

ECONOMICS AND POLITICS OF TRANSITION
- THE ROAD TO THE WELFARE STATE AND ECONOMY-

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**(1) THE CONCEPT OF TRANSITION IN THE
LIGHT OF HISTORICAL RETROSPECT**

It is well-known from the history that great social changes bring new processes and concepts. This is also the case with the concept of transition. As a matter of fact it is a new concept in social sciences comprising under the joint denominator - "economics and politics of transition" all issues connected with the processes of pluralization and democratization in former socialist countries. That is why all these countries are called "countries in transition".

The concept of transition is essentially different from the concept of reform. The objective of the reforms was to improve the socialist society by strengthening the market elements. The aim of transition, however, is to establish a new modern democratic and pluralistic society.

The concept of transition and the notion "Economics and politics of transition" came into being at the end of the 80's and at the beginning of the 90's as a result of the international cooperation of those scientific institutions that in the preceding years were mostly engaged in the comparative studies. Among them I will mention only four: (1) Vienna Institute for Comparative Studies, (2) The Institute for Comparative Studies of the State University of Florida, (3) The Institute for the Research of the International Economics and Political Relations of the Academy of Science of Russian Federation, and (4) Economic Institute Zagreb. All these institutions maintained an intensive scientific cooperation during many years.

Numerous scientific conferences on the economy and policy of transition have been held. I will mention only a few of them where I was invited as the director of the Economic Institute Zagreb to take an active part.

The first conference, it may be called the world conference, took place in October 1990 at the State University of Tübingen. This conference was organized under the title "Economics and Politics of Transition" by the above mentioned Vienna Institute and coordinated by the Permanent International Committee of the Institute. I myself was a member of this committee. This conference dealt very thoroughly with all relevant questions including those related to the new processes, new concepts, and new objectives and tasks of the economy and policy of transition. The dilemma about the term "transition" or "transformation" was resolved in favor of "transition", which I also supported because the other term would be reminiscent of the political economy of socialism.

All this, including my contribution, was published in the book: Christopher T. Saunders (ed. et al.) - "Economics and Politics of Transition" by the very famous publishing house MacMillan, London 1992.

The second world conference on the problems of the economy and policy of transition followed in June 1991, organized by the Hoover Institution of the Stanford University (USA, California). The conference was attended by the leading politicians and social scientists of all countries in transition. At the end of the conference George Schultz (state secretary in the Reagan administration) gave a synthesis and conclusions for all countries. Turning to me he said that we in our country were actually never included into the world of "realsocialism", and if we succeed in solving our internal conflicts in a peaceful way (having evidently in mind the problem of achieving independence), we would have a great chance to stay at the forefront of the transition column. His good wishes did not unfortunately come true, but all

subsequent international conferences have been underlining a good preparedness of Croatia for the transition.

The third and fourth world conference of this character took place in the course of 1992. One was organized by the above-mentioned Vienna Institute in April in Marianske Lazne (Marienbad), and the other by the University of Lund in June in Copenhagen. The results of the first conference (including the contribution of this author) were published in the book: Christopher T. Saunders (ed. et al.) - "The Role of Competition in Economic Transition", MacMillan, London 1993, and the results of the second in: Laszlo Somogi (ed. et al.) - "The Political Economy of the Transition Process in Eastern Europe" Edward Elgar Publishing Limited, Vermont, USA, 1993.

The fifth international conference on the problems of implementing transition in 1989-1993 was held in the Vienna Institute for Comparative Economic Studies in November 1993. The materials submitted to this conference (including the contribution of this author) have been published in the book Christopher T. Saunders (ed. et al.) "Eastern Europe in Crisis and the Way Out", MacMillan, London 1995.

Finally I would like to point out that a Center for the Research of Transition was established in the beginning of 1992 as an international consortium and it organized scientific conferences in London, Frankfurt am Main and on Brioni. As a result of this activity the book by Žarko Puhovski, Ivan Prpić and Dragomir Vojnić (eds.) "Politics and Economics of Transition" was published by Informator, Zagreb 1993.

In September 1992 the World Congress of Economists was held in Moscow. This congress was also very much preoccupied with the economy and policy of transition.

I would also like to point out my participation in March 1994 in Washington on the world congress of social sciences, where numerous strategic issues of the economy and policy of transition were analyzed. Croatian scientists took a very outstanding part at this congress. A

special attention was attracted by a panel discussion (organized by the University of Zagreb and the State University of Florida) on the topic "Ethnic conflicts in the light of the Balkan security".

I have just returned from the 11 th world Congress of Economists held in Tunis 18-22 December 1995 Even though I will later discuss some recommendations of this congress, I want here to point out two interesting moments concerning my contribution. First of all, I seized the opportunity to say something about the Croatian economy in transition. Secondly, I explored the possibilities for the acceptance of the Croatian Economic Association into the World Economic Association.

All international conferences have greatly contributed to the exploration of the objectives and methods of implementation of the economy and policy of transition. They also draw attention to the problems faced by the countries in transition and to the ways and possibilities of overcoming them A great contribution is also represented by the increasing relevant literature in this field. An outstanding role in this respect has been played by different international organizations, such as various agencies of UN, World Bank, International Monetary Fund, DECD, etc. One of the leading world economists Michael Bruno has also initiated a Journal called "Economics of Transition".

(2) FUNDAMENTAL OBJECTIVES OF THE ECONOMY AND POLICY OF TRANSITION

To put it in a somewhat simplified way, the fundamental objectives of the economy and policy of transition consist in re-establishing the ties with some essential historical and civilizational trends that were broken by the socialism from its first day. These trends are related to a broad scale of different segments of the human life, including the functions of the law and social state and human rights and freedoms. However, in a somewhat more concrete form, the objective of the economy and policy of transition is based as a rule on three big complexes of the pluralization - pluralization of ownership, of the market and of the political structure and system.

