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ASSESSING ECONOMIC TRANSITION IN EASTERN EUROPE AFTER TWENTY YEARS

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ABSTRACT*. *The fall of the Berlin Wall unleashed three great expectations in post-socialist countries: the first was the construction of a market economy; the second, the establishment of a developed economy; and the third, the achievement of living standards and welfare similar to those in advanced economies. This article seeks to analyze the degree of fulfilment of these three objectives through the evaluation of the changes occurred in the 16 countries of Eastern Europe. There is no doubt that these economies have been privatized. But if we analyze institutional change characteristic of the functioning of a market economy, beyond the formal changes, the degree of extension of market relations is incomplete. In fact, many countries have developed some non-market driven phenomena. This article shows also that progresses in modernization of the economy and in improvement in welfare are limited.

KEYWORDS: Eastern Europe, economic transformation, political economy, institutional change, economic transition.

JEL classification: O52, O57, P20, P26.

Introduction

Despite the existence of common features in all countries involved, the economic transition that began in Eastern Europe in 1989 has been a very heterogeneous phenomenon. These differences are not only on an economic level, but geographical, historical, cultural or political variables have also conditioned the course of this transformation. Each country's point of departure was different. Indeed, the inheritance from the socialist experience varied depending on the version developed in each country, defining different institutional forms, productive structures and modes of international integration. Also the development of the reforms has differed, although all these European countries have shared the same goal, namely, the introduction of a market economy. External factors are fundamental to understanding the differences in reform strategies and outcomes. The uneven entry of foreign investment and IMF aid programs has had a profound influence on the transformation process. Since the beginning of the transition, the European Union has shown less interest and commitment to the Balkans than to the other eastern countries and still maintains asymmetrical relations with different countries of the region. It is known that south-eastern countries are experiencing more painful transitions than central-eastern countries, incorporated earlier to the European Union. Balkan transitions have been marked by deep economic and political crises, especially in former Yugoslav republics, which went through an intense war in the 90's. In Central Eastern Europe and the Baltic countries the economic transition has been developed in a climate of greater political stability.

The fall of the Berlin Wall unleashed three great expectations: the first was the construction of a market economy; the second, the establishment of a developed economy; and the third, the achievement of living standards and welfare similar to those in advanced economies. This article seeks to analyze the degree of fulfilment of these three objectives through the evaluation of the changes occurred in the 16 countries of Eastern Europe[1]. In this study two groups of countries sharing common characteristics are defined. The first is composed of economies that joined the EU in 2004. This group includes the more advanced central eastern economies, namely Poland, Czech Republic, Hungary, Slovakia and Slovenia, plus the Baltic countries Lithuania, Latvia and Estonia (CEB economies). The second group is comprised of the countries of South Eastern Europe (SEE economies). These include, on the one hand, Bulgaria and Romania which joined the EU in 2007 and, on the other hand, the Western Balkan countries Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro.

The work begins with a section that defines the meaning of the transition process and establishes the analytical framework that allows us to understand the evolution of the institutional change achieved two decades on. The second section summarizes how the reform process was carried out. Section three assesses the degree of realization of the expectations generated at the beginning of the transition in the three areas of institutional, structural and social change. Finally the work ends with a section devoted to conclusions.

1. From Planned to Market Economy. What does the Transition Mean?

At first glance the notion of transition refers to the temporal aspect: specifically, the time between the end of central planning and the implementation of a market economy. In this

[1] The former German Democratic Republic is a particular experience after its unification with the former German Federal Republic and it is not analyzed in this study. On this case, see Ahijado (1998).

sense, the most optimistic visions hoped that decentralization would lead to the market in one way or another. According to the orthodox approach, also known as the Washington Consensus, that was defended by authors such as Aslund (1994 and 1995), Blanchard *et al.,* (1991), Brada (1993 and 1996), Lipton and Sachs (1990) or Fischer (1993), the elimination of planning system and their replacement by the institutions of a market economy would lead to the emergence of such a system of resource allocation.

The orthodox approach, very influential in the early years of transition, proposed a radical application of reforms (Marangos, 2007). The arguments were related to the advantages associated with the market economy as a mechanism for efficient resource allocation. The radical solutions not only were considered necessary to achieve economic growth (Aslund, 1994), but furthermore, radical action was perfectly feasible: the rapid commercialization and privatization of the economy would automatically instigate the changes in attitudes and behaviour of economic agents which would lead to efficient solutions in the allocation of resources (Brada, 1993). According to Fischer (1993), to liberalize prices slowly would allow the old companies to survive, to circumvent the necessary restructuring and hamper the creation of new private sector businesses. Moreover, Aslund (1995) argued that gradual reforms options were the result of socio-political imperfections, corruption and rent-seeking practices, whereas the radical option was truly democratic.

The problem of the decline in production associated with the rapid destruction of planning institutions was considered a secondary issue. The principal objective of the transition was system transformation, not growth. This would start automatically after vigorous implementation of stabilization programs and structural change. The role of State during the transition must be necessarily residual. Its functions would be limited to ensure macroeconomic stabilization, establishing basic laws for market performance and ensuring their compliance (Aslund, 1994); while restructuring of the economy was to be done through privatization. Besides, the need to obtain assistance from international institutions, primarily the IMF, forced these countries to accept their economic policy programs (Gomulka, 1995). Specifically, IMF programs reproduced the orthodox scheme, with particular emphasis on stabilization measures.

The unsatisfactory outcome of the transition stimulated the production of a series of studies that questioned those programs from an institutional perspective. Authors like Andreff (1996, 1999 and 2003), Chavance (2002), Murrell (1992a, 1992b, 1993 and 1996), Roland (1993), Ellman (1994) and Stark and Bruszt (1998a and 1998b), among others, have contributed to criticism of the orthodox view from the perspective of the transition as a process of institutional change that lays greater emphasis on transformation of the behaviour of the economic agents.

Especially interesting were the works of Murrell, who rejected the drastic elimination of existing institutions and the rapid construction of a market economy. Instead, he proposed the introduction of a private sector that gradually changes the behaviour of economic agents, rather than a rapid privatization of state assets. This initial phase would facilitate the generation of the social and human resources necessary to create the preconditions of an institutional framework that would develop a market economy in the long term (Murrell, 1993). Andreff (1996) emphasized that habits and resistance to change constitute, under bounded rationality, mechanisms to maintain a balanced allocation of resources in a system that works in a permanent imbalance dynamic; good examples of this during transitions are the behaviour of collusive groups, inter-enterprise networks of relations, clientelism, the parallel economy, the habit of passing misleading information to policy makers and so on.

