

POST-COMMUNIST TRANSFORMATIONS IN CENTRAL AND EASTERN EUROPE. “HOLISTIC VERSUS EXTENDED ORDER” MODEL

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Abstract

The transition of Central and Eastern European post-communist countries followed different sets of reforms with different degrees of success which generated a monolithic debate attitude for decades. From shock-therapy and intermediary to gradualist approaches, I stress the superiority of Bing-Bang reforms to market-based economies from economic, political and social perspectives. In this paper, after identifying the structural reforms started after 1989, I emphasize several variables that demonstrates the superiority of shock-therapy reforms for 22 countries grouped in four specific categories. After the examination that leads to the result that the radicalists won the battle with the gradualists, from epistemological to “numerical” point of views, we tried to propose an explanation for this historical fact and we consider this is due to the superiority of the extended order over the holistic one. Future work is needed to analyse the role of geographical proximity with the Western world and of historical legacies in the advancement of the debate.

Key words: post-communist transformations, shock-therapy, gradualism, holistic order, extended order.

JEL Classification: N14, N34, O11, P52.

I. INTRODUCTION

During the ‘80s of last century, the structural reforms, glasnost (political openness) and perestroika (economic reform), started the end of the communist system in the Soviet Union. After several years, the Iron Curtain has lifted and the Central and Eastern communist countries faced systematic transformations in terms of political and social changes, economic reforms, new status of the rule of law and new mentalities and upgrades of the old ones. The fall of communism in Central and Eastern Europe generated many unintended consequences, many new countries appeared on the map, while important historical hostilities escalated in huge civil wars, like in the former Yugoslavia.

The transition from the socialist system to a functional market system was a great challenge for many post-communist countries due to different approaches towards it. From shock-therapy policies to gradual ones, all these countries, facing the complexity of a new status quo, implemented with different speed and success these necessary steps. Different clusters of countries are classified from this perspective: a group of countries that implemented sustained Big-Bang reforms (coded them BB: Lithuania, Latvia, Estonia, Poland, Czech Republic, Slovakia); a group that aborted these Big-Bang reforms (coded as A_BB: Russia, Albania, Macedonia, Bulgaria); a group that applied an advance start/steady progress (coded as AS/SP: Croatia, Hungary and Slovenia); the gradualist group of countries (named GR: Romania, Ukraine, Armenia, Georgia, Azerbaijan, Moldova, Bosnia-Herzegovina, Montenegro and Serbia). (Havrylyshyn, 2007, p. 6)

Why the Central European post-communist countries experienced the highest rates of economic growth after the fall of Berlin Wall? The geographical proximity of Poland, Czech Republic, Slovakia, even Hungary to the eastern border of what we call Western civilization may have created the institutions that represented a solid foundation for liberal democracy. These countries, together with the Baltic ones, may be more western-oriented states.

Ideas are more relevant than the institutions or may influence the existence and development of them (McCloskey, 2016). The compatibility with Western Catholicism or Protestantism may have generated roots for establishing capitalism in greater degrees and these countries belong more to the Western Europe than the Eastern countries. In this direction, “The physical proximity and historical belongingness to Europe have hence provided an important advantage for the “western” transition economies in the first phase of moving from the Soviet-style to a democratic and market-oriented system.” (Svejnar, 2006, p.6)

In terms of liberal thought, those countries that made a painful and rapid rupture with the past (shock-therapy approach) made the transition to a market economy more successful than the countries that feared to cut

the links with the former system and where the power was preserved by former communists and its closed oligarchs.

The economic and political results confirm the superiority of market-economy over every model of central planning and reject what is often called as Pareto’s ‘indifference theorem’. The fall of economic activity after 1989 was a fact and only Hungary, Poland, Slovenia and Albania have succeeded few years after to surpass the 1989 levels of GDP. Other countries experienced a severe drop of their GDP, accounting in some cases almost 50% in a couple of years. The explanation could be interpreted as it follows: the market laws were still incapable of creating the incentives and mechanisms to prevail the economic drop and to boost the recovery. Therefore, it was needed the implementation of a functional framework of market instruments and then the liberalization could have prevailed the economic decline in several post-communist countries (Hoen, 2013, p.141-142)

The start of economic transformations through different reform approaches was accompanied by high social costs (hyperinflation, unemployment, deficits etc.). In 2000s, the growth patterns were very similar and experienced high percentages (on average, 6%). (Roaf, Atoyán et al, 2014, p.4) Today, on average, the post-communist countries developed a strong convergence to EU15, from 30% in the mid-1990s to almost 50% in the present. (Roaf, Atoyán et al, 2014, p.5)

Regarding unemployment, the