearance of unfairness arises. Moreover, the more deductions are allowed, the less income is available for taxation, and the higher must be the tax rates to raise a given amount of revenue. In writing a tax law, Parliament should keep these considerations in mind.

- o However, we recommend allowing deductibility of mortgage interest. This will allow Albanians to afford to purchase or remodel their homes and will help to establish a private construction industry. In addition, particularly because political parties (other than the former PLA), religious institutions, and charities such as the Albanian Red Cross are underfunded at present, we suggest allowing contributions to such organizations to be deductible. If such deductions are permitted, the government should maintain a list of approved organizations (both domestic and foreign) contributions to which will be viewed as deductible. Doing so would reduce fraud.

C. Corporate Income Tax

Even more difficult issues are raised by the **income tax on businesses**. We suggest the following:

- o A proportional (**single-rate**) income tax should be levied on all business income, regardless of the type of business. No special tax privileges or subsidies to be granted to individual firms or sectors. However, firms will need to be able to deduct business expenses, including interest and dividends paid out, and write off losses. Corporate

deductions for political contributions should not be allowed, so as to avoid having private interests "buy" the loyalty of deputies in Parliament.

- o Rather than attempting to design complicated mechanisms for accelerated depreciation, **immediate expensing** (also known as first-year write-off) should be implemented, at least in the early years of the transition.

- o Some tax specialists have argued for a system whereby businesses are not taxed on **interest and dividend income** and cannot deduct interest and dividend **expenses**. Following such an arrangement has the advantage of simplicity but raises a number of other difficult issues. Our preference is not to follow this approach but rather to treat these matters as is done in most Western countries, if it is administratively feasible to do so.

D. Import Duties

Some people will be tempted to levy high duties on imported goods, and/or high taxes on foreigners based on the argument that "they can afford it." **This is "penny wise, pound foolish."** Excessive duties will hamper joint-venture

operations and hinder Albanians' attainment of a higher standard of living. Excessive duties and taxes on foreigners scare away foreign investment. We advocate that a simple system of low and uniform tariffs on all goods and services be implemented. We are skeptical of the necessity of - and the ability of the government to be able to implement - "industrial policy" measures designed selectively to assist certain sectors.

If the Government wishes to set different rates for different categories of countries - similar to the U.S. use of "most-favored nation" status - the relationship between the high and low rates should be the same for all goods. For instance, if all products produced by countries in the preferred category face a 5% levy, then less-preferred countries might face one of 10%.

VIII. The Environment

A. Background

At Laç, a Chinese-built superphosphate plant built in 1960 employing 1930's and 1940's technology dumps poisonous chemical by-products into a river, endangering the supply of well water. At Elbasan, unregulated industrial air pollution is destroying the environment, impairing people's health and reducing crop production. The latter point is particularly telling when one realizes that first-quarter agricultural output was down 30% in 1991 relative to the same period in 1990 - despite favorable climatic conditions - thereby significantly contributing to the 1991 food emergency.

B. Creation of the Environmental Protection Agency

We recommend the creation of an **Environmental Protection Agency** (EPA) as an arm of Parliament. Its job would be to establish regulations governing allowable levels of air and water pollution, as well as other environmental hazards. Before any firm or farm could receive a license, it would need a permit from the EPA certifying it had taken appropriate measures to live up to standards. EPA would also make sure that

appropriate standards are met by both government agencies and private citizens.

It is especially important that EPA regulate the activity of agricultural sector, as well as industrial firms and mines. Agricultural runoff can ruin the water supply, reducing available drinking water and killing the fish. In addition, excessive use of chemical fertilizers can produce vegetables and fruits which look edible but contain unacceptably high levels of certain dangerous chemicals. Although it is probably impossible to regulate the activity of all private farmers, some control over the quality of what is sold in agricultural markets should be exercised.

IX. Occupational Safety

A. Background

As the labor unions have been quick to point out and as was independently verified by Mr. Roeder during his May 1991 visit, most of Albania's mines and factories are full of safety hazards, in some cases qualifying them as death traps. Miners fall through the galleries at the Tepelenë coal mine. Poisonous gas flows freely through the air at the Laç fertilizer plant. Hospitals in Shkodër refuse to accept blood transfusions from copper workers because of copper poisoning. Toilets do not exist at the bottoms of mines, creating major health hazards. Most factories have little or no medical staff. In one instance the only medical worker at a factory was a midwife. This is a small sampling of the safety problems that clearly create a threat to life and limb, a strong disincentive to work, a serious danger to production, and ultimately a source of political instability.

Unfortunately, allowing this level of hazard in the workplace is very tempting to the leaders of some less developed countries (LDC's), because it contributes to low labor costs, one of the few features of LDC's attractive to foreign

investors. **However, this is a false benefit.** These hazards decrease labor productivity. More importantly, they force society to bear long-term medical and other social costs that may not become evident until many years after the hazards occur, e.g., cancer, black lung, amputations, emphysema, and so on.

B. Creation of the Occupational Health and Safety Administration

Our view is that the labor unions are correct in demanding minimal safety standards at factories and mines. We think they should be required of all businesses and government agencies, large and small, in order to protect the public at large and workers in particular. To accomplish this, we recommend the creation of an **Occupational Health and Safety Administration (OSHA)** as an arm of Parliament. This organization would be responsible for formulating and enforcing minimal safety standards at all businesses and government agencies. Before beginning operation, a firm would need a permit from OSHA showing that it met those standards. In our view, the existence of an efficient, nonpoliticized OSHA would do much to minimize labor-relations problems.