Pluralization of ownership in the direction of the predominant role of the private ownership, by its theoretical and practical content, has a key role in implementing the economy and policy of transition. In the history of our civilization the dominance of the private ownership constitutes a starting base for the formation of the world perception in the society. In the political and economic organization of the society the private ownership has been a fundamental barrier to any monism and monopoly, to the monopoly of ownership, market and political power.

The governments of all countries in transition have come in a totally new situation, unknown in the history of our civilization. By their decisions on privatization they create by their own political will a barrier not only to the monopoly of ownership and market, but to the monopoly of their own political power as well. This is a great test and challenge. This test and challenge are resolved by the countries in transition with a different success. The complex of various monopolies (of the ownership, market and political system) represents one of the greatest problems they have to overcome.

The pluralization of the market can be achieved on the basis of the developed institutions and mechanisms that enable a market formation of prices of goods and services and of the prices of factors production - labor and capital. The greatest problems appear in developing institutions and mechanisms of the labor and capital markets. The reasons are clear. The majority of countries in transition have had already a market of goods and services, of one sort or another, but no capital or labor markets. The transition of the political system requires an introduction of the multi-party parliamentary democracy, the functions of the legal system and social state with the protection of all human rights and freedoms.

It is necessary also to underline especially a high degree of dependance among the three pluralisms. Namely, the pluralization of the ownership is a general precondition for the pluralization of the market, and in particular for the pluralization of the labor and capital markets. Only in the interaction of the pluralisms of ownership and market it is possible to obtain a satisfactory economic efficiency. And in the interaction of these two pluralisms with the pluralism in the political system can be attained a quality of human life that corresponds to our civilization based on two historical constants economic efficiency and political democracy. It should be also mentioned (albeit only in passing) that in the recent time a third constant is added which by its content is actually inherent to the political democratization. It is related to the predominantly spiritual, moral and cultural aspects.

In addition to the transition of the ownership, market and political system it is, however, crucially important to develop some additional institutions which correspond to the modern democratic society and which will make it possible to achieve economic efficiency and political democratization. As far as the economy is concerned, this relates especially to the transition of the macroeconomic environment and policy, and to the functioning of business enterprises and management.

The transition of the macroeconomic environment relates to the entire monetary, fiscal, taxation and tariff protection complex, as well as to the financial and banking systems. As was pointed out by a wellknown world scientist in the field of transition (Janos Kornai), these transitions mean a transformation from the "Soft Budget Constraint" which is characteristic for the past systems, to the "Hard Budget Constraint", specific for the market economies. By this transition, together with the functioning of the capital and labor markets, a new macroeconomic framework is created, which will enable not only an efficient production, but also savings, accumulation and, what is especially important, efficient investments. As a matter of fact, socialism did not collapse because .of inefficient accumulation, but because of inefficient investments, and thereby inefficient development.

As for the economic and development policy, transition may be formulated as the transformation of the concept and strategy from "import substitution" (involving an autharchic development) to the export expansion which is characteristic for the modern model of the open market economy. Such a concept and strategy development adopts only those development cirteria and priorities that ensure profitability and economic efficiency. Only the profit rate and the rate of economic efficiency of investments are essential determinants of each investment decision. Those criteria with the given modifications must be also applied in the case of infrastructural investments.

From what was already said it is not necessary to underline that in this way a macroeconomic framework is constructed for a normal functioning of a modern enterprise and modern management. It is also quite clear that in the implementation of the economy and policy of transition the role of the state and of the economy are distinctly separated. The state must create the macroeconomic framework that will stimulate an efficient entrepreneurship and profitability and thereby an efficient development. By its macroeconomic policy (and its legislative activity) the state must ensure such an environment that will

encourage and attract to a greatest possible extent the potential domestic and foreign investors to invest their capital in the Croatian economy.

In this connection it is indispensable to underscore a decisive role of an adequate taxation system and policy. It seems that the introduction of VAT should be speeded up. Those are understandably only some segments of the economy and policy of transition.

However, in the years before us, the transition will encompass all spheres of the human life and human relations including the most subtle areas in the realm of the ideology, religion, and other segments of the social conscience. All this must result in an increasing democratization and humanization of all aspects of the human life. A generally adopted norm that the freedom of everyone is limited by the freedom of other people must attain a general prevalence.

Despite great difficulties of different nature that have to be overcome, the scientists in all international conferences have agreed that the economy and policy of transition would raise the overall level (material, moral and cultural) of the human life of all citizens in the countries in transition.

(3) ACHIEVEMENTS, PROBLEMS AND PROSPECTS

All countries in transition are going through a difficult transitional crisis manifested as an intense fall in production, consumption, employment, personal incomes and living standards as a whole. They face also great problems in maintaining the macroeconomic stability of one kind or another, and some of them are still struggling with an escalating inflation.

The causes of these phenomena are general and specific. General causes refer to the great difficulties and problems in transitional restructuring and to the loss of markets. The specific causes, as is the

case in Croatia, are related to the war, war damages and costs, refugees and displaced persons and to other impacts of the war.¹

For all these reasons the transitional crisis in Croatia is more acute than in other countries in transition. The material social product in 1993 was about 50% of its level in the prewar year 1990.²

At the same time, the revenues of the population have dropped to the level of about 30%, the amount of net wages to about 27%, retail sales to about 35%, expenditures of the population about 44%, and investment outlays to about 17%. Such trends were followed by a jumping inflation which was stopped (thanks to the stabilization program from October 1993) at the annual rate (1993/1992) of about 1517%.