This behaviour emerges as mechanisms of the survival and reproduction of the economic agents in the context of changes during transition.

Finally, as North (1990) emphasises, in the development of the reforms, formal changes (privatization law, competition law, deregulation of the price system, etc.) are faster than changes in behaviour and informal institutions (management system of privatized enterprises, price formation through the market, etc.) (Winiecki, 2004). This leads inevitably to the coexistence of old and new at the same time, creating hybrid systems (Chavance, 2002). In this sense, the transition would not be just a matter of time, but would confer specific characteristics to the new systems (Popov, 2009).

From a polanyian perspective of transition, the chain of causal relationships leading from the elimination of the institutions of central planning to the decentralization of decision-making, from there to exchanges governed by profit and thus finally to the market can be challenged (March and Sanchez, 2002; De Arriba, 2007). In fact, there is the possibility that other forms of economic integration different from exchange, such as reciprocity and redistribution, may develop, which could create institutional models different to those of the market (Polanyi, 1957a). Moreover, it should also be noted that the existence of markets does not necessarily guarantee the emergence of a market economy.

In this approach, the markets constitute a market system when the transactions in one affect those in the others and all together provide, finally, a mechanism of society. Only when the interconnected markets form a complete system, that is to say, all the inputs are acquired on markets, all income comes from market sales, all the purchasing and sales are regulated by prices, then a self-regulating market system exists (Schainel y Neale, 2000). It is not just an economy dominated by private activities (a privatized economy). In a market economy the profit becomes the driving motivation of economic relations and the survival of individuals and enterprises depends on their participation in markets (Polanyi, 1957b). In this system, economic resources are used according to the criterion of efficiency and decisions are guided by a system of free prices.

The means of production, essential elements of economic reproduction and, therefore, of the survival of individuals, should be subject to market relations. This requires compliance to certain conditions: first, exchange has to be possible; second, prices of transactions must be determined in the field of exchanges; furthermore, the exchanges should be self-regulated by the prices. Finally, this type of mechanism has to be the dominant form of integration in order to hinder the development of the phenomena of reciprocity and redistribution (De Arriba, 2008).

More concretely, the decisions in the ambit of demand and supply and the reproduction of the means of production must be based on the economic profitability in a context of tightening of budget constraint. If their use does not generate profits, they lose their value for possible purchasers and their use would have to change; if they generate profits, they acquire value and so subsist (De Arriba, 2006). In this respect, the role of the financial system and the regulation of bankruptcy are essential. The financial system has to link the value of the means of production to its profitability through the capital markets and through the allocation of credit, by tightening budget constraints (Berglöf and Bolton, 2002). This way the financial system establishes the distinction between profitable enterprises and loss-making ones. Bankruptcy has a double function. On one hand, it allows the liberation of resources in non-profitable uses that feed the supply of the means of production for other uses and, on the other hand, it guarantees that the existence of enterprises is determined by their profitability (Begg and Portes, 1993; Mitchell, 1993). As a consequence, bankruptcy contributes to an allocation of resources carried out through the market and it imposes financial discipline on the debtor.

On the other hand, the survival of the individuals has to depend on their participation in the markets. In this case, the importance of other ways of satisfying basic needs such as social benefits, crime, self-consumption or networks of solidarity erodes the link between wages and supply (March and Sánchez, 2002). Additionally, to the extent that wages are very low and don't allow for the covering of basic needs, this regulatory impact on supply is more limited.

In transitional economies, obstacles to the creation of markets beyond the realization of changes in the formal institutions (such as decentralization, privatization or the lifting of price controls) are present. "Resistance to change shown by the informal institutions as well as the reaction of agents toward the new institutional universe could explain these limits. As a consequence, the structural economic policies characteristic of a transitional process can generate hybrid institutional frameworks, resulting in a mixture of economic relationships" (De Arriba, 2006).

2. The Reform Strategy

The orthodox approach has greatly influenced the economic policies of the transition countries of Eastern Europe through the recommendations of leading Western economists and international financial institutions. The basic scheme of economic reform implemented in these countries is articulated around three axes, as Lipton and Sachs (1990) defined: economic liberalization, macroeconomic stabilization and structural transformation, mainly through privatization.

With some differences, all transition countries have implemented similar reforms and shared the basic principles of the Washington Consensus (Roland, 2001). Some have introduced more radical changes along certain lines of the reforms (such as the stabilization program applied in Poland, the privatization in Czech Republic, etc.), others have paid more attention to the redistributive impact attempting to limit the social costs of changes (especially when the former Communist parties ruled), others suffered unexpected economic shocks during the process (such as Bulgaria, Czech Republic, Albania, etc.), others have received massive injections of capital through foreign investment (such as Hungary, Poland, etc.), others benefited from stronger support in the European Union integration process. The content of the implemented reforms can be summarized broadly around two blocks of measures (Svejnar, 2002).

The first group of reforms includes price liberalization, macroeconomic stabilization and the dismantling of the planned economy institutions (Lavigne, 1997). The macroeconomic package includes restrictive fiscal and monetary policies, wage control and the establishment of a fixed exchange rate in most cases. The microeconomic package focuses on the liberalization of most prices. At the beginning of the transition the CMEA trade system was dismantled and the process of liberalization and opening of the external sector began. Subsidies to state enterprises are eliminated or reduced and the restructuring or closure of some enterprises initiated. The legal framework that allowed the creation of new private businesses is developed and small-scale privatization and restitution of urban properties and land begun. Liberalization of the banking system begins and private commercial banks develop (including foreign banks in some countries). Finally, a social security system with western-type mechanisms of protection against unemployment is created.

The second set of reforms focuses on the development and implementation of laws that ensure the functioning of a market economy and its institutions. Basically, these include the privatization of medium and large enterprises, the development of a non-banking financial system and its regulatory framework and the establishment of the legal system of the market (such as the regulation of bankruptcy, protection of shareholder rights or contract enforcement). Within this group of reforms, it is instructive to take a look at the different strategies followed in large-scale privatization, which is a key element of systemic transformation. The process of transferring ownership to private hands is very important because it produces a huge redistribution of wealth and power and changes the management mechanisms of economic activity.