X. Labor Market Institutions: Creating an Employment Service

Advanced industrial countries have - public and/or private - institutions to assist dislocated workers to obtain retraining, to provide information on job prospects related to their skills, and in general to help the labor market function smoothly. Former socialist countries such as Albania are accustomed to having full employment and never developed these vital services. Now that the economy is undergoing massive restructuring, **it is vital to create retraining and job-placement services as soon as possible.**

A good model to study is the 1990 Polish Employment Law, which sets up a comprehensive program of employment services. A team from the U.S. Department of Labor studied the needs of Poland's employment service and made a series of recommendations. The priority areas identified were as follows.

Job-placement services assist displaced workers in finding new jobs. These services can keep lists of all jobs available in the economy and can match workers with jobs. It is desirable for these services to be computerized as soon as feasible.

Training and retraining is extremely important as the mainstays of the old economy go under and new industries spring up. Of course, to provide training that is useful to the worker, the employment service must have some idea what the new industries will be. Although it is generally impossible to predict the directions that the market will lead the economy, in Albania's present circumstances, reasonable suppositions can be made. Albania should immediately seek foreign technical and financial assistance in providing training in the following areas: **modern techniques of farming, transport operation, mining and oil prospecting; running small hotels and restaurants and other tourist facilities; and providing the basic services absent from planned economies but present in all successful market economies.**

Enhancing job mobility is a pivotal issue; the old system maintained controls over where people could live, thereby restricting the ability of workers to find new jobs on their own. Under the new system, new jobs may be created in places other than where the old jobs were lost. For example, if a steel mill shuts down in the inland, many of its workers may end up providing tourist services on the coast. One measure that has been successfully used in

Sweden to deal with this problem is to subsidize the costs of moving to a new town to take a job. If Albania chooses to subsidize moving costs, we recommend that, to prevent abuse of the system, ceilings be placed on the number of times the subsidy can be received and on the total amount of money that can be paid out. In the long run, we expect that the larger private firms would be able to handle this expense themselves. Another is working with the local housing authorities in a town with a growing job market to see to it that the private housing stock there expands.

Special services may need to be offered to workers affected by **mass layoffs** that occur when entire factories are shut down. The U.S. team that worked with Poland recommended a mass-layoff response program that included pre-layoff employment assistance at the job site. This assistance could be run by the trade unions in cooperation with the Ministry of Labor and the local government.

Providing loans and other **assistance** to displaced workers wishing to start **new, small businesses**. This work should properly be carried out by the Small-Business Commission described in Chapter II (section B), although it may be justifiably considered a labor market program.

A final note: Although in many countries, including both Poland and the U.S., paying **unemployment compensation** is included in labor market measures, we recommend for the sake of simplicity and fairness that Albania not follow this approach. The paying of minimum stipends to keep people alive should be the function of the Social Security Administration and not the Employment Service. **The right to have enough funds to obtain basic food, shelter, and medical care should not be tied to one's former job.**

XI. Bankruptcy

With privatization come both responsibilities and risks. Some businesses are bound to fail. In order to protect creditors and bankrupt businessmen from abuse, bankruptcy laws and relevant courts to administer those laws should be established, perhaps following West European models.

XII. Insurance

We see a need for property, life and health insurance, especially since the state will no longer be providing the vast majority of jobs. People will be hurt, perhaps killed, which will mean a loss of income for their families. This could result from natural causes, or from mishaps such as car wrecks and factory accidents. Property will be stolen or destroyed (e.g., a house wrecked in a storm or a radio stolen by a thief).

Privatizing health care will increase the quality of care provided by doctors. **However, because current income levels are very low, it is too early to discuss privatizing the entire health-care industry.** Nonetheless, we believe that some privatization should be allowed, especially since as the overall national privatization program proceeds, an increasing

number of workers will earn salaries allowing them to afford private care. For those reasons, doctors and nurses should be allowed to offer their services for fees if clients can be found.

This means that a private health-insurance industry needs to be created in order to handle the medical bills of those selecting private care. So that the public system does not deteriorate, we recommend that doctors wishing to offer private medical services be required to do a portion of their work for free. Such a requirement should remain in effect at least until the average worker can afford private health insurance. **At no point, however, will any Albanian be refused medical care because of inability to pay.**

We note in passing there is also a need for a variety of other types of insurance, including the insuring of the drivers of automobiles and other vehicles. An important point about automobile insurance is that drivers should be "experience rated," i.e., drivers should pay different rates depending on how safe their driving has been.

XIII. Patent and Copyright Protection

In order to create an incentive for creativity in industry and the arts, Albanians must know that when they invent something on their own time or create an article or work of art, they can market that product anywhere in the world. They also need to know that they will be protected. In other words, once a patent is registered, no one will be able to market the same product without the inventor's permission for a given number of years. Similarly, only the author or artist will be able to market his/her own work for a given period of time.

Piracy of intellectual property is producing serious distortions in international trade and threatens to undermine research and development because of its impact on the return to investment. The International Chamber of Commerce estimated in 1985 that counterfeiting alone accounted for 2% of world trade or around \$70 billion. This is why international protection was urged in multilateral fora such as the Uruguay Round of the GATT and the World Intellectual Property Organization (WIPO).

XIV. Income Liberalization

A. Minimum-Income Rule

There was a large wage adjustment in Albania at the lower end of the pay range in September 1990 which increased the national wage bill by about Lek 500 million (about 3% of GDP). Despite that, real average monthly earnings declined in 1990. People are having a difficult time finding enough money to buy food. This argues for a minimum wage. Although the concept is controversial, especially in advanced industrial countries, which suffer from high levels of teenage unemployment, we believe that a monthly income should be established. (Note that this has been an important union demand.)

B. Right to Negotiate Over One's Wage

More importantly, however, workers must have the right to negotiate over their wages, letting market forces and negotiating ability determine wage levels. Currently, wages are usually based on a flat rate associated with a particular industry and its level of danger at the time. Workers who do not show up get 80% of their salaries. There is virtually no opportunity for promotion or wage hikes. Incentive pay related

to workplace inventions and innovations is virtually unheard of, although it is allowed by law. All of this of course points to a system that discourages workers from taking any steps that would increase productivity. Indeed, the lack of incentives was perhaps the most frequent complaint expressed to Mr. Roeder during his May 1991 visit, aside from concerns over working conditions.