The execution of the stabilization program in 1994 and 1995 produced the following three big results - breakdown of inflation to the lowest level among the countries in transition, a break in the trend of falling production, transformation of the macroeconomic environment in the direction of the "hard budget constraint". The greatest task at the present moment consists in the reconstruction and development as well as in the "export extension".

¹ Simulations measurements made in The Economic Institute Zagreb have shown that these general and specific causes stand in an approximate relationship of 50:50. (Božo Marenić, Borislav Škegro (ed.) et al.: "Concept and strategy of the development of Croatia", in the study Željko Rohatinski (ed.) et al.: "Economic Trends and Economic Policy" No. 10, Central Bank of Croatia and Economic Institute Zagreb, 1992.

² It should be pointed out that this indicator denotes the material product. The calculation according to the SNA methodology of the UN raises the level of GDP to 70%. The reason is that the fall in different services sectors (education, health, banking, public administration, transport, etc.) was only from 10-25%, while the fall in material production was far greater. (Željko Rohatinski (ed.) et al.: "Croatian Economic Survey", the Institute of Economics Zagreb, National Bank of Croatia, Zagreb, 1994, p. 223; Željko Rohatinski (ed.) et al.: "The road to low inflation, Croatia 1993-94", The Government of the Republic of Croatia, Zagreb 1995, p. 138.

However, taking into account that the transitional crisis (including also war effects) is still present, it must be nevertheless pointed out that the Croatian economy is better prepared for the transition than most other countries in transition. This is true with respect to the development of market institutions (in particular, concerning the market of goods and services that has a long tradition), to the tradition of management and marketing in the conditions of the decentralized decision-making, and to the overall social behavior shaped over many years under the influence of the market. This is taken as an explanation even by the foreign analysts that we were not compelled to introduce the war economy. Even though this was also helped by great humanitarian assistance, the fact still remains that the Croatian economy is in a relatively satisfactory manner prepared for the implementation of the economy and policy of transition.

On the other side, however, some specific advantages in regard of the transition have not been used up to now. This relates in the first place to the social ownership. Instead of going directly a step forward towards the private ownership, we have taken a step back towards the state ownership. Although the concept of transformation has foreseen the state ownership only as a temporary transmission, numerous deviations have been caused as a result. From the theory and practice it is known that the economic and political environment resulting from such a course of transformation, connected with different monopolies (of ownership, market and political system), represents a social framework which gives rise to the deviations of various kinds. These deviations belong both to the material side in the form of unlawful enrichment and to the moral and legal spheres in the form of the violations of human rights and freedoms. The pauperization of the majority and the enrichment of the minority characterize the whole situation in a very ostensible way. Nearly overnight disappeared the middle class that in Croatia was already rather developed and that should lead the country towards a developed modern civic society.

The intertwined complex of the above-mentioned monopolies was also the cause of some other deviations, in particular in overemphasizing the role of the state and in depressing the role of self-government. This can be also extended to some other laws and regulations, such as the local self-government, high education and scientific institutions.

For all these reasons it would be necessary to rectify as soon as possible all failures done by this approach to the transformation. For this purpose it would be advisable to speed up the selling of the capital (making use also of the old savings of foreign exchange) wherever possible. In view of a very limited local purchasing power and a low attractiveness for foreign investors, one part of the social capital should be divided in the course of this year to all citizens of Croatia. This would have several positive effects in speeding up privatization and in decreasing various tensions that have arisen during the transformation. In actual practice, the majority of other countries in transition make also use of this method of privatization.

In all this we must keep in mind that any progress in privatization can contribute to the creation of a general mood that will attract both local and foreign investors. Such a macroeconomic situation is an essential basis for the start of the reconstruction and development.

It is of no lesser importance to underline that a relatively satisfactory preparedness of the Croatian economy for the transition was manifested also in carrying out the stabilization program. This programme favorably evaluated by International Monetary Fund and World Bank which means, at least as far as the economic policy is concerned, a green light for a financial support. Yet, final realizations will depend on the overall policy. For the Croatian economy it would be of a great importance that this takes place as soon as possible. This would namely facilitate an essential start of reconstruction and development.

Most countries in transition (in particular those from the Central Europe) are expecting a continuation of the growth of production. The same is expected also from the government of the Republic of Croatia. The proclaimed orientation on reconstruction and development should further intensify these growth trends.

(4) WHERE DO THE COUNTRIES IN TRANSITION GO?

This is a frequent question posed on all international conferences on transition. Theorists and strategists of transition from Western European countries and USA very rarely use the word capitalism. It is a usual practice to talk about different variants of the model of the modern democracy, and very often the term "market democracy" is used (George Macesich: Reform and market democracy, Praeger, New York, 1992). This of course does not indicate that the theorists (scientists) and politicians in the countries in transition are afraid of capitalism. But to speak only about the restoration of capitalism does not mean much. The decisive question is namely what kind of capitalism. This question arises also independently because contemporary capitalism, by its content and characteristics, has nothing in common with the capitalism from the end of the 19th century. Very much has also changed in the content and functioning of capitalism during this century. These changes were brought about in the first place by technical progress, but the development of social and humanistic sciences played also an important role.

In the field of technical progress (in particular during the second half of the century) a decisive role in bringing about the above changes has been played by the generic technologies which gave a specific tone to the third technological revolution. The epoch of informatics and the eve of the postindustrial society by their very nature led to a greater humanization of labor and to a stronger encouragement of creativity. In the area of social and humanistic sciences it came to the increase in those influences that at the beginning of this century led to the division

between bolshevism and manshevism and, under the impact of different political (especially socialdemocratic) movements and organizations, finally led to the development of the concept of the "State of Welfare Economics".