Privatization in transition countries faced initial restrictions. These restrictions came from the coexistence of elements inherited from the centrally planned economy and the new conditions after beginning its dismantling in 1989 (De Melo *et al.,* 1997). Privatization developed as part of a process of profound systemic transformation where institutions of the market economy had to be created. Parallel to the privatization, other reforms affecting the former, such as capital markets, legislation and enforcement mechanisms of bankruptcies, etc., had to be developed. Besides, privatization occurred in a context of economic, social and political crisis. Socio-political constraints came from the struggle between the new and old elites and other groups seeking a power-position in the new social structures. The economic crisis was consequence of the collapse of the planned economy and worsened with the start of reforms. The symptoms of this crisis were the contraction of output, the explosion of hyperinflation, rising unemployment, reduced real wages and foreign indebtedness (Ellman, 1994).

The transfer of state property to private hands was a huge and complex task (Godoy, Stiglitz, 2006). At the beginning of the transition the private sector was virtually nonexistent in most countries, except in Hungary and Poland where it represented about 20-25% of GDP. The enterprises were big and the productive structure followed the Soviet model of industrialization and the international division of labour within the CMEA trading system. There was a high concentration of industries with low added value, the companies were very vertically integrated and suffered deep segmentation of activities, including social ones (such as apartments, health services, schools, kindergartens, etc.). With the disintegration of the old institutions, the industrial structure lost coherence (Havrylyshyn and McGettigan, 1999). A large number of these companies were heavily in debt and made permanent losses. In the market context, their profitability was doubtful and their competitiveness in the international sphere too low. Under these conditions the possibilities of privatizing these companies successfully were very small.

Each country has developed its own privatization experience. Some were faster (such as the Baltic countries or Czech Republic) than others (such as Slovenia, Bulgaria or Romania) and they used different methods. In fact, privatization in Eastern Europe has been carried out through a mixture of different strategies, including: spontaneous privatization, restitution of property, privatization from below by creating new companies, direct sales, voucher privatization and manager-employee buyouts (MEBOs) (Bennett *et al.,* 2004). *Table 1* reviews the methods that each country has developed.

Table 1. Privatization methods

Country	*Primary Method*	*Secondary Method*
Czech Republic	Mass	Direct sales
Slovak Republic	Direct sales	Mass
Slovenia	MEBO	Mass
Hungary	Direct sales	MEBO
Poland	Direct sales	MEBO
Estonia	Direct sales	Mass
Latvia	Direct sales	Mass
Lithuania	Mass	Direct sales
Bulgaria	Direct sales	Mass
Romania	MEBO	Direct sales
Albania	MEBO	Mass
Croatia	MEBO	Mass
Macedonia	MEBO	Direct sales

Source: after Bennett *et al.* (2004).

Although Poland and Slovenia implemented the first set of reforms more quickly, they opted for a less radical privatization strategy. In these cases the survival of state-owned enterprises was permitted, but managed with market criteria by independent teams. Also the creation of new private businesses was stimulated. Estonia and Hungary chose a system of selling enterprises one by one to foreign investors in an attempt to attract western capital and management methods. Other countries like the Czech Republic, Lithuania and Bulgaria developed mass privatization through the distribution of vouchers exchangeable for shares throughout the population. This type of strategy often represented the only way to privatize unattractive companies, but produced poor results in terms of restructuring. Despite the democratic appearance of this method, in practice it has enabled the accumulation of property in the hands of the former managers, some controlling shareholders or a few investment funds, not generating a genuine distribution of wealth among the population. Romania, Albania or Macedonia gave priority to the subsidized sale of property to groups of workers and managers of state enterprises (MEBOs) as a solution for less attractive companies; although in many cases this method produced unsatisfactory results in terms of restructuring (Djankov and Murrell, 2002).

3. Results

Two decades after seems to be a reasonable moment to assess to what extent expectations have been fulfilled in post-socialist Europe. It is not easy to summarize the results of changes in 16 countries, each with its particular evolution, different degrees of implementation of the reforms and specific initial restrictions. What is more, our aim is not to do a detailed review of each country, but a comparative assessment allowing us to contrast and compare the degree of relative success of reforms in these countries[2]. This section evaluates the degree of implementation of the market (institutional change), modernization of the economy (structural change) and improvement in the welfare of the population (social change).

[2] This analysis is carried out utilizing data previous to the current international crisis to avoid offering a distorted picture of the changes associated with the economic transition. On the impact of the crisis in these countries, see Berglöf *et al.* (2009).

3.1 Expectation No 1: Market Economy

It is not easy to specify to what extent the transition economies have achieved institutional change toward the consolidation of market economies. In any case, according to the polanyian approach described in *Section 1*, it seems clear that the market does not appear automatically after the elimination of central planning or with the establishment of market formal institutions. The analysis on the progress of the transition made by the European Bank for Reconstruction and Development (hereafter EBRD) evaluates institutional change through indicators that allow comparisons across countries over time[3].

Twenty years later, after many transition countries have joined the European Union, it appears that the transition has been a success. However, the process has been long and difficult. Despite overly optimistic expectations of many advisers, market economies have not been consolidated rapidly. It is instructive to note that that after the first ten years of reforms, progress had been rather limited. In 1999, although almost all the countries had introduced a private economy[4], no country reached the level 4 + associated with a market economy fully consolidated in any of the partial reform indicators (EBRD, 2009a). Until then, most advances occurred in simple reforms such as liberalization of prices and foreign trade and privatization of small firms (the first set of reforms); however, large-scale privatization was conducted more slowly[5]. Reforms in the areas of enterprise restructuring, competition policy, banking reform and financial system development were also incomplete, with the exception of remarkable progress in the banking system in Hungary (Hasan and Marton, 2003). The significant presence of the State in the banking system (except in Hungary, Estonia, Latvia and Macedonia) and the huge percentage of bad debts are two good examples of the timid steps in terms of the tightening of the budget constraint of firms[6] (Wunner, 2000) (*Table 2*).