C. We do not Recommend a Wage Cap

Although some members of the government told Mr. Roeder that they would argue for wage liberalization, they added that there also should be a "wage cap." The idea was that people should not get too far ahead of the rest of the pack. This is a serious mistake and reflects a fundamental lack of understanding of economics. There should not be any cap on wages, since such limits would provide a disincentive to increased worker productivity and creativity. Let market forces dictate salary levels.

XV. Housing

A. Basic Point

Along with labor and agricultural issues, this is one of the most explosive questions that the new government faces. We recommend that housing not already privatized be given free of charge (along with the land it sits on) to heads of households. There should be no restrictions on Albanian resident citizens buying and selling property obtained via the privatization process (or in some cases already owned).

The only exception is the special housing (**shtepi pritae**) previously reserved for members of the nomenklatura (ministers and senior party officials). These dwellings should be turned over to the people (or to the ANIC acting on their behalf). The displaced individuals would then be required to buy their own homes elsewhere at market prices.

B. Why Give Houses Away for Free?

There are both sound political and economic reasons for giving away homes. Most buildings are in need of urgent repairs,

covering the cost of which will substantially reduce existing savings. Savings will also be reduced as prices of food and other commodities and services begin to rise to true market levels, probably at faster rates than wages. Thus, forcing tenants to purchase their current homes could force some people out onto the street, which would be politically disastrous, as well as inhumane.

C. The Need for a Housing Industry

Since homes must be repaired and maintained, the **Small Business Commission** under the ANIC described in Chapter II (section B) should encourage the creation of new private enterprises providing such services, i.e., plumbers, electricians, carpenters, window makers, and so on. In addition, because home repairs and purchases often require taking out a loan, we suggested in Chapter VII (section B) an income-tax deduction to alleviate this burden and assist the housing industry.

D. The Need for A Housing Law and Local Land Commissions

A housing law will be needed to establish the rights and responsibilities of home owners. Local land commissions (see the section on agriculture) would determine the appropriate

amounts of land that would be allocated to homeowners and settle disputes over land. It is important that areas of farm land suitable for inclusion in the market for such land not be given away in the house-privatization scheme.

E. Why is a Housing Market Needed?

Currently, people live where they are assigned. This inhibits the free movement of labor. Not being able to own an asset such as a house or an apartment also limits the investment opportunities of Albanians, and creates uncertainty about the future. After all, a tenant can be removed by the landlord, whereas it is difficult to remove an owner.

F. Questions of Equity and New Forms of Taxation

Not all homes are equal, nor will they ever be. Thus, over time, the prices of housing will reflect differences because of location and quality. For example, a family occupying an ordinary apartment on the seashore in Sarandë will have more valuable land than one living in the mining town at the base of Mount Bulqizë or in Elbasan (the latter infamous for its air pollution.)

Because inequities will always exist (they are impossible to eliminate), the operation of the housing market might lead some to resent those who by accident did better than they, especially if the former could sell their home for vastly more money.

One thing that can be done to reduce this sense of inequity is to apply the personal income tax to the profit earned by selling **real property** - i.e., land and buildings, as opposed to financial property such as stocks and bonds - rather than putting constraints on the market. In this way, society will share in the profits earned by "lucky" individuals who happened to be living in desirable quarters at the end of the communist era. Nonetheless, the tax should be small enough not to be a major financial burden.

G. Three Warnings on Taxes

- (1) People used to living in an egalitarian society are often tempted to overtax those fortunate enough to obtain better housing, just as they are tempted to overtax those earning more than average. This is an error. One of the benefits of a truly democratic, market-oriented society is the freedom to aspire to better wages and better

housing. This provides an incentive to work harder and be more innovative; society as a whole benefits. Thus, we recommend using a light hand when setting tax rates.

- (2) History teaches us that people resent taxes that do not appear to benefit them in any discernable way. To avoid fostering such attitudes, we suggest mandating that the proceeds of the aforementioned capital-gains tax be devoted to purposes that transparently benefit the common good. Such purposes might include using the revenue for local road construction and maintenance or for sewage construction and maintenance. The main point is that taxes raised from the sale of local real property should be used by the local government for projects that people can be seen by the local population.
- (3) U.S. experience suggests that the state should regulate the local housing market as little as possible. Trying to keep rents below market-determined levels often results in housing shortages, especially for low-income dwellings. A far better approach is to provide income or housing vouchers (i.e., coupons that can be used to pay all or part of the rent) directly to low-income people.

Overall, we recommend that the housing market be regulated only with respect to making sure that safety and sanitary standards are followed.

H. Categories of Property

We have in mind three distinct categories of housing:

H1. Rural dwellings (Category I): This category is found especially in mountainous areas and is generally of a lesser quality, built either before or after 1944 by the family currently living in it.

Category I housing should be privatized as soon as feasible with the head of household given title to the dwelling free of charge - if he does not already have it. Whether or not he already holds such title, a small area of the land under and immediately around the house should also be made available to him without having to reimburse the state.

H2. Multifamily urban housing (Category II): This category includes housing built after 1944 by the state as multifamily urban apartment blocks. It also encompasses housing built before 1944 subdivided to form multifamily dwellings.

For Category II housing, individual apartments should be given free of charge to their current inhabitants. The building structure and a defined property around it should be owned by an association made up of the apartment owners, who would at fixed intervals elect from among themselves a board to handle day-to-day operations. The board will deal with any disputes that arise among apartment owners; if they prove unable to resolve particularly difficult issues, matters should be decided by the courts.