In this connection it can be said that all countries in Western Europe have different variants of the state and economy of welfare. The differences among them may be reduced to the proportion in the combination of purely market criteria and the principles of solidarity in the organization of the state and society. As for the USA, in favor of the welfare state were more consequently engaged the brothers Kennedy, and at the present time President Clinton.

From theory and practice it is known that the overemphasizing of the principles of solidarity in the implementation of the concept of the state and economy of welfare leads to the increase in social justice and in the functions of social state, but depresses the competitive capacity of the country. On the other side, the overemphasizing of the market criteria has opposite effects. The function of social state and social justice are decreased.

It is therefore an art to find the optimum between these criteria and principles. Such an optimum is always different for different levels of development. The developed European countries are rather equal in this respect too. That is why the European Union is realistically feasible. Each country in transition has to find its own optimum according to its specific situation. In seeking this optimum they will encounter different uncertainties, risks, failures and deviations. Comparative experience acquired up to now demonstrates two groups of deviations with a different intensity in individual countries. The first group is put under the joint denominator "neobolshevism". It contains all those deviations that overemphasize the role of the state and neglect the role of the self-government. The second group is defined as the "Latin-American syndrom". It contains all those deviations that in the absence of the

law-enforcing and social state lead to the unlawful enrichment of the minority and the simultaneous pauperization of the majority.

The theoreticians of transition have been underlining at the international scientific conferences that no one had the illusion that the transitional restructuring would go without great social stresses, tensions and problems. It is more and more evident that a given price must be paid in order to attain an improvement and increase in the economic efficiency and political democratization. It is, however, an important question who pays this price and how the costs of transition are distributed in the society. The objective should be to carry out the transition with the least possible social stress and to secure the greatest possible justice in distributing its costs.

In order to attain an efficient transition and secure the social justice in this process the role of the law and social state must be recognizable.

Where is Croatia in this process? As has been already said, Croatia is better prepared for an efficient implementation of transition than many other countries. This advantage has been up to now relatively weakly utilized. However, in the new conditions when the unknowns connected with war and defense, and with the price of social peace can be excluded it is sure that Croatia will better use its advantages.

When deciding on its variant of the "State and Economy of Welfare" each country in transition is confronted by two typical models: The Scandinavian (or more precisely Swedish) model which optimizes the function of the social state, and the Japanese which optimizes the function of economic efficiency and competitiveness. For Croatia, however, more favorable would be the model of neighboring Austria which seems to combine successfully both of those models. All this must be understandably adapted to our circumstances and development level. It should be, however, kept in mind that the implementation of the concept of the state and economy of welfare represents the best

recommendation for the inclusion into the European integration processes.

(5) TRANSITION IN THE LIGHT OF IDEOLOGY AND POLICY

There is no country without ideology. As every man has his own soul, every society has its own ideologies. The plural form ("ideologies") is used here intentionally because in a pluralistic society there is no prescribed unique ideology, but the ideologies coexist.

However, many segments of the ideology in contemporary pluralistic and democratic societies are the same or similar. There are those segments that according to their content are intertwined with the concepts and contents of moral values differentiating between the good and evil. It is usually said that the ideology and moral are deeply rooted in the achievements of our civilization. This is essentially true, but some roots are specially deep, and some civilizational and historical trends are particularly long. They extend back to the times preceding our era and are based on the Old and New Testament, on the Jewish and Christian civilization, on Ten Commandments and on many events from a more recent period of time.

Leaving out some subtleties stemming from the traditions of the Christian (catholic and Protestant) civilization, I am going to concentrate only on the closely connected influences of industrial and civic revolutions, in particular of the French revolution. The French revolution is particularly pointed out because just on the occasion of its two centuries anniversary (1989) it came to the collapse of the bolshevik option and to the new triumph of some ideas born in the French Revolution. All in all, the ideology of transition is actually the ideology of the newly formed society.

However, concrete political characteristics of individual countries in transition reflect the political views and opinions of the political parties which exert a decisive political influence in the society and, as a

consequence, on the government. In this regard it should be also kept in mind that transition has brought some new moments in denoting political parties as left and right. Not so far in the past the parties of the left took the state as a good owner and manager and as an appropriate regulator of all social affairs. On the contrary, the parties of the right put less emphasis on the direct role of the state, but preferred the market and entrepreneurship to have a preponderant impact.

The situation nowadays is entirely different. All parties are for the pluralism of ownership and market and for the overall and special human rights and freedoms. Likewise, all the parties are for the democracy, humanism and tolerance, and against all discriminations, racial, religious, national, etc. As a consequence, the differences among their programs have become more subtle. Very often they are reduced to more or less accentuated national or social moments. A typical example is the Croatian left whose voting body, in spite of a great tradition (e.g., titoism, Krleža, etc.), has considerably diminished. It may be easily explained by the fact that many other parties, in addition to their traditional program content, have also attached a given importance to the social moments, which traditionally characterized the parties of the left.

The program orientation of many parties is also under the influence of the well-known "Internationals". The most influential and the most powerful are demochristian, socialdemocratic and liberal. Beside traditional and classical differences among the parties in modern developed societies an increasing emphasis in some parties is put on the protection of the human environment. No lesser attention is also attached to the selfgovernment and sometimes (though more in the case of workers unions) to workers participation in the profit and management. It seems to be advisable that these questions enter into the programs of some of our political parties.

As for the complex of the environment protection, it should find its place in the programs of the parties with regional connotation. This would be especially significant for the expected expansion of tourism.