The current picture is somewhat different. All transition countries are private economies. Between 70 and 80% of the GDP of these countries comes from the private sector; somewhat less in Serbia (60%), Montenegro (65%) and Bosnia-Herzegovina (60%) (EBRD, 2009b). All countries have completed, or nearly completed, the first group of reforms, i.e., price and trade liberalization and small-scale privatization (*Table 3*). Large-scale privatization has progressed considerably. CEB countries have virtually completed the process, except Poland, Slovenia and Estonia which are around level 3. SEE countries show a lower progress, except in Bulgaria where the privatization process is almost completed. The slowness of the privatization is explained either by the lack of political will either by the lack of investors willing to buy unattractive state enterprises. Because of this, on many occasions companies

[3] The indicators oscillate between 1 and 4 +. Level 1 represents a planned economy in which no significant changes have been produced. Level 4 + represents a advanced market economy of western type.

[4] While in Hungary and the Czech Republic the private sector provided 80% of GDP, in Slovenia, Romania and Croatia it reached 60%. Only Bosnia-Herzegovina recorded a minor contribution from the private sector: a 35% (EBRD, 2009a).

[5] Only the Czech Republic, Slovakia and Estonia reached a 4 level in 1999, according to the EBRD indicators. The other CEB countries showed a 3. In SEE countries, except Bulgaria, Croatia and Macedonia, there was no change or only very few privatizations were produced. Level 4 means "more than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress with corporate governance of these enterprises" and level 3 means "more than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatised (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance".

[6] It should be noted that the problem of bad loans was not confined to state banks and enterprises. Also private banks accumulated such loans with private companies.

were distributed freely among the population through the mass privatization or were delivered to the workers and managers under advantageous conditions (Hanousek *et al.,* 2008).

Table 2. Others indicators for institutional change, 1999

	Asset share of state-owned banks *(1)*	**Non-performing loans *(2)***
CEB:		
Czech Republic	41.2	37.8
Slovak Republic	50.7	32.9
Slovenia	42.2	9.3
Hungary	7.8	4.4
Poland	24.9	14.9
Estonia	7.8	37.8
Latvia	2.6	6.2
Lithuania	41.9	11.9
SEE:		
Bulgaria	50.5	17.5
Romania	50.3	35.4
Albania	81.1	32.7
Bosnia-Herzegovina	75.9	58.7
Croatia	39.8	20.2
Serbia	89	-
Montenegro	-	-
FYR Macedonia	2.5	62.6

Notes: (1) Asset share of state-owned banks (in per cent)
(2) In per cent of total loans.

Source: after EBRD (2000).

Table 3. EBRD Indicators for institutional change, 2008

	Small scale privatisation	***Large scale privatisation***	***Price***	***Foreign Trade***	***Enterprise restructuring***	***Bank reform***	***Non-bank financial institutions***
CEB:							
Czech Republic	4.3*	4	4.3*	4.3*	3.3*	4*	3.6*
Slovak Republic	4.3	4	4.3	4.3	3.6	3.6	3
Slovenia	4.3	3	4	4.3	3	3.3	3
Hungary	4.3	4	4.3	4.3	3.6	4	4
Poland	4.3	3.3	4.3	4.3	3.6	3.6	3.6
Estonia	4.3	4	4.3	4.3	3.6	4	3.6
Latvia	4.3	3.6	4.3	4.3	3	4	3
Lithuania	4.3	4	4.3	4.3	3	3.6	3.3
SEE:							
Bulgaria	4	4	4.3	4.3	2.6	3.6	3
Romania	3.6	3.6	4.3	4.3	2.6	3.3	3
Albania	4	3.3	4.3	4.3	2.3	3	1.6
Bosnia-Herzegovina	3	3	4	4	2	3	1.6
Croatia	4.3	3.3	4	4.3	3	4	3
Serbia	3.6	2.6	4	3.6	2.3	3	2
Montenegro	3.6	3.3	4	4	2	3	1.6
FYR Macedonia	4	3.3	4.3	4.3	2.6	3	2.3

Notes: * Year 2007.

Source: after EBRD (2009a).

At the beginning of transition, reformers thought that once private property was working, firms would restructure immediately and change the management system toward an efficient use of resources and the maximization of the shareholder profit. However, the effects of the privatization on the management of companies vary according to the privatization method and the country (Estrin *et al.,* 2009). In general, the enterprises transferred by mass privatization and MEBOs schemes show worse results in the area of restructuring and corporate governance that those sold to foreign investors. According to the EBRD, the most advanced countries in this area (CEB, Bulgaria and Romania) have reached just level 3, whereas the Western Balkan countries achieved level 2[7] (*Table 3*).

Table 4. Others indicators for institutional change, 2008

	Market Capitalization (1)	***Bankruptcy (2)***	***Informal payments to public officials (3)***	***Corruption Perception Index (4)***
CEB:				
Czech Republic	42	6.5	25.5	5.2 (45)
Slovak Republic	9	4	34.3	5.0 (52)
Slovenia	61	2	11.2	6.7 (26)
Hungary	34	2	32.1	5.1 (47)
Poland	49	3	23.7	4.6 (58)
Estonia	29	3	16.2	6.6 (26)
Latvia	11	3	31.3	5.0 (52)
Lithuania	26	1.7	44.6	4.6 (58)
SEE:				
Bulgaria	55	3.3	16.1	3.6 (72)
Romania	27	3.3	33.1	3.8 (70)
Albania	-	-	57.7	3.4 (85)
Bosnia-Herzegovina	-	3.3	24.1	-
Croatia	129	3.1	14.5	4.4 (62)
Serbia	60	2.7	31.8	3.4 (85)
Montenegro	106	-	-	3.4 (85)
FYR Macedonia	35	3.7	26	3.6 (72)

Notes: (1) Market capitalization of listed companies (% of GDP). Year 2007.
(2) Time to resolve insolvency (years).
(3) % of firms expected to make this kind of payments. Year 2007 for Bulgaria, Albania and Croatia. Year 2005 for the other countries.
(4) Between parenthesis, the position in the ranking.

Source: World Bank (2009) and Transparency International (2009).

