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BEYOND TRANSITION

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Abstract
The social phenomenon known as transition deemed to be unique in history. This process is a part of a broader globalization process and completes it in three essential points: dynamics, dimensions and effects. If we exclude political and ideological views, the main argument in favor of transition was based on the firm belief that the transition to a market-led economy increases competitiveness and efficiency of the former regulated economy. It was expected that after a short period of contraction, recovery will appear followed by rapid economic growth. That did not happen, and delay of the transition got characteristics of transitional depression that held more than two decades in various countries. It is therefore necessary to indicate the general causes, extent and consequences of long-term transitional crisis, and to analyze its different modalities, routes of recovery and growth in specific countries.
Keywords: transition, economic growth, market, regulated economies

Introduction

The specific nature of economic systems in which the transition began is what makes them unique. Unlike Western countries that have already had a developed market structure, in socialist countries it was necessary to establish new institutes and carry out substantial changes in the political, legal and economic system. Fundamental problem for those countries was overall and rigid structure malanjusted to upcoming changes. While countries with market economies experienced legal, economic and institutional modifications, the point systems remained a centralized structures with a dominant form of public ownership which did not attend the global development trends.

Triumph of the capitalisam over the socialisam, the market over the planning economy transformed entire economic system. It was necessary to reshape it into new one which will create favorable scenarios for the allocation of resources so the market becomes central and constituent institution. Throughout history the market is demonstrated as the best mechanism for the exchange of ever-scarce resources. As a medium of exchange it emerged with the first communities. Along with the development of society, the majority of resources are left to the market excange, resulting in a market economy. Hereafter, various informations are collected, processed and used trough the market. Supply and demand determines prices. Prices are subversive to all market subjects and they provide all relevant information relating to scantiness, quality, accessibility, tax burden, etc. The country is expected to establish minimum rules applicable on all participants in the market economy and to ensure their realization in practice. These rules determine the quality and breadth of economic freedom as important component of the market economy. Some of the basic certainly are property, freedom of contracting, trade, pricing (including costs of capital and labor), investment and transfer income, choice of business activities, choice of currency in transactions.

One of the main arguments in favor of the post-socialist system transformation was (and still is) that the economic transition will result in economic efficiency embodied in economic growth. The success of this process seeks for measuring disadvantages of plJaned economies and advantages of the latter, known as market economies. In time this will probably be confirmed, depending on strategy of economic development.[1]

Dichotomy reasons

Economic transition from the non-market to the market economies has initiated total collapse of the bureaucratic apprehension of ownership, management and political life and required radical reorganization of the economy in these societies. This should bring them in line with scientific and technical achievements of developed countries.[2] In practice entire social environment has to be changed to facilitate transition from the one-party system, with social ownership and planned economy into the multi-party system as the only viable form of a market economy.

In interpretation of causes that have arisen as an obstacle to the implementation of the transitional process in the pllaned economies, we shall limit ourselves to those which elaborates Cerović. As the key issue he highlights dichotomy between production forces and production relations, where countries with market economies managed to overcome this more efficiently. Practically, this problem is manifested in the distortion of prices of goods and services and prices of production factors, which in turn led to a hidden inflation and unemployment, and finally to stagnation of the economy.[3] This was understandable at a time when social conditions generally required some degree of the state interventionism in both, market-oriented and regulated economic systems. Initialy those systems were compatible, regardless of the evident diversity. Consequently, the author reflects on theoretical views about the excessive role of political structures in socialist countries in which economic policy are inseparable of party policy. This resulted in inflexible and vulnerable economic syistems. But those controversies have more political than economic nature. Excessive political role in this process has changed its

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1 W.G. Kolodko, Globalization and Catching-up in Emerging Market Economies, 9. http://ssrn.com/abstract=312147 or doi:10.2139/ssrn.312147(07.03.2011.)

2 Baletić Z., 1995., 910., in: K. Peričković, „Sociologija tranzicije: strukturalni, sociokulturni i neomodernizacijski pristup“, Društvena istraživanja, 3/2004, 489.