Without a further discussion of many relevant issues I would finally point out that the implementation of the economy and policy of transition will help all countries in transition to develop a human welfare society. As a result, all countries in transition, including Croatia, will be sooner or later integrated in the European Union.

(6) SOME RECOMMENDATIONS AND LESSONS OF THE 11TH WORLD CONGRESS OF ECONOMISTS

The World Congress of Economists, held in Tunis 18-22 December 1995, devoted a great attention to the problems of the countries in transition. The greatest part of the introductory address of Michael Bruno, the president of the World Association of Economists, entitled "Deep Crisis and Reform: What have we learned" was related to the problems of the implementation of the economy and policy of transition. Several sessions were also devoted to the problems of transition, and one panel discussion to the comparative problems of privatization. As a basis for these discussions and considerations served a study of a group of authors from the World Bank "From Plan to Market: Patterns of Transition".

Basic analytical views and opinions expressed in these studies and introductory statements consist in underlining a high degree of interdependence among liberalization, stabilization, growth and inflation. Based on quantitative evaluations of these interdependencies is Table 1 in which corresponding measurements are synthesized in the form of a ranking list of the countries in transition. The quantitative measurements are based on a cumulative index of liberalization, growth rate, inflation rate and the level of development.

The liberalization index for each year of the period 1989-1994 has been calculated by a special methodological procedure. For each year and each country in transition three essential components of liberalization are weighted using the weights from 0,0 to 0,9. These three components are:

- a) liberalization of internal prices and competition
- b) liberalization of external market and convertibility
- c) liberalization in the field of ownership, that is, the achievements in the transition of ownership in the direction of privatization.

On the basis of these measurements all countries in transition are classified in five groups representing a kind of their ranking. In the sixth group are Vietnam and China, which, despite good performances in stabilization and development including also liberalization, do not belong to the countries in transition because they carry out only radical reforms in the economy without pluralization and transition in the political system.

It is interesting to note that Slovenia is put in the first place. Croatia is in the first place among countries affected by war. As for the cumulative index of liberalization Croatia is very near to the countries with the best performances (Slovenia, Poland, Hungary). The Czech Republic and Slovakia have good performances in privatization, but stay behind in internal and external liberalization. Croatia has good performances in internal and external liberalization, but stays behind in privatization.

The achievements in Croatia are greatly improved concerning the inflation rate and level of development which in relation to 1989 show the index 69. It means that in international comparison the GDP of Croatia is shown according to the concept SNA of UN, and not more as a material product.

However, the fundamental differences between Croatia and some Centraleuropean countries with the highest ranking consist in the

absence of growth and the fall in GDP. Croatia was not mentioned at all on the sessions on transition and privatization. On my direct question in this respect, put in the discussion, the arguments given were not quite clear: a) Croatia is classified in the group of countries affected by war, b) there was no growth of GDP, c) foreign direct investments (as an important indicator of the economic normalization) are only of a marginal significance. As a consequence, in the corresponding tables, regularly prepared by the World Bank, Economic Commission of UN for Europe and other international institutions, Croatia is not mentioned at all.

It should be, however, said that the adequate valorization of Slovenia means a certain break through in the barrier, since on the most international conferences on transition, the new countries formed as a result of the dissolution of former Yugoslavia have mainly not been mentioned. In any case, I took this opportunity to point out some performances of the Croatian economy which seems to be insufficiently known and inadequately evaluated.

Within the framework of the congress the following information, based on the same classification, has been given for all countries in transition; trends of GDP, inflation and unemployment (Tables 2, 3 and 4). The authors of Table 2 (World Bank and IMF) have highly overestimated the growth rate (5%) of the Croatian GDP for 1995. It is a pity that in Table 3 there are no inflation rates for 1995, because that rate for Croatia would have been by far the lowest. The rate of unemployment in Table 4 (18%) is among the highest. It should be also mentioned that there are some methodological problems in this calculations.

Although Croatia was not separately mentioned in connection with the liberalization and stabilization, in the discussion itself I had a relatively good feeling; this was, however, not so in connection with the panel discussion on privatization. The questions, namely, on why our advantages concerning the social ownership had not been properly used are unavoidable, but the explanations are problematic. Theoretical

economists including some Nobel prize winners from western countries and USA are reminding very often their colleagues from the countries in transition, especially from the countries that made more mistakes in privatization, of some known historical moments and constraints. As for the historical moments, the two of them are most important. The first is that in the process of privatization the previous owners must be compensated (in physical form or in value) for what had been taken from them. The second moment is related to the fact that in the previous system there were no capitalists while their function was performed by the workers. One part of the social capital must be therefore distributed to the workers and to all citizens. As far as the selling of the capital is concerned, which is necessary and useful, two (at least) constraints must be taken into account: - a) the purchasing power of the domestic population is very low, and b) net financial surpluses in the world market are very limited. In Europe after the unification of Germany they practically disappeared. The greatest surpluses exist in Asian four tigers and in Japan. Those countries, however, do not show a special interest to take part in privatization processes in the countries in transition.

All these moments must be pointed out because they are nowadays also very important in connection with the new law on privatization. It would be high time to ensure a necessary political consensus in order to allow such a progress in privatization that would save what can be saved. Privatization remained namely a key question in carrying out an efficient transition. That is why these questions have attracted the attention of the World Congress of Economists.