Beyond the extensiveness of corporate governance legislation, it is important to assess effectiveness in the protection of investor interests and that of other stakeholders. For example, Cigna and Enriques (2006) state that the degree to which minority shareholders can obtain effective disclosure or redress is limited and below what could be expected when looking at the laws. Specially, disclosure is unlikely to take place when the company is controlled by a powerful shareholder. Czech Republic and Slovenia, in CEB countries, and Romania and Serbia, in SEE, although to a lesser extent, have a more effective institutional

[7] Level 3 means "significant and sustained actions to harden budget constraints and to promote corporate governance effectively (for example, privatisation combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation)" and level 2 means "moderately tight credit and subsidy policy, but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance".

framework (Cigna and Enriques, 2006). Another example of the difference between the extensiveness of the legal texts and the effectiveness of the norm is found in bankruptcy regulation. The legal texts were designed along Western lines, but compliance is still imperfect. Taking the duration of the process as indicator of the effectiveness of the bankruptcy legislation, it appears that the procedures are very long, especially in Czech Republic (more than 6 years) and Slovakia (4 years)[8] (*Table 4*).

Taking a look at the financial system, banking reform has made significant progress in Hungary, Czech Republic, Estonia and Latvia (level 4); but other countries have had worse results around level 3[9]. The development of the non-bank financial system has been slower (McNulty, 2007) and no country exceeds the level 3. The most advanced in this area are CEB, Bulgaria and Romania whereas Western Balkans, except Croatia, have barely made progress and move between levels 1 and 2[10]. An example of the underdevelopment of the financial system in transition economies is the lack of importance of the stock market (*Table 4*). Both levels of capitalization and liquidity of the stock market are very low. Only Croatia and Montenegro show market capitalization levels higher than 100% of GDP[11].

Finally, it is important to mention certain disturbing characteristics of some transition countries, such as the spectacular rise of corruption (Anderson and Gray, 2006), organized crime, and mafia control of a significant part of the economic activities (Holmes, 2009). It seems that the State is unable to control some black activities, not only those related to the underground economy, but also those directly connected to criminal behaviour. Measuring corruption is not easy; being illegal practice naturally only some cases come to light. There are some indicators that attempt to reflect the magnitude of the problem through surveys. Two good sources are the World Development Indicators provided by the World Bank and the Corruption Perceptions Index provided by Transparency International[12] (*Table 4*). According to World Bank data, in all transition countries a large percentage of the companies surveyed confirm that they made illegal payments to officials to get preferential treatment. More concretely, Albania (with 57.7% of firms expected to make informal payments to public officials), Lithuania (44.6%), Slovakia (34.3%), Romania (33.1%), Hungary (32.1%), Serbia (31.8%) and Latvia (31.3%) would be the most corrupt countries. The high rates of Slovakia and Hungary are striking; they are commonly considered as success stories of the transition. The least corrupt countries, as Slovenia, Croatia, Bulgaria and Estonia, have also very high levels (between 11.2% and 16.2%)[13]. Furthermore, Transparency International makes a

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[8] In Spain the average is 1 year (World Bank, 2009).

[9] Level 4 means "significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening" and level 3 means "substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalisation with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks".

[10] Level 3 means "substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (for example, investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework" and level 2 means "formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities".

[11] The ratio in Spain is 125% (World Bank, 2009).

[12] The Corruption Perceptions Index (CPI) of Transparency International measures the perceived levels of public sector corruption in a country. The 2008 CPI scores 180 countries on a scale from 0 (high corruption) to 10 (no corruption).

[13] It is very high compared, for example, with Spain (4.4%) where corruption is perceived as a widespread problem (World Bank, 2009).

classification according to the Corruption Perceptions Index in which virtually all countries in transition are ranked poorly[14]. The extension of the corruption and the crime as a way of resolving the decisions as to the allocation of resources limit the development of the relations based on market criteria.

3.2 Expectation No 2: Developed Economy

The second objective of the transition was building a developed economy. There are different indicators to identify the level of development of an economy. In this section we analyze the capacity to generate growth and employment, sector structure, the penetration of foreign investment and the mode of insertion into the global economy.

The transition began with a very heavy fall in output levels (Fischer and Sahay, 2000). Only Poland and Slovenia exceeded the production of 1989 before 2000; whereas others such as Serbia, Montenegro, Macedonia and Bosnia-Herzegovina have yet to achieve this (*Table 5*).

Table 5. Structural change, 2007

	Real GDP (1)	*Change in employment 1990-2007*	*Agriculture (% GDP)*	*High- technology exports (3)*
CEB:				
Czech Republic	139	-14.2 % (2)	3 (2006)	12.9 (4)
Slovak Republic	154	-14.2 % (2)	3.2	7.3
Slovenia	151	-	2.1	4.6
Hungary	135	-22.8 %	3.5	24.5
Poland	169	-16.7 %	4.3 (2006)	3.8
Estonia	150	-22.7 %	2.4	17.6
Latvia	124	-21.1 %	3.2	5.3
Lithuania	116	-17.5 %	4.0	6.1
SEE:				
Bulgaria	107	-14.9 %	8.0 (2005)	4.7
Romania	120	-26.0 %	8.4 (2005)	3.4
Albania	152	-34.6 %	10.3	1
Bosnia-Herzegovina	79	-35.2 %	7.9	-
Croatia	111	-	5.2	11.5
Serbia	68	-	9.2	-
Montenegro	85	-	-	-
FYR Macedonia	96	-	8.7	1.1

Notes: (1) 1989=100.
(2) Data considering jointly Czech Republic and Slovakia.
(3) % of manufactures exports. Year 2005.
(4) Data refers to some year between 2000 and 2005.

Source: after EBRD (2009b), EBRD (2009d), UNDP (2007) and UNECE (2009).

The causes of what Kornai (1994) called transitional recession were various: the reduction in the level of demand prompted by restrictive policies and the decline in investment and exports; the adjustment in the productive structure caused by the liberalization

[14] Countries like Senegal, Thailand, Morocco and Burkina Faso have similar values than SEE countries, except Croatia: between 3.4 and 3.8. Countries like Namibia, Malaysia and Jordan have similar rates to the other countries, except Slovenia and Estonia: between 4.4 and 5.2. Spain has 6.5 and Denmark is the least corrupt country with 9.3.

of prices and foreign trade; the dismantling of the old coordination mechanisms and the absence of new operating replacements; and the tightening of budget constraint of companies. Currently only Slovenia, Slovakia, Poland, Estonia and Albania production exceeds 50% of the pre-reform levels, demonstrating the slow pace of economic recovery and the limited impetus of restructuring in terms of growth.