It should be remembered, with respect to the privatization of housing in Categories I and II, that the family has generally been paying usage fees to the state all along. Accordingly, for the sake of justice and to simplify matters greatly, housing in these two categories should be provided to its current inhabitants free of charge.

Nonresidential urban land should be turned over to the ANIC for possible inclusion in domestic or joint-venture industrial or commercial projects.

H3: Shtepi pritae - homes of the nomenklatura (Category III):
This category includes housing of a relatively high quality built after 1944 for single families and assigned to members of

the nomenklatura (i.e., those holding senior positions in the former Party of Labor). It also encompasses housing of a similar nature built before 1944 that was left intact and assigned to members of the nomenklatura during the communist era. Each of these types falls under the heading of shtepi pritae. Examples include the old Shehu and Hoxha villas in Vlorë and the villas across from the Hotel Dajti in Tirana.

Category III housing should be turned over to the ANIC for privatization in the same manner as state industrial and mining enterprises. There should be no restrictions on foreigners purchasing this type of housing - either on their own or as part of a joint venture with Albanian participation. In fact, there may well be foreign physical or legal persons that wish to turn it into hotel or resort property or an embassy. Such arrangements should be encouraged.

I. Reasonable Limits on Foreign Ownership

An important issue is whether foreign physical and legal persons should be allowed to purchase housing in Categories I and II. If allowed to do so, another question is whether they must continue to employ the land that goes with the purchase for residential purposes. On the one hand, any source of

foreign capital should be welcomed in the present environment. On the other, the level of income and wealth of prospective foreign buyers is so much higher than that of Albanians that the former can create serious distortions in the housing market during the transition period. **In our view, it would be reasonable to stipulate that Category I and II housing cannot be purchased by foreigners for a period of five years.** This will give the local economy a chance to settle down and for property to find its true market value.

XVI. Education

Alia himself has noted that "about half the managers of economic sectors have only a secondary education." Functional illiteracy is rampant and a major impediment to development. Those who are educated (especially economists, who were often imprisoned or executed in the mid-1970's) are afraid to speak their minds, despite encouragement from Alia, lest they be accused of committing ideological or political errors.

Our recommendation is to develop remedial educational programs for workers and managers in agriculture, minerals, oil and natural gas extraction and exploitation, and tourism. Improving their educational levels will of course be a multi-generational project. But if this is not done, workers will not fully comprehend the need for quality-control techniques and sound environmental practices.

Managerial decisions on the inevitable layoffs will be hard to comprehend. Worker-management negotiations will be difficult, as the manager of the Ballsh refinery discovered three days before the national strike in May. He avoided a wild-cat strike, but quickly learned - as did his workers - that neither

side was trained in the art of negotiation. The situation was characterized by brinksmanship, rather than by well-informed, responsible negotiation. As it turned out, the manager (according to workers interviewed by Mr. Roeder) averted the wild-cat strike because he was new and considered fair, rather than because of the persuasiveness of his arguments.

Higher educational programs should be established at Tirana University in cooperation with American schools in the areas of banking, English, economics, business administration, labor/management relations, and environmental regulation. We also suggest establishing a business school for modern secretarial and office skills, including the use of word-processing and spread-sheet software. People taking the latter courses will be better able to find jobs in Western ventures. As already mentioned, we also suggest a school of journalism. New educational programs in agricultural and agribusiness are also urgently needed.

We further recommend allowing the establishment of bookstores that sell books representing the widest possible variety of political and religious views. There are international bookstore chains (such as the British Smith chain) that may be interested in setting up outlets in Tirana. If carefully

stocked in multilingual fashion with books and journals on economics, business administration, fiction, works related to industry and the environment, political science and religion, and if properly priced, the store should be a major source of current information for the general public, as well as a supplement to school textbooks.

XVII. Return of Religious Properties

Formal title to their former structures and cemeteries should be given back to religious groups. However, we do not recommend returning religious farm land or factories. A commission of Parliament on religious properties should be established to determine which pieces of religious art should be returned and which should be declared national treasures **once** appropriate compensation has been paid.

XVIII. Television, Radio and Newspapers

A fixed date should be set by which the print and electronic broadcast media would become independent companies. In the case of television and radio, ownership by political parties or by the executive branch of the government should be outlawed. A single individual, company, or political entity should not be allowed to own both radio and television stations in the same city, since doing so would place too much power into one pair of hands. Foreign ventures in this sphere should be permitted, although monopoly positions should not be allowed.

We recommend that funding be found for an educational channel that would be used to teach the average Albanian the basics of

(free-market) economics, business administration, and environmental and occupational safety issues. University students may get this anyway; but initially most of the "businessmen" will be ordinary Albanians who have absolutely no experience with a market economy. Our suggestion is to place this new channel under the auspices of Tirana University and convince the university to develop a highly professional journalism school.

Having a large number of competing media outlets, including many newspapers and magazines, several radio stations, and at least two television channels - no more than one of which is owned by the state - will be of great benefit to the new private sector. This is because the media will carry advertising providing information about the products and activities of domestic and foreign companies. In fact, the reduction of the government's role in the economy and the many competing demands on its limited funds will **force** newspapers to seek out private advertising. This is a healthy trend and should not be resisted because of a distaste for the "commercialization of the media."

Some Sector-Specific Suggestions

The following are some industry-specific suggestions. As with the rest of this paper, they do not represent official U.S. government positions, but only informal ideas presented by the authors.

XIX Agriculture

(See Chapter II, section C for a summary, Chapter VIII on the environment, and Chapter IX on worker safety.)

A. Introduction

Agriculture is an enormously important sector of any economy, especially in Albania. In 1912, when Albania was founded, 90% of the population earned its living in agriculture. Even in 1991, the majority of the population lives in rural areas and half of it is employed in agriculture. There are many fears among rural people about their future under a reformed economic system. Failure to allay these fears lost the Democratic party the last elections and could have serious ramifications in the next elections.