In addition to these issues of a material or economic content, the last congress dealt also with the questions which can be linked to the philosophy and to the concept of the state and economy of welfare. These questions were dealt with directly or indirectly on two sessions of the Congress (from the total numbers of four sessions). On the first session, presided by the Nobel-prize winner Kenneth Arrow, the Swedish professor Assar Lindbeck gave a lecture on "Incentives in

Welfare State: What are the Lessons?". On the second session, presided by Michael Bruno, the president of the World Association of Economists, the American professor Robert Putnam spoke about the topic: "Does Trust Matter: Social Capital and Economic Development". The lessons of those sessions are equally important both for the developed countries and for the countries in transition, only in different directions. In the case of the developed countries, especially those of the European Union, the warnings consist in the fact that overemphasizing of the welfare by assigning an exaggerated role to the principles and criteria of solidarity, may weaken the competitiveness. Owing to the increasing globalization of the economy such phenomena in one country cannot leave the other countries unaffected. Whether these initiatives will lead to a greater coordination in the development of the society of welfare in the countries of the European Union, will be probably seen already in course of this year.

As far as the countries in transition are concerned, the warnings and recommendations go understandably in a different direction. The attention of these countries in developing the welfare society must be drawn to the problem of seeking an optimum in applying the market criteria and the solidarity criteria in order to avoid the phenomena inherent to the processes of the first primitive accumulation. It requires a strengthening of the function of the law and social state, and of the social justice, as well as the protection of all human rights and freedoms. The group of authors from the World Bank, in addition to the quantification of the liberalization, has made an attempt to quantify for each country in transition the problem of political freedoms (Table 5).

On the whole, the 11 th World Congress of Economists has devoted a great attention to the countries in transition. The basic recommendation goes in the direction of the development of the welfare society. It is related to all countries including Croatia.

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Table 1
LIBERALIZATION, GROWTH AND INFLATION, 1989-94

Group	Countries	CLI 1994	Av lib 93/94	Av. infl. 93/94	Av. growth 93/94	93/94 GDP /89 GDP	Lowest level of GDP/89 BDP
Advanced Reformers	Slovenia	4.16	0.82	26	3.0	84	81
	Poland	4.14	0.84	34	4.2	88	82
	Hungary	4.11	0.84	21	0.0	81	80
	Czech Rep.	3.61	0.90	16	0.8	81	80
	Slovakia	3.53	0.86	19	0.4	79	77
	Averages	3.91	0.85	23	1.7	83	80
High Intermediate Reformers	Bulgaria	2.96	0.68	81	-1.4	73	73
	Estonia	2.93	0.85	69	0.9	69	67
	Lithuania	2.62	0.79	231	-7.3	44	44
	Latvia	2.39	0.71	73	-4.4	60	59
	Romania	2.35	0.66	194	2.2	69	67
	Albania	2.30	0.70	57	9.5	74	65
	Mongolia	2.27	0.64	164	0.6	84	83
	Averages	2.55	0.72	124	0.03	68	65
Low Intermediate Reformers	Russia	1.92	0.63	558	-13.5	57	52
	Kyrgyzstan	1.81	0.68	744	-13.2	61	57
	Moldova	1.62	0.53	558	-17.0	53	46
	Kazakhstan	1.31	0.37	1870	-18.5	57	49
	Averages	1.67	0.55	933	-15.6	57	51
Slow Reformers	Uzbekistan	1.11	0.37	640	-2.5	89	88
	Belarus	1.07	0.35	1694	-16.6	73	64
	Ukraine	0.80	0.20	2789	-18.6	56	48
	Turkmenistan	0.63	0.19	2751	-15.0	69	62
	Averages	0.90	0.27	1968	-13.2	72	66
Affected by War	Croatia	4.02	0.83	807	-0.7	69	68
	Macedonia	3.92	0.78	157	-10.7	57	55
	Armenia	1.44	0.42	4595	-7.4	38	38
	Georgia	1.32	0.35	10563	-24.6	24	23
	Azerbaijan	1.03	0.33	1167	-17.7	50	44
	Tajikistan	0.95	0.28	1324	-26.3	35	30
	Averages	2.11	0.50	3102	-14.5	45	34
East Asia	Viet Nam	3.42	0.78	10	8.5	145	100
	China	3.08	0.64	13	11.7	157	100
	Averages	3.25	0.71	11	10.1	151	100

Note: CLI = cumulative liberalization index.

Source: Martha de Melo, Cevdet Denizer and Alan Gelb, *From Plan to Market: Patterns of Transition*, Policy Research Department, World Bank, November 1995. (Xlth World Congress of the International Economic Association, Tunis, 18-22 December 1995, 39-6).