As seen in *Table 5*, the transformation of these economies and the new growth haven't produced higher employment opportunities. On the contrary, between 1990 and 2007 employment has declined significantly in all countries. In other words, the capacity of these economies to provide jobs for the population is much lower now than before the reforms. The decline in employment is above 20% in Hungary, Estonia, Latvia and Romania and over 30% in Albania[15]. As expected, the expulsion of workers from the production system has forced much of the population to emigrate or to rely on social policies and solidarity networks to increase the survival chances.

Currently, the most advanced transition countries are industrialized economies with a sector structure of GDP based in the tertiary sector, where agriculture has low importance (Fabrizio *et al.,* 2007). However, in southeast Europe (except in Croatia) the importance of this primary sector is still much higher than in Western European economies, with values ranging between 8 and 10% of GDP (*Table 5*). The importance of high technology industries in the economy is another indicator of the structural modernization of the economy. The percentage of exports of high-tech industrial products as a percentage of total manufactured exports is small in most countries. However, some have managed to develop such industries: for example Slovakia (7.3%), Croatia (11.5%), Czech Republic (12.9%), Estonia (17.6%) and, especially, Hungary (24.5%)[16].

The progress of these sectors is linked to the entry of multinational companies that have taken the opportunity to re-locate to some low-wage countries since the beginning of the transition (Damijan *et al.,* 2008). During the first years of transition, most foreign direct investment went to Hungary and Poland at the beginning and to Czech Republic and Slovakia later. In a second stage, capital began to enter also into some southeast European countries like Bulgaria, Romania and Croatia. *Table 6* shows that countries that have received more direct investment over the period 1989-2008 are Poland (with 112,722 million US dollars), Czech Republic (71,282), Romania (55,894), Hungary (53,320) and Bulgaria (41,448). But if the ranking is drawn up taking into account the size of the country, i.e. taking into account the investment per capita, the ranking would be Czech Republic, Estonia, Bulgaria, Hungary, Croatia and Slovakia (EBRD, 2009c). Thus, it is clear that most part of flows (294,377 million) have gone to CEB countries, just double than that to SEE (150,356 million). A good reflection of the importance of multinationals in these economies is their dominant presence in the banking system. Except in Slovenia, where foreign banks accounts only for 28.8% of assets, in the other countries they dominates the sector to a large extent, with rates ranging from 63.8% in Latvia to 99% in Slovakia and Estonia.

During transition, post-socialist economies have increasingly opened up their economies and reoriented their trade toward Western Europe, which has become the largest trading partner of these countries (EBRD, 2008). During central planning times foreign trade was limited and mostly took place among CMEA member countries. The rationale for this new trade reorientation has to do with the fact that all these countries have either belonged to

[15] It is striking that in the same period employment increased by 50% in Spain (UNECE, 2009).
[16] In Spain the percentage is 7.1 (UNDP, 2007).

the European Union since 2004 (CEB group) and 2007 (Romania and Bulgaria) or have signed some sort of partnership agreement, as the case of Western Balkan countries.

Table 6. Foreign investment, 2007

	Foreign direct investment 1989-2008 (1)	*Asset share of foreign-owned banks (%)*
CEB:	*294.377*	
Czech Republic	71.282	84.8
Slovak Republic	27.115	99
Slovenia	2.762	28.8
Hungary	53.320	64.2
Poland	112.722	75.5
Estonia	9.044	98.7
Latvia	8.829	63.8
Lithuania	9.301	91.7
SEE:	*150.356*	
Bulgaria	41.448	82.3
Romania	55.894	87.3
Albania	3.601	94.2
Bosnia-Herzegovina	6.323	93.8
Croatia	22.613	90.4
Serbia	14.482	75.5
Montenegro	2.769	78.7
FYR Macedonia	3.226	85.9

Notes: (1) Accumulated net amount in $US millions.

Source: after EBRD (2009b), EBRD (2009d) and EBRD (2009c).

In addition, many European multinational companies decided to produce in transition countries and sell in European markets taking advantage of low wages and trade liberalization. Taking a look at the composition of foreign trade, the first ten most common export items in CEB and SEE are manufactures; unlike in the former socialist republics where oil, gas and other raw materials play a central role (Landesmann, 2008). Most exports from CEB countries to Western Europe are high value added products like road vehicles, telecommunication products and sound equipment, electrical machinery, power generating machines and general industrial machinery.

Table 7. Top 10 two-digit exporting industries to EU-15

Exporting Region	
From CEB	From SEE
1º Road vehicles	1º Clothing and accessories
2º Electrical machinery/apparatus	2º Electrical machinery/apparatus
3º Telecoms and sound equipment	3º Footwear
4º Power generating machines	4º Iron and steel
5º General industrial machinery	5º Non-ferrous metals
6º Metals manufacturing (not elsewhere specified)	6º Furniture/bedding
7º Furniture/bedding	7º Furniture/bedding
8º Office machines	8º Other transport equipment
9º Clothing and accessories	9º General industrial machinery
10º Misc. manufactured goods	10º Textiles/fabrics

Source: after EBRD (2008).

Whereas the major exports from SEE countries are less technology-intensive and sophisticated and include products such as clothing and accessories, footwear, iron and steel, non-ferrous metals and furniture, among others (*Table 7*).

Table 8. Prices gaps by product with OCDE (1998-2000 average)*

Country	*Difference*
Czech Republic	Between 2,5 and 3
Slovak Republic	Between 2,5 and 3
Slovenia	Between 2,0 and 2,5
Hungary	Between 2,0 and 2,5
Poland	Between 2,5 and 3
Estonia	Between 2,5 and 3
Latvia	3
Lithuania	2,5
Bulgaria	Between 2,5 and 3
Romania	Between 2,0 and 2,5
Albania	2,5
Croatia	Between 2,0 and 2,5

Notes: * Goods' prices per unit relative to prices per unit for countries of the OECD. For example, 2.0 indicates that a country secured prices for its goods that were one-half of the OECD's.

Source: EBRD (2008).