3 B.Cerović, „Transition Process and Economic Science,“ in D. Stojanov (ed.), Economic Science before the Challenges of the XXI Century, Jubiliant Collection of Papers of the Economic Faculty of Sarajevo, Faculty of Economics , Sarajevo 2002, 244.

essence: the strengthening of market forces that support economic activity in pre-existing condition.[4]

The lack of stable market institutions is one of the most importantant cause that obstacle the implementation of the transition process.[5] The prerequisite is the existence of institutional structure which will be adapted to the economic system. It can be concluded that the economic transition must precede institutional changes. The foundation of institutional transformation is stable and funkcional legislative system that will guarantee property rights, competition among commercial entities, stability and efficiency of financial and tax system.

According Golubović, institutional system includes both formal and informal institutions whose purpose is to simplify social processes and to provide predictability of the business decisions by creating a stable structure of the human interaction. In this regard, institutional changes require knowledge of the nature of institutions and their basic functions, sources, subjects, direction as well as a time dependence.[6] The latter is largely conditioned by the initial stage in some transition countries where full results failed despite the acceptance of institucional patterns adopted in developed countries. The author imputes such state to the cumulative experience which disabled members of those communities to cope with changes.[7]

It was considered that transition countries should assimilate recommendations of the Washington Consensus,[8] along with implementation of the Neoliberal economic model.[9] It was necessary to re-establish private property, enforce deregulation and trade liberalization. However, the liberalization was applied uncritically and automatically, its results was poor because of the institutional underdevelopment. For the transformation process are far more important strong institutions that enable the smooth functioning of market mechanism, then its pace. The state has important role in creating an favourable economic environment trough instruments of the economic policy.

Why did these countriese choose to implement patterns given by the Washington Consensus anyway? There was no better solution and no time for gradualy implementation of market logic and democratic institutions. This approach led to some fundamental mistakes. The significance of the transition process was omited becouse the socialism has already been suppressed by capitalism, as a logical sequence of historical events. Another mistake was the implementation of market economy postulates. It was unjustified to expect that socialist political systems will accept new rules without any consequences, regarding the inefficiancy of the government, lack of confidence in the reforms, decline rate of economic growth, unemployment and other side effects.[10]

Analitical freamwork

In order to explain this complex process we will use the analysis of four variables that make up its frame. These are:

a) initial conditions
b) indenpendent factors
c) conduct of relevant subjects
d) economic results

Initial economic conditions include macroeconomic stability, economic structure, accomulate and human capital stock, geographical location, demographic structure of the specific state, etc. Some of them are of a long-term, and the others are of a short-term nature. In the context of market-oriented reforms interesting approach to these conditions gives Balcerowicz.[11] He defines them as covert resources and costs, since they were suppressed in regulated economies and released through economic liberalization.

Covert resources such as the great potential of an educated population, a favorable geographical position and sectors that are easy to privatize, are inheritable. They increase economic growth if the state applies appropriate policy.

Covert costs are also inheritable, but their impact on economic growth is negative irrespective of the applied policy. Excessive industrialization, and an unfavorable geographical location are some examples of this kind.

Independent factors that affecting economic outcomes primarily include external economic occurrences. Their effects are determined by the size and degree of openness of state`s economy. In the broader context this implies economic ties with other transition countries that have changed over time depending on the discourse of government policies. Specifically, indenpendent factors are acceptable instruments for achieving good economic results. Therefore, not only the external economic, but also the inner political events should be included in the category of independent factors that shape economic performance.

Economic outcomes are shaped by changes in components of the social wealth. Along with growth of productivity, inflows of foreign direct investment, inflation, GDP growth is taken as a typical measure of economic transition after the fall of communism.[12]

From the point of implemented state policies and other relevant factors the basic analytical task is to explain differences in results that are achieved in the transition.

After the first decade, there was a gap between countries of the Central and Southeast Europe and the Baltics and the Commonwealth of Independent States (CIS). In 1998, in the first group of countries, gross domestic product is recovered

4 Ibid., 255.

5 See V. Leković, "Korelacija tržišne institucionalizacije i tranzicionih procesa," Zbornik radova ekonomskog fakulteta Univerziteta u Kragujevcu, 3/2001, 32.

6 S. Golubović,"Proces globalizacije i razvoj institucionalne infrastructure u balkanskim zemljama u tranziciji"PZbornik radova, Centar za balkanske studije, Niš, 2002, 70-76., http://www.komunikacija.org.rs/komunikacija/casopisi/junir/IX/d09/download_ser_lat (10.03.2011.)