In addition, Mr. Roeder discovered during his May 1991 visit that many farmers fear change because they are worried about having to perform additional manual labor, which they already see as excessive. They have too little education and experience with the market system to understand the merits of that system and the fact that technological progress will reduce the role of manual labor.

Farmers also fear that there will be a return to the "feudal" agricultural conditions of the pre-socialist era. In the previous elections, the Party of Labor charged that the Democrats would return the land to its previous owners; in Berat, e.g., this would turn today's cooperative members into tenant farmers. In the 1920's, of the 36,000 hectares of arable land around Berat, two-thirds were in the hands of the Vrioni family. Farmers are also concerned that the inputs necessary for agricultural production will not be available, and that there will be chaos and maybe even starvation.

Our view is that under a carefully designed reform program these fears should prove unfounded. However, it is important not to make hasty decisions that would force people to leave cooperatives before they are willing to do so. At the same

time, special privileges (e.g., subsidies) should **not** be used to favor cooperative over private producers.

It is also imperative to explain to rural people why the reform process will vastly improve their situation compared to what they are used to having. As is the case whenever a new law is proposed, providing such explanations is critical to success in the elections. (Even if a law is well formulated, defenders must be able to explain it to ordinary people so that it stands up to the ridicule of the former Party of Labor.)

B. Basic Principle

To the extent possible, a **market in land** should be created and buyers should pay for it, rather than receiving it for free (with the exception of land already privatized).

C. Land Use

There should be very few **restrictions** on what the buyers do with their land. It is reasonable to stipulate that it must be used for agricultural purposes. However, it should not be insisted that the owner farm it himself. If he wishes to lease it to someone else and move to the city, this should be allowed.

D. Foreign Ownership of Agricultural Land

It is also critical that small land plots not be resold to **foreigners** for five years, after which such sale would be allowed. This is a special market, quite distinct from those created by the general privatization process managed by the ANIC. The income levels of Albanians are so low that allowing foreign participation in local land markets would severely distort prices during the transition period.

E. Limits on the Size of Land Holdings

There should be **no upper limit** on the amount of land that an individual farmer can own, although a lower limit on farm size that varies by product and region may be desirable. Upper limits prevent the inevitable and desirable consolidation of plots into larger farms and unnecessarily raise difficult legal issues, as has happened in Bulgaria.

F. Finding Money to Buy Land

Efforts should be made to create **credit** institutions that lend to small-scale private farmers for the purpose of buying land and implements. We recommend the use of commercial banks or

the ANIC's Small Business Commission described in Chapter II (section B) for this purpose.

G. Foreign Technical Assistance

A system for the dissemination of information, similar to the U.S. Cooperative Extension Service should be created, with, say, one establishment for each of the 26 administrative districts. Assistance in this endeavor can be supplied by the U.S. Volunteers for Overseas Cooperative Development (VOCA) "Farmers to Farmers" program. This program would place farmers and agricultural experts in cooperatives and state farms to assistance in privatization, management, and setting up agribusiness. Fellowships for farmers are also available through the U.S. Cochran Middle Income Exchange Programs.

H. The Role of Government/Forward and Backward Linkages

Government involvement should be limited to providing infrastructure and other public goods that the private sector is ill-suited to provide. Examples include roads and other transport links, irrigation facilities, and the dissemination of the latest research results. Food processing and purchased input supplies should be provided by a **competitive** private sector. State enterprises conducting such activities should be

broken up into the smallest economically viable units and privatized using the method employed for industrial enterprises.

I. New Types of Cooperative Activity

It is likely that most new private farmers will operate on such a small scale that they are able to own only the smallest types of equipment. We recommend such institutions as **combine harvesting** - whereby a private-sector enterprise owns a grain combine and moves from farm to farm during the harvest season renting his services to individual farmers - and **electricity cooperatives**. Note: it is important that there be **several** enterprises providing a given service and that they really compete with each other. In this and all other industries, the temptation to create monopolies should be resisted.

J. Rural Small-Scale Industry

It is a common misconception that all rural activities are agricultural. In fact, in many countries, especially in the developing world, rural industrial activity makes a significant contribution to the national economy. An interesting case is China, which under the economic reforms of the early 1980s,

decollectivized its agriculture and saw a major boom in rural industry.

Albania has a large rural population that already suffers from underemployment. The break-up of many cooperatives and selling off of state farms, the eventual consolidation of tiny private farms into larger, more modern ones, and the difficulty of providing housing and employment for rural-urban migrants all suggest that the creation of private rural industry must be a high priority. (Another priority is improving basic human services in rural areas - health care, schools, cultural facilities, and so on.) **We recommend that the Small-Business Commission attempt to ensure that a high proportion of new private-sector jobs are created outside the larger cities.** As already suggested above, trucking and food storage are natural candidates, as are truck repair shops and manufacturing of small-scale agricultural implements.

K. Reducing the Bureaucracy

The existing **bureaucracy** in agriculture must be sharply reduced early in the process. As long as the bureaucrats in the Ministry of Agriculture remain in their jobs, they will be tempted to act in the old ways. Moreover, managers of larger

enterprises, whether or not their firms have been converted into joint-stock companies, will also rely on the established ways of doing things (e.g., running off to the minister whenever they need input supplies) while the old bureaucratic structure is intact. The Ministry of Agriculture should continue to exist, but should be on a much smaller scale and concern itself with promoting research and development, educational programs, and in general with the activities of such ministries in the West.

L. Environmental Considerations

An important issue in Albania and elsewhere in Eastern Europe is the damage that has been done to agricultural land by **pollution** from industry and mining and by the application of agricultural chemicals. Pollution has even been known (as in Elbasan) to destroy crops. EPA regulations pertaining to environmentally disruptive activity affecting agriculture and rural people should be strictly enforced and applied equally to private, cooperative, and state-sector activity. (See Chapter VIII.)