Table 2
**GDP GROWTH (+) OR DECLINE (-)
 IN SELECTED TRANSITION ECONOMICS**

Group	Country	1989	1990	1991	1992	1993	1994	1995	Cumulative 1989-1995
Advanced Reformers	Slovenia	-3.6	-2.6	-9.3	-6.5	+1.3	+5.0	+4.5	-11.5
	Poland	+0.2	-11.5	-7.6	+2.6	+3.8	+6.0	+5.5	-2.4
	Hungary	+0.7	-3.5	-11.9	-4.5	-0.8	+2.0	+1.2	-16.3
	Czech Rep.	+0.4	-3.0	-10.0	-5.0	-0.9	+2.6	+4.0	-12.0
	Slovakia	-1.0	-2.5	-11.2	-7.0	-4.1	+4.8	+5.0	-15.9
High Intermediate Reformers	Bulgaria	-1.9	-9.1	-11.7	-5.6	-2.4	+1.4	+2.3	-24.7
	Estonia	+3.3	-8.1	-11.3	-19.3	-6.6	+6.0	+6.0	-28.7
	Lithuania	+1.1	-6.9	-13.1	-37.7	-24.2	+1.7	+5.3	-58.1
	Latvia	+5.7	-3.4	-8.3	-33.8	-14.8	+1.9	+0.4	-46.0
	Romania	-5.8	-5.6	-15.1	-13.5	+1.3	+3.5	+4.5	28.4
	Albania	+9.8	-10.0	-27.7	-9.7	+9.6	+9.4	+7.8	-16.6
Low Intermediate Reformers	Russia	+1.5	-3.6	-12.9	-18.5	-15.0	-12.1	-4.3	-50.3
	Kyrgyzstan	+3.8	+3.2	-5.0	-19.1	-16.0	-26.5	+2.0	-48.2
	Moldova	+8.8	-1.5	-18.0	-21.3	-8.7	-22.1	+1.5	-50.1
	Kazakhstan	-0.3	-0.8	-13.0	-14.0	-12.0	-25.0	-13.0	-56.5
Slow Reformers	Uzbekistan	+3.7	+1.6	-0.9	-9.5	-2.4	-3.4	-4.0	-14.5
	Belorus	+7.9	-3.2	-1.9	-9.6	-10.6	-20.2	-13.8	-43.0
	Ukraine	+4.1	-3.6	-11.9	-17.0	-16.8	-23.7	-10.3	-58.2
	Turkmenistan	-7.0	+1.8	-4.7	-5.3	-10.0	-20.0	-1.0	-39.1
Affected by War	Croatia	-1.5	-8.5	-28.7	-24.8	-3.7	+0.8	+5.0	-50.7
	Macedonia								
	Armenia	+8.0	-7.2	-11.8	-52.0	-14.1	+5.3	+5.1	-59.7
	Georgia	+2.6	-11.1	-20.6	-42.7	-39.2	-35.0	-5.0	-83.4
	Azerbaijan	-6.3	-11.7	-0.7	-26.8	-23.1	-22.0	-8.7	-67.1
	Tajikistan	-2.9	-1.6	-8.7	-30.0	-11.1	-21.4	-19.5	-65.7

Source: Martha de Melo, Cevdet Denizer and Alan Gelb, *From Plan to Market: Patterns of Transition*, Policy Research Department, World Bank, November 1995. The World Bank, IMF and PlanEcon data base; *World Economic Outlook*, IMF, October 1995, table 4. (Xlth World Congress of the International Economic Association, Tunis, 18-22 December 1995; 39-6).

Table 3
INFLATION EXPERIENCE BY REFORM GROUP, 1989-94

Group	Countries	CLI	Inflation						Geomet. average 89-94
			1989	1990	1991	1992	1993	1994	
Advanced Reformers	Slovenia	4.16	1306.0	549.7	117.7	201.0	32.0	19.8	213
	Poland	4.14	251.0	586.0	70.3	43.0	35.3	32.2	117
	Hungary	4.11	17.0	29.0	34.2	22.9	22.5	19.0	24
	Czech Rep.	3.61	2.3	10.8	56.7	11.1	20.8	10.2	17
	Slovakia	3.53	0.0	10.8	61.2	10.1	23.0	14.0	18
	Averages	3.91	315.3	237.3	68.0	57.6	26.7	19.0	78.1
High Intermediate Reformers	Bulgaria	2.96	6.0	22.0	33.5	82.0	72.8	89.0	79
	Estonia	2.93	6.1	23.1	210.6	1069.0	89.0	48.0	126
	Lithuania	2.62	2.1	8.4	224.7	1020.3	390.2	72.0	164
	Latvia	2.39	4.7	10.5	124.4	951.2	109.0	36.0	107
	Romania	2.35	1.1	5.1	174.5	210.9	256.0	131.0	105
	Albania	2.30	0.0	0.0	35.5	225.9	85.0	28.0	48
	Mongolia	2.27	0.0	0.0	208.6	321.0	183.0	145.0	112
	Averages	2.55	2.9	9.9	187.4	554.3	169.3	78.4	105.8
Low Intermediate Reformers	Russia	1.92	2.2	5.6	92.7	1353.0	896.0	220.0	214
	Kyrhyz Rep.	1.81	0.0	3.0	85.0	854.6	1208.7	280.0	211
	Moldova	1.62	0.0	4.2	98.0	1276.0	789.0	327.0	220
	Kazakhstan	1.31	0.0	4.2	91.0	1610.0	1760.0	1980.0	386
	Averages	1.67	0.6	4.3	91.7	1273.4	1163.4	701.8	257.8
Slow Reformers	Uzbekistan	1.11	0.7	3.1	82.2	645.0	534.0	746.0	202
	Belarus	1.07	1.7	4.5	83.5	969.0	1188.0	2200.0	328
	Ukraine	0.80	2.0	4.0	91.2	1210.0	4735.0	842.0	379
	Turkmenistan	0.63	2.1	4.6	102.5	492.9	3102.0	2400.0	366
	Averages	0.90	1.6	4.1	89.9	829.2	2389.8	1547.0	318.9
Affected by War	Croatia	4.02	2520.5	135.6	249.5	938.2	1516.0	98.0	545
	Macedonia	3.92	1246.0	120.5	229.7	1925.2	248.0	65.0	374
	Armenia	1.44	0.0	10.3	100.0	825.0	3732.0	5458.0	493
	Georgia	1.32	0.0	3.3	78.5	913.0	3126.0	18000.0	591
	Azerbaijan	1.03	0.0	7.8	105.6	616.0	833.0	0	265
	Tajikistan	0.95	0.0	4.0	11.6	1157.0	2195.0	1500.0	290
	Averages	2.11	627.8	46.9	145.8	1062.4	1941.7	4262.2	426.3
East Asia	Viet Nam	3.42	76.0	67.5	67.6	17.5	5.2	14.4	38
	China	3.08	17.5	1.6	3.0	5.4	13.0	12.0	9
	Averages	3.25	46.8	34.6	35.3	11.5	9.1	13.2	23.4

Source: Martha de Melo, Cevdet Denizer and Alan Gelb, *From Plan to Market: Patterns of Transition*, Policy Research Department, World Bank, November 1995. (Xlth World Congress of the International Economic Association, Tunis, 18-22 December 1995; 39-6).