Table 9. External Sector, 2007

	Current Account (1)	*Total Debt Service (2)*
CEB:		
Czech Republic	-3.2	53.8
Slovak Republic	-4.8	68.7
Slovenia	-4.2	154.9
Hungary	-6.4	121.6
Poland	-4.0	133.9
Estonia	-18.0	163.2
Latvia	-22.5	327.4
Lithuania	-14.6	142.1
SEE:		
Bulgaria	-25.4	169.7
Romania	-14.4	138.1
Albania	-9.1	65.0
Bosnia-Herzegovina	-12.8	131.7
Croatia	-7.5	181.2
Serbia	-13.7	218.2
Montenegro	-32.5	34.7
FYR Macedonia	-7.5	105.4

Notes: (1) % GDP.
(2) % of exports of goods and services.

Source: EBRD (2009d).

An additional dimension that helps to understand the type of transformation and integration in international trade of these countries is the quality of exported products. This variable is difficult to estimate and compare. One solution is to use indirect indicators. For example, the difference between the price received for the same type of product by a country and the rest could indicate a difference in quality. *Table 8* lists the price differences regarding to OECD countries. For example, in Latvia the difference is 3, i.e., the price received for their products is a third of the price paid to the OECD countries. Overall, the price differences ranged between 2 and 3. Consequently, the quality of export production from Eastern Europe is significantly lower.

The final consequence of this participation in the world economy is the need for external financing (*Table 9*). The current account deficit is around 4-6% in the more advanced transition economies and about 7.5-9% in Macedonia, Croatia and Albania. In the Baltic republics, Bulgaria, Romania and the rest of the Western Balkans the figure rises above two digits and reaches enormous levels in Montenegro (32.5%), Bulgaria (25.4%), Latvia (22.5%) and Estonia (18%). The constant appeal to external finance is fuelling the external debt of these countries and is generating a vicious circle deficit-debt-deficit that may complicate the sustainability of the external balance of payments (Aristovnik, 2007). Except in Slovakia, Albania and Montenegro, foreign debt exceeds the export incomes and in some cases reaches worrying levels, like in Serbia (218.2%), Croatia (181.2%) and Latvia (327.4 %).

3.3 Expectation No 3: a Better Life

The third objective of the reforms was to improve living standards and welfare. Beyond the results in terms of macroeconomic variables, the success of an economic system must be measured by its ability to generate welfare. The concept of welfare is certainly ambiguous and difficult to quantify. However, there are variables that give an idea, although not perfectly, as to how the living conditions of the people have changed during transition. The social cost of reforms has been and it is still very high. Common phenomena in transition countries are rising unemployment[17], increasing poverty, the widening of inequalities, the explosion of immigration or the increase in crime[18] (Los, 2003).

The most basic indicator of living standards is the income per capita. Income levels are very low, except for Slovenia and the Czech Republic, which exceed US$ 20,000. In the remaining group of central Eastern Europe plus Croatia income is between 11,000 and US$15,000 approximately, whereas in south Eastern Europe it ranges from 7,636 in Romania to 3,396 in Albania (*Table 10*). Beyond the income level, distribution among the population is also very relevant. The basic indicator of income distribution is the Gini index. Broadly, two groups could be distinguished. The first group presents rates lower than 0.30; they are Czech Republic, Slovakia, Hungary, Slovenia, Albania and Croatia[19]. These levels are similar to those of advanced economies in the EU. The other group has the highest inequality rates and includes Poland, the Baltic republics and south Eastern Europe, except Albania and Croatia.

On one hand, after many years of the consumer goods shortage typical of the planned economies, transition brought the access to many consumer goods and credit, especially for the social group of winners. While on the other hand, the deterioration of public services and the difficult access to certain essential services (like gas or electricity) have complicated the subsistence to the poorest households (Mikhalev, 2000).

[17] Unemployment levels are very high in the Western Balkans (around 30% in Montenegro and Serbia and higher than 40% in Bosnia) and worrying in Slovakia and Poland (11 and 8.5% respectively). The other countries show rates similar to the more developed European economies.

[18] The number of homicides per 100,000 inhabitants is very high in many countries, including Estonia (6.8), Latvia (8.6), Lithuania (9.4), Bulgaria (3.1) and Albania (5.7). And about twice of that in Spain (which has a rate of 1.2) in Czech Republic, Slovakia, Hungary, Romania and Macedonia (UNDP, 2007).

[19] The Gini index can take values between 0 (perfectly equal distribution) and 1 (extreme inequality).

Table 10. Welfare indicators

	Population growth 1990-2007 (1)	*Income per capita (2)*	*Gini Index (3)*	*Population below $4 a day (4)*
CEB:				
Czech Republic	0.0	22.690	0.26	-
Slovak Republic	+1.8	15.562	0.26	11.4
Slovenia	+1.0	23.550	0.24	-
Hungary	-3.1	13.766	0.28	15.9
Poland	0.0	11.154	0.34	20.6
Estonia	-15.4	15.567	0.34	33.2
Latvia	-14.5	12.609	0.36	26.3
Lithuania	-8.7	11.516	0.36	36.0
SEE:				
Bulgaria	-12.1	5.204	0.30	39.9
Romania	-7.1	7.636	0.32	54.8
Albania	-3.8	3.396	0.26	48.0
Bosnia-Herzegovina	-10.1	3.985	0.56	-
Croatia	-7.2	13.196	0.29	10.0
Serbia	-2.7	5.461	0.30	-
Montenegro	+2.0	5.267	0.30	-
FYR Macedonia	+6.7	3.962	0.39	22.0

Notes: (1) Own calculations.
(2) $ millions (in purchasing power parity). Data correspond to year 2008; for Czech Republic, 2007.
(3) Data correspond to a year between 2003 and 2008.
(4) In percent. Data correspond to a year between 2000 and 2004; for Czech Republic, between 1996 and 1999.

Source: CIA (2009), EBRD (2009d), UNDP (2007), UNECE (2009) and World Bank (2009).

After twenty years of reforms, poverty is widespread in transition countries (Luengo, 2006). Using as an absolute indicator of poverty the percentage of people having less than US$4 a day, there is a variety of situations. In Croatia, Slovakia and Hungary there are between 10% and 15% of poor. In Estonia, Latvia and Bulgaria poverty has increased reaching more than a third of the population. In countries like Romania and Albania poverty affects half the population[20]. Finally, it is important to remember that the economic dynamic is geographically unevenly distributed and that growth and employment are concentrated in few regions and in urban areas (Landesmann and Roemisch, 2005). Therefore, the extent of poverty is much higher in rural areas, which in many cases are entirely separate from the growth process (Macours and Swinnen, 2008). An additional consequence of the impoverishment of the rural world is the extension of self-consumption (Kostov and Lingard, 2004). After land privatization, normally through restitution, many new owners do not exploit the farms with commercial objectives but as subsistence agriculture (Bignebat and Latruffe, 2009). In the case of low income families, land becomes a solution to ensure the availability of food and other goods.