7 Ibid.

8 V. Leković, 33-37.

9It is a method/model routed in the Neoliberal doctrine and strenghten after the fall of planned economies in Eastern Europe in the late eighties of the twentieth century. Due to ideas proclaimed in the spirit of neoliberalism and supported by the technology and informatics advancement, there was an expansion of globalization processes. See: D. Pauković, „Povijesni razvoj neoliberalizma," in E. Matanović et al. (ed.), Globalizacija i neoliberalizam-Refleksije na hrvatsko društvo, Centar za politološka istraživanja, Zagreb 2006., 57.

10 K. Josifidis, „Neoliberalizam-sudbina ili izbor načina života (i) u tranziciji," Privredna izgradnja, 1-2/2004, Savez ekonomista Vojvodine, Novi Sad, 12.-13.

11L. Balcerowitz, Post-Communist Transition: Some Lessons, The Institute of Economic Affairs, London 2001., 32-34.

12 Ibid.

from the transitional recession. Ten years later it exceeded the level recorded in 1990. for 6%. The second group of countries recorded GDP growth of 63% in the same period.[13] Divergence is noted in political discourse as well. As a result of inadequate state provision of public goods, corruption, riots and wars in these countries political power started to concentrate.[14]

There are several plausible criteria in terms of measuring the success of the transitional process, from those contained in the Index of mixed-liberalization (World Bank) to the indicators provided by the European Bank for Reconstruction and Development. After a brief discussion on the development of the model itself, we are going to consider the data of the EBRD.

In an attempt to quantify the level of progress achieved in various aspects of transition, the EBRD has formulated relevant progress indicators in 1994. In the beginning only six indicators was covered: those related to the corporate sector (including small and large privatization and restructuring), market sector and trade (price liberalization and competition, an international exchange system) and financial institutions (banking reform). Indicators are presented by numbers from 1 to 4, where 1 represents a negligible or no progress in reforms, and 4 that country has made significant progress in certain aspects of transition process. The following year price liberalization indicator and competition indicator have been separated in two independent indicators: price liberalization and competition policy. Some additional categories of financial insurance markets and nonbank financial institutions have been introduced. Transition Report covered legal reforms as well, but there was a significant modification of this part in 1998. Finally, the Raport comprised studies about transition progress in the area of commercial and financial rights. Besides, this document included five sub-infrastructure facilities: telecommunications, electricity, railways, roads, water and waste water in order to connect those indicators with theirs institutional characteristics.

Since those results omited some important facts about transition process (such as reducing the role of the state, strengthening private property rights and introducing market mechanisms) it was necessary to improve earlier methodology. In this regard two novells are especially important. First, the number of sectoral indicators was increased along with introducing of four new sectoral groups (energy, corporate, financial and infrastructural). Within the parameters of the financial sector there are further distinctions between the latter, field of insurance and other financial services, private equity, capital markets and the micro, small and medium-sized enterprises. Second, all sectoral indicators are covered by new methodology in order to quantify structure and scope of the market, and to qualify market institutions.[15]

For measuring transition effects we will use Cerović`s and Nojković`s approach based on EBRD data.[16] It has already been mentioned that transition indicators are presented by a scale from 1 to 4 (or more precisely to 4.33 according to Cerović and Nojković). In accordance with methodology used by the EBRD, this practically means that every country on its path of transition reforms has to achieve a maximum of 29.97 (or 30) points for the purpose of the succesfull implementation (4.33x9-9). The aforementioned authors showed transitional status of twenty-nine countries in percentages as follows:[17]

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13 It must be noted that the average rate of growth in CIS economies was higher (about 4%) compared to the countries of Central and Southeast Europe (3.5%). This effect suppress the late beginning of the transitional process and significant decline in production in the CIS, which are therefore slightly advanced from the pre-transition production levels. See: S. Fischer, R. Sahay, "Growth in Transition Economies: Domestic Policies, External Assistance and Institution Building," in C Reinhart et al., Money, Crises and Transition, Essays in Honor of Guillermo A. Calvo , Massachusetts Institute of Technology, Massachusetts 2008., 350.

14 Svjetska banka, Izvještaj: Tranzicija-prvih deset godina, analiza i pouke za Istočnu Europu i bivši Sovjetski Savez, http://siteresources.worldbank.org/SERBIAEXTN/Resources/300903-1106760681824/TRANZICIJA_Prvih_10_Godina.pdf, (10.03.2011.).