Table 4
REGISTERED UNEMPLOYMENT THROUGH TRANSITION, 1989-94

Group	Country	CLI	1989	1990	1991	1992	1993	1994
Advanced Reformers	Slovenia Poland	4.16	2.9	4.7	8.2	11.1	14.5	14.5
	Hungary	4.14	0.1	6.1	11.8	13.6	16.4	16.0
	Czech	4.11	0.3	2.5	8.0	12.3	12.1	10.9
	Slovakia	3.61	0.0	0.8	4.1	2.6	3.5	3.2
	Averages	3.53	0.0	1.5	11.8	10.4	14.4	14.8
		3.91	0.7	3.1	8.8	10.0	12.2	11.9
High Intermediate Reformers	Bulgaria	2.96	0.0	1.5	11.1	15.3	16.4	12.8
	Estonia	2.93	0.0	0.0	0.1	4.8	8.8	8.1
	Lithuania	2.62	0.0	0.0	0.3	1.3	4.4	3.8
	Latvia	2.39	0.0	0.0	0.1	2.1	5.3	6.5
	Romania	2.35	0.0	0.0	3.0	8.4	10.2	10.9
	Albania	2.30	1.9	7.7	8.6	26.9	28.9	19.5
	Averages	2.59	0.3	1.5	3.9	9.8	12.3	10.3
Low Intermediate Reformers	Russia	1.92	0.0	0.0	0.1	0.8	1.1	2.2
	Kyrgyzstan	1.81	0.0	0.0	0.0	0.1	0.2	0.7
	Moldova	1.62	0.0	0.0	0.0	0.7	0.8	1.2
	Kazakhstan	1.31	0.0	0.0	0.1	0.5	0.6	1.0
	Averages	1.67	0.0	0.0	0.1	0.5	0.7	1.3
Slow Reformers	Uzbekistan	1.10	0.0	0.0	0.0	0.1	0.2	0.3
	Belarus	1.07	1.0	1.0	1.0	0.5	1.5	2.1
	Ukraine	0.80	0.0	0.0	0.0	0.3	0.4	0.4
	Turkmenistan	0.63	0.0	0.0	0.0	0.0	0.0	n.a.
	Averages	0.90	0.3	0.3	0.3	0.2	0.5	0.9
Affected by War	Croatia	4.02	0.0	9.3	15.5	17.8	17.5	18.0
	Macedonia	3.92	n.a.	n.a.	18.0	19.0	19.0	19.0
	Armenia	1.44	1.0	1.0	3.5	3.5	6.2	5.6
	Georgia	1.32	0.0	0.0	0.0	5.4	8.4	n.a.
	Azerbaijan	1.03	0.0	0.0	0.1	0.2	0.7	0.9
	Tajikistan	0.95	0.0	0.0	0.0	0.3	1.1	1.7
	Averages	2.11	0.2	1.7	6.2	7.7	8.8	9.0
East Asia	Viet Nam	3.42	n/a	n/a	n/a	n/a	n/a	n/a
	China	3.08	2.5	2.5	2.3	2.3	2.6	2.8
	Averages	3.25	n/a	n/a	n/a	n/a	n/a	n/a

CLI = Cumulative Liberalization Index.
a/ Annual average

Source: Martha de Melo, Cevdet Denizer and Alan Gelb, *From Plan to Market: Patterns of Transition*, Policy Research Department, World Bank, November 1995. (Xlth World Congress of the International Economic Association, Tunis, 18-22 December 1995; 39-6).

Table 5
POLITICAL FREEDOM AND DEGREE OF LIBERALIZATION

Group	Countries	Political Freedom	CLI 1994
Advanced Reformers	Slovenia	6.50	4.16
	Poland	6.00	4.14
	Hungary	6.50	4.11
	Czech Republic	6.50	3.61
	Slovakia	5.50	3.53
	Averages	6.20	3.91
High Intermediate Reformers	Bulgaria	6.00	2.96
	Estonia	5.50	2.93
	Lithuania	6.00	2.62
	Latvia	5.50	2.39
	Romania	4.50	2.35
	Albania	4.50	2.30
	Mongolia	5.50	2.27
	Averages	5.36	2.55
Low Intermediate Reformers	Russia	4.50	1.92
	Kyrgyzstan	4.50	1.81
	Moldova	4.00	1.62
	Kazakhstan	2.50	1.31
	Averages	3.88	1.67
Slow Reformers	Uzbekistan	1.00	1.11
	Belarus	4.00	1.07
	Ukraine	4.50	0.80
	Turkmenistan	1.00	0.63
	Averages	2.63	0.90
Affected by War	Croatia	4.00	4.02
	Macedonia	4.50	3.92
	Armenia	4.50	1.44
	Georgija	3.00	1.32
	Azerbaijan	2.00	1.03
	Tajikistan	1.00	0.95
	Averages	3.17	2.11
East Asia	Viet Nam	1.00	3.42
	China	1.00	3.08
	Averages	1.00	3.25

Source: *Martha de Melo, Cevdet Denizer and Alan Gelb, From Plan to Market: Patterns of Transition, Policy Research Department, World Bank, November 1995. (Xlth World Congress of the International Economic Association, Tunis, 18-22 December 1995; 39-6).*