However, environmental destruction comes from many sources. Uncontrolled grazing of sheep, goats, and cattle destroys

riverbanks and results in soil erosion and reduced crop yields. Unregulated felling of trees along highways and between fields increases wind erosion, with similar effects on crop production. By May 1991 the felling of trees had reached a fever pitch. The obvious solutions to this problem are improved education on agricultural practices and switching to home-heating fuels other than wood.

M. Steps to Privatizing Agriculture

Three agricultural situations can be distinguished, each requiring a different policy approach.

MI. State farms: First, there are the **state farms**, which account for about 18% of the cultivated land, little more than in King Zog's time. The best approach to the privatization of these farms is to include them and their assets in the general privatization process. That is, ownership and control pass over to the ANIC. This includes not only their agricultural lands - other than that beneath and immediately around private houses - but also machinery and other equipment, irrigation and other infrastructural assets, stocks of plant-protection agents and fertilizers, and livestock.

The land would be made available in two distinct markets. A portion would be sold off to Albanians in small lots. Everything else would be put up for sale to all potential buyers, foreign and domestic, physical and legal persons. It is conceivable that certain state farms, such as a vineyard, could survive in their present dimensions and with their present assets, if some entity - such as a joint venture or a voluntary worker cooperative formed by Albanian workers- is willing to purchase them. Alternatively, the assets could be sold off separately. It is possible that certain assets of a public-good nature, especially roads and irrigation facilities, might be nationalized, but such practices should be kept to a minimum.

Who gets what?: There would thus be two land markets, one consisting of (presumably) small plots that only Albanians can purchase for five years, and the other of larger pieces made available to all interested parties. It would be up to local land and property commissions (see below) to determine which land would be included in one and which in the other. The rule of thumb should be that if Albanians want the land for themselves and can convince a lender (e.g., the SBC under the ANIC) that they have a viable plan for success, it is sold to them. The SBC provides start-up capital and training. All

remaining land is available for purchase by joint ventures with foreign entities, although no land would become 100% foreign-owned. However, as in the industrial sector, the ANIC should not retain ownership of the land forever. Its land holdings - consisting of land that has not been sold in either market - would be sold off to Albanians as buyers become available.

M2. Private sector: Second, there is the existing **private sector**. This sector has long existed in the form of the tiny private plots that surround people's houses and their small livestock holdings. Recently, it has grown due to the spontaneous seizure of land in certain parts of the country, as well as to instances in which the authorities have simply given away land to farmers.

Relative to the **private plots** that have always existed, the principal policy direction is to eliminate all discrimination against them. They should have equal access to purchased inputs and marketing and inspection channels as state farms and cooperatives (to the extent the latter two still exist). As mentioned in the section on housing, no attempt should be made to privatize the house or the land immediately around it currently used for agricultural purposes.

As regards new farms that are the result of the recent **chaotic privatization process**, this practice should be halted immediately. **(We do not recommend, however, taking away what has already been privatized in this manner.)** Albania has a unique historical opportunity to create a genuine market in an asset of undeniable value, arable land.

Ordinary working people should be able to afford to buy land, provided that foreigners are kept out of the small-farm sector for at least five years, and appropriate credit institutions are in place. The value of this asset can be discerned by knowledgeable local people, at least with appropriate technical assistance from abroad. It would be a loss to society if this opportunity were lost, especially if spontaneous privatization results in a distribution of land that is perceived as unfair, thus leading to court cases and perhaps even violence.

M3. Cooperatives: Finally, there is the question of what to do with the **cooperatives** that dominate Albanian agriculture. Based upon our knowledge of the experience of countries throughout the world - both socialist and developing nations - we are skeptical that the cooperatives can survive in a market environment. On the other hand, as noted above, we do not want to force people to leave them before they are ready to so.

The best option here is to transform them into voluntary cooperatives, with the assistance of Western experts on agricultural cooperatives. Cooperatives would be faced with two choices: to break up or to stay together as a cooperative.

The cooperative would break up once a certain fraction of its members vote to do so. The appropriate fraction will depend on local conditions; the determination of that fraction should probably be left to the local land commission. If the cooperative elects to break up, most of its land and other assets would be sold to the ANIC for privatization. In general, such assets would be viewed as common property and the members of the cooperative would share equally in the proceeds of these sales. However, people would have returned to them free of charge any livestock - and their offspring - that had earlier been collectivized. (In so-called "cooperatives of the higher type," in which the state provided the capital goods, such goods would go over to the ANIC.)

If the cooperative elects to stay together, it should be allowed to continue to run itself in a democratic fashion (although without the government being allowed to influence the process), electing a chairman and a board. Its land and other assets would remain the property of the collective.

Difficult issues arise when a cooperative chooses to stay together but some of its members wish to leave. Such individuals would be eligible to take with them their own livestock plus any animals that had been collectivized. They should probably not be eligible to share in the proceeds if the cooperative decides to break up at a later date.

A more fundamental question concerns how to deal with a slow process of attrition in which members slowly leave over time. A cooperative may become too small to be viable even though two-thirds of its members have not decided to disband. We strongly believe that people should not be forced to remain in a cooperative against their will. We would prefer to let the market determine when a cooperative is no longer viable. A cooperative declaring bankruptcy would go over to the ANIC, in a process similar to its voluntary disbanding.

N. A Final Thought on Rural Privatization

There is a strong need for **local land and property commissions** to deal with a variety of issues that will arise during this difficult process. For example, two families - the one currently living in it and the one that had had it expropriated - might claim the same single-family house. There will also be

instances when the fate of a cooperative whose members are divided on breaking it up will have to be decided. These commissions should be appointed by the local governments. The decisions of these bodies could be appealed via the court system.

O. Some Suggestions for Foreign Assistance

Albanian experts should be sent to the U.S. to see how U.S. voluntary cooperatives are run and gain a better understanding of how a market economy works. This could be done through the U.S. Department of Agriculture's **Agricultural Cooperative Service**. U.S. experts might be invited to Albania to lecture on modern agricultural techniques.

Eighty percent of the machinery used is out-of-date Chinese equipment, with disastrous effects on production levels, and there is virtually no refrigeration. We suggest inviting U.S. businessmen to invest in the distribution of food, storage and refrigeration.

Except in a few limited instances, such as sardines and tomato paste, canning is virtually unknown in Albania. Existing canning operations are primitive, with, e.g., only one

liter-sized, nonresealable can being used for a given product. We suggest bringing this matter to the attention of U.S. canners, with a view to the attraction of foreign investment into this potentially profitable and export-producing sector. Similar comments apply to the Albanian bottling industry.

XX. Mining

A. Foreign Investment is Possible

There is little question that money can be made in the chrome, copper, coal, oil and related sectors, but these are competitive industries on international markets. In order to attract substantial amounts of foreign investment, a large measure of control and ownership of these assets may have to be given to Western interests. Before investing in a mine, most Western firms will also want to conduct modern mineral surveys to see just what resources really exist in the country. This should be encouraged.

B. Eliminate Investment Restrictions

We strongly recommend the **elimination of all restrictions on foreign onshore oil exploration and extraction.** As can be seen from the attached chart, Albanian oil production has been declining since the 1970's, in large measure due to its ancient technology. This decline has had an impact on all aspects of the petrochemical industry. Letting Western companies extract and explore for oil onshore would be an excellent strategy with enormous potential impact on the economy, **even in the short run.**

Unfortunately, while the Ministry of Mines and Energy has stated that it will allow U.S. firms to drill in the offshore basin (where profit will not be seen for at least five years), it refuses similar access onshore. This greatly reduces the potential for quick profit and denies Albania access to additional crude oil using proven technology and management techniques. Further, it hinders the development of related sectors, especially petrochemicals and fertilizers. When one looks at the oil-sodden ground and worn-out extraction equipment from the 1920's and 1930's that Albania now uses, one wonders why the former Party of Labor government did not jump at the chance for an immediate increase in production.

C. Contact with U.S. Trade Associations

We also suggest **sending Albanian experts to the United States** to meet with the relevant U.S. trade associations. Through them, Albania may be able to obtain joint-venture package deals that combine capital investment, equipment and managerial expertise. In our view, this is a far better approach than simply meeting with whoever shows up at one's doorstep.

The U.S. government might be invited to set up a **trade fair** in Albania that would not only demonstrate what U.S. companies

have to offer in the way of mining and manufacturing capability, but also bring representatives of U.S. industry to the mines so that they can see for themselves what is there.

D. Worker Safety

The Albanian mining sector requires vast improvements in **worker safety** and in **infrastructure**. The OSHA concept works well here.

E. Natural Asphalt

The potential for selling Albanian **natural asphalt** to U.S. highway authorities for our highways and bridges, in lieu of the more expensive Trinidad Lake asphalt now usually purchased, should be investigated. Given that the United States is about to embark on a \$123 billion federal transportation overhaul, this suggestion should be particularly useful now. Albanian ships may now arrive at U.S. ports, and thus could deliver natural asphalt at a cheaper rate than Trinidad Lake Asphalt.

F. Scrap the Monopoly Idea

Scrap the current MINERALIMPEX plan to develop ore monopolies. Instead, divide mineral concessions into the smallest

economically viable units and sell or lease them to interested foreign or domestic entities. MINERALIMPEX plans to replace the ministry's decision-making monopoly with a group of smaller mining monopolies. Such monopolies would control the ore from extraction through processing. This may represent a small advancement, especially since these monopolies would be able to reinvest their profits as they saw fit. Nonetheless, it is clear that the planners who favor this system - the necessity of which they claim is due to the small size of the country - still have not grasped the advantages of competition.

Accompanying the Party of Labor idea of creating monopolies using Western investment would be (a) a return to the outdated idea of using turn-key plants as quick fix infusions of new technology, or (b)' the idea of using profits from efficient Western-run ventures to prop up less efficient Albanian-run ones in the same sector. The experience elsewhere in Eastern Europe suggests that these ideas are outmoded and should be dropped in favor of engaging in genuine joint ventures.

XXI. Transport

A. Roads and Highways

Although more research is needed regarding passenger and cargo traffic volume, the Albanian link in the Trans-European Motorway (TEM) may be a good investment. Not only is such a link essential to the movement of goods throughout the Albanian market (i.e., moving food and ore more efficiently). It also could be used by truckers from points east via the port of Durrës as a way of obtaining access to the Italian market without having to use the difficult Belgrade-Trieste link. We also see the potential for heavy north-south tourist and truck traffic from Greece to Yugoslavia and Italy. If Durrës's container and ore-ship capacity is increased, the highway - along with the relevant rail lines - will become critical to Albania's ability to export its products.

We suggest developing the system under a joint venture with the Albanian Ministry of Transport through the creation of a **Highway Commission** that would operate as a private company. The Commission would run the system and use local labor and such materials as local bitumen. Payback on the Western investment could be achieved via a system of toll roads running

to and from the borders. Profits would go back to the Commission to recoup investment, maintain the system, pay salaries, and so on, although revenues would be split with the Government. Some of the profits could also go towards the improvement of the rural road system, which now mostly consists of gravel and mud.

Two warnings:

- (1) An exorbitantly high toll would be a disincentive to using Albanian roads, providing an incentive for international transporters to use the Yugoslav highway network instead.
- (2) Interior roads should not rely simply on highway commission profits for investment. We suggest that they receive some of the revenue from a specific tax, such as the capital-gains tax mentioned above.

B. Rail

Vast improvement is needed here. We suggest contacting the **U.S. Railway Progress Institute**, which is the trade association representing the U.S. railroad industry, and see whether it

would be interested in helping develop a new railroad system in Albania.

Like the highway system, the rail system should be able to take advantage of Durrës's strategic location. If linked to mining, industrial and farming centers, such a system would be a vital part of the import/export structure. For example, ore cars capable of hauling both natural asphalt and coal and loadable as containers on Albanian ships would be especially useful. Natural asphalt could be shipped to the port of Richmond, and railed to Virginia's inner harbor, which has links to the coal fields of West Virginia. The natural asphalt could then be sold to a buyer and the car could return to Albania with West Virginia hard coal.

It is undoubtedly in the sphere of foreign trade that the greatest potential profit lies, although tourist trains on the north-south coastal route may also be remunerative. To develop this market, we suggest the establishment of a first-class tourist link between Tirana and the ports of Sarandë and Shkodër, similar to the Cairo-Luxor rail line in Egypt.

A modern rail system is needed for mass transport, tourist traffic and hauling cargo. In the latter instance, we have in

mind container traffic from the port of Durrës, transporting cargo to factories and from mines, and using refrigerated carriages to transport food. Again, we suggest creating a commission that is a joint venture between the Transportation Ministry and Western investors, with profits to be returned to the railroad commission rather than becoming general revenue.

Note: Due to the current low salary levels, we suggest that the price of passenger tickets - especially for trains used for daily commuting - be subsidized in such a way as to reflect per capita income and the need to service the poor. However, rates for shipping cargo should be market determined. If the rail system is run efficiently, such a policy will raise ridership and facilitate the timely arrival of workers at work sites, reducing absenteeism and increasing productivity. At present, people frequently must walk to work or go by horse-drawn wagon, diminishing worker productivity and profits. A good rail system will go a long way toward rectifying this situation while people are still too poor to afford passenger automobiles.

C. A Commuter Bus System

A reliable commuter bus system is a must to get workers to job sites, even after they arrive at rail heads. Some of this

could be taken care of by the rail system. However, Western firms would be well advised to develop lines of their own, so as to carry workers efficiently to and from work, again reducing absenteeism and increasing productivity.

D. Civil Airports at Sarandë and Shkodër

We would either rededicate military airfields at these sites or develop new civil airfields in order to move urgent cargo and passengers and support tourist traffic.

E. Port Development

Our preliminary analysis is that the Albanian plans in this area need to be rethought. The impression that Mr. Roeder had while in Tirana was that they were based on old studies which had given little consideration to the impact of port development on either the environment or tourism. Also, little rationale was provided for much of the purchase orders associated with the proposals (e.g., why it was necessary to purchase a given number of trucks).

In addition, we suggest that the proposal to use Sarandë and Vlorë as possible oil terminals be dropped in favor of using

Durrës for this purpose, due to the danger of pollution of these two potentially important tourist and fishing areas. We also suggest that the management of each port be placed under a separate joint venture using the commission concept, but having no control over the hotels or other tourist services at the port, which ought to be separate private ventures.

XXII. Tourism

A. Overview

Although international tourism is a very competitive business, Albania has a wealth of world-class tourist destinations - castles, ruins and natural sites of scenic beauty - that should create opportunities for profit-making investment. Its geographical location should also be attractive to tourists from nearby European countries around the year and to Scandinavians and Germans in the winter. However, we strongly recommend dismantling the ALBTOURIST monopoly over hotels and restaurants, privatizing all of its current holdings and allowing the market to dictate where tourism might develop.

B. Packaging

In our view, private companies may find it lucrative to run fishing expeditions in the mountains (as is now done in the salmon rivers of Scotland and Alaska), and offshore, perhaps even establishing yacht harbors at Vlorë and Sarandë. There is also little doubt that the castles and ancient ruins would also be able to attract a sizable tourist trade - from Greece and Italy, at least - if the packaging is attractive enough and the

sites are properly developed. Many current tourist sites suffer from a lack of the sorts of professional guides, shops and amenities that Western tourists have come to expect.

C. Eliminating Segregation

Currently, Albanians cannot stay at many of the hotels that cater to foreigners such as the one at Durrës. This practice should be eliminated immediately, even if separate pricing is retained for lower-income Albanians. Segregating Albanians in separate quarters is demeaning to the local population, because it perpetuates the poor quality of service and accommodations at "Albanian only" establishments. It is also unnecessary. As Albanian salaries increase, they will be able to pay higher prices, making it easier for domestically oriented tourist establishments to raise quality levels. The practice of segregating Albanian from foreign tourists is also often resented by the latter, who do not wish to be separated from their local friends.

The only counterargument to the idea of letting foreigners and Albanians stay in the same hotels that we have heard to this idea is that "Albanian only" hotels do not have the amenities provided at "Western" hotels. However, traveling Western

students and many other "budget" tourists may well prefer to stay at such hotels as a way of saving money.

D. Privatization

We suggest privatizing all hotels and restaurants as soon as possible and allowing foreign investment in new hotels and restaurants.

E. Taxi/Bus/Tour Services

Taxis are already being privatized. Why not allow enterprises to set up their own tour companies? Firms from the U.K. have been busing people across the border for some time. However, such ventures would be even more competitive if run from Tirana and tourist centers like Sarandë.

F. Food

Menus are currently centrally planned and often do not even reflect what is available in the local area. We suggest that hotels have total control over their menus and what they purchase and from whom.

G. Service

Service is generally of a low quality, a reflection of poor training and fixed wages. We recommend liberalizing wages and seeking out hotel-management schools (such as the one at Cornell University in New York state) that can train managers, as well as looking into appropriate training for chefs, waiters, and other personnel.

H. Archaeological Sites

We suggest that Albania work with Western tour companies such as American Express to develop professional advertisements for its many castles, ancient ruins, beaches and fishing retreats.