One common strategy used by many people to improve their economic situation has been to migrate to more advanced countries (Zaiceva and Zimmermann, 2008). The loss of population caused by migration has been particularly intense in the Baltic republics and south

[20] If poverty is measured in relative terms as the percentage of population with an income level below 60% of national income, poverty ranges from 20% in Lithuania, Latvia and Poland to 10% in Czech Republic and Slovenia (European Commission, 2007). According to data from CIA, poverty in Montenegro and Serbia is low but in Bosnia-Herzegovina and Macedonia affects 25% of the population (CIA, 2009).

eastern countries. Between 1990 and 2007 Estonia and Latvia have reduced its population by 15%, Bulgaria by 12%, Bosnia-Herzegovina by 10%, Lithuania by almost 9% and Romania and Croatia by 7%. Only in Slovenia, Slovakia, Montenegro and Macedonia the number of inhabitants has grown. Apart from the adverse effects associated with the loss of human capital, there is no doubt that the phenomenon of migration has helped to alleviate the social tensions that could have resulted from the deterioration of living conditions in these countries.

Beyond the objective indicators, it is convenient to remember that changes in the economic system should result in the possibility of enjoying a better life. In this sense, subjective perceptions about the evolution of economic situation are a good mechanism to check the fulfilment of personal expectations. According to the work of Zaidi and others published by the World Bank, the degree of satisfaction with life can be considered a measure of welfare (Zaidi *et al.,* 2009). The Life in Transition Survey report prepared by the EBRD and the World Bank in 2006 explores the opinions of citizens in transition countries as to their perceptions on the changes (EBRD, 2007). According to the report, in CEB countries only 40% of respondents believe the economic situation in their country is better now than in 1989. This percentage drops to 20% in south eastern countries. Finally, only half of the inhabitants of CEB countries and 30% of the SEE countries are satisfied with their life.

Conclusions

Contrary to the expectations of the majority of analysts and international institutions that acted as advisers to the reforms, economic transition has been a slow, complex and painful process. An evaluation of the changes twenty years after the fall of the Berlin Wall needs to assess whether the objectives and expectations stemming from the collapse of the planned economies have been met. The first objective was to eliminate central planning and to create a market economy. The destruction of the institutions of the planned economy was not highly complex; but their replacement by a market economy, as has been defined in this work, is not complete, especially in southeast European countries. There is no doubt that these economies have been privatized; but if we analyze institutional change characteristic of the functioning of a market economy beyond the formal changes, the degree of extension of market relations is incomplete.

Even in the more advanced transition countries the changes in such matters as crucial as the restructuring of companies or the financial system still have not been finalized. In addition, many countries have developed some non-market driven phenomena. Some examples are the survival of privatized companies in technical bankruptcy, the difficulties in the enforcement of contracts, the spreading of forms of survival not connected to wages or the expansion of corruption and mafias in the economic sphere. Moreover, economic dynamics have been highly concentrated regionally, leaving out the process of transformation to large part of the territory. In any case, two subsystems of variable size can be defined. The market subsystem, one of them, would be very concentrated sectorially and spatially.

The second objective was to transform the backward economies of the socialist times into developed economies. The results of the reforms could be interpreted in different ways. The most optimistic view put the emphasis on growth and macroeconomic stability. Although at the beginning of the reforms economic activity plummeted, transition countries regained positive growth rates later. However, some Balkan countries have yet to reach 1989 production levels. The production and trade structure of these economies has changed considerably. In some central eastern countries high and medium tech industries, linked to the entry of multinationals, have developed. However, in other countries, especially in south

Eastern Europe, the pattern of trade specialization does not show the characteristics of developed economies because main exports are dominated by more traditional industries with low added value and quality.

Finally, it is necessary to underline that transition meant a project that included the expectations of the population to achieve a better life. The new economies create fewer jobs today than in 1989 and in many countries the population has declined as a result of migration flows. Per capita income in these countries is far below developed Europe and the transition has led to greater inequality in income distribution. For some people, changes have meant wealth and prosperity; for others, a deterioration of living conditions and impoverishment. In fact, most people in Eastern Europe perceive that the economic situation has worsened twenty years after the Wall came down. The crucial question to be faced is if this negative configuration of the transition economies is temporary or, to the contrary, the deepest adverse effects of the transition will be consolidated.

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RYTŲ EUROPOS PEREINAMŲJŲ EKONOMIKŲ VERTINIMAS PO DVIDEŠIMTIES METŲ

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SANTRAUKA

Berlyno sienos griuvimas suteikė tris viltis: pirma, rinkos ekonomikos kūrimas; antra, išvystytos ekonomikos sukūrimas ir, trečia, panašių gyvenimo kokybės ir gerovės standartų, artimų išsivysčiusioms šalims, sukūrimas. Šiame straipsnyje siekiama išanalizuoti, kaip šie trys tikslai buvo įvykdyti 16-oje Rytų Europos šalyse. Straipsnyje pirmiausiai pateikiama analitinė medžiaga, kuri leidžia mums suprasti institucinių pokyčių raidą. Antra vertus, straipsnyje vertinamas trijų tikslų įgyvendinimo laipsnis.

Planinės ekonomikos institucijų naikinimas nebuvo labai sudėtingas; tačiau jos pakeitimas rinkos ekonomika nebuvo labai nuoseklus ypač Pietryčių Europos šalyse. Nėra jokių abejonių, kad šių valstybių ekonomikos objektai buvo privatizuoti; bet rinkos santykių pratęsimo laipsnis vis dar nėra išsamus. Be to, daugelyje šalių atsirado tam tikri ne rinkos veikiami reiškiniai.

Be to, ekonomikos dinamika buvo labai koncentruota regionuose. Šis straipsnis taip pat parodo, kad perėjimas į ekonomikos modernizavimą ir gerinimą yra ribotos.

REIKŠMINIAI ŽODŽIAI: Rytų Europa, ekonomikos transformacija, politikos ekonomika, institucinis pokytis, ekonomikos pereinamasis laikotarpis.