15 EBRD, Transition Raport (2010): Recovery and Reform, European Bank for Recovery and Development, London, 1-3, http://www.ebrd.com/downloads/research/transition/tr10.pdf, (08.04.2011.).

16 B. Cerović, A. Nojković, "Transition and Growth: What was thought and what happened", Ecconomic Annals, 54/2009, Novi Sad, 9-10. Authors devided the sum of scores achieved at a scale of 1 to 4 in nine sectors and for each specific country (minus 9 indicators) with the maximum score (30), and multiplied final result with 100.

17 The author adjusted those results with data from the EBRD Report from 2010.

Table 1. Transition progress in %

Country	EBRD	Progress (%)	Country	EBRD	Progress (%)
Albania	27	60	Moldova	26	56,66
Armenia	28	63,33	Mongolia	26	56,66
Azerbaijan	24	50	Montenegro	26	56,66
Belarus	18	30	Poland	34	83,33
Bosnia and Herzegovina	26	56,66	Romania	31	73,33
Bulgaria	32	76,66	Russia	27	60
Croatia	31	73,33	Serbia	26	56,66
Estonia	35	86,66	Slovak Republic	33	80
FYR Macedonia	29	66,66	Slovenia	30	70
Georgia	28	63,33	Tajikistan	22	43,33
Hungary	35	86,66	Turkey	30	70
Kazakhstan	28	63,33	Turkmenistan	13	13,33
Kyrgyz Republic	26	56,66	Ukraine	27	60
Latvia	32	76,66	Uzbekistan	21	40
Lithuania	32	76,66			

Source: B. Cerović, A. Nojković, 10.

The complexity of this process is underestimated, given that none of analyzed countries has not reached the maximum in implementation of transition process. However, some of them were more successful than others. Through effective privatization and democratic reforms they gained the attribute of market economy. Reasons for this could be found in their economic, political and social systems.

Thus, the Baltic countries are market economies with domination of private property, developed democracy, low corruption and high growth rate of 8% annually, low inflation and balanced budgets owing to "small" governments and to their good administration.

Countries of Central Europe are also democratic market economies, but their growth rate of 4% a year, and the level of corruption is higher than in the Baltic countries. The main disadvantages are: high public spending, high taxes, large social transfers and budget deficits, and unemployment caused by rigid control of labor market.

The South Eastern Europe countries are qualified as a democratic market economies. They have simmilar characteristics as the Central Europe countries but with higher inflation, less developed businesses, a slightly higher economic growth and lower unemployment.

The CIS-9 countries reflect a moderate authoritarian regime and the presence of corruption. Bright side of their development is a constant economic growth of approximately 9% since 2000. until 2005., owing to the reduction of public expenditures whose share in gross domestic product decreased by 19% compared to the countries of Central Europe. So called "colored revolutions" intensified political instability in these countries, but their impact was different. While in some countries they reinforced authoritarian rule, in other they contributed to the strengthening of democracy.

Three countries from group of the CIS-3 (Belarus, Turkmenistan and Uzbekistan) are still dictatorships without a developed market economy, with marginalized private sector, massive state apparatus and corruption. Despite the above available statistical data show moderate inflation and an impressive annual rate of economic growth, but these are considered questionable.[1]

Conclusion

Consideration of the the transition process should be given beyond national, regional or global context. In order to promote desirable social transformation it is necessary to overcome temporal and spatial frameworks. Without a coherent transition plan and without appreciation of initial conditions and circumstances, the transition cycle can not be completed. The absence of pragmatism in formulating, implementing and maintaining measures on the open market greatly contributed to the fact that this venture has turned into its opposite. Hereby the recapitulation of reasons that slow the transition is not complited.

Common conclusion of all empiricall analysis is that economic progress doesn`t depend on notional concepts of economic policy, but otherwise they diminished the effects of real economic conditions. Forecasting the final result proved to be unrewarding endeavor, and our task was to show how subjects in transition respond to transition postulates. The biggest challenge referrs to the government regulation in the economy, since everything begins and ends within the framework of state intervention. Flexibility and rationality of state intervention determine all components of the economic system in transition.

[1] *A. Aslund, How capitalism was built: the transormation of Central and Eastren Europe, Russia and central Asia, Cambridge University Press, New York 2007., 305-307.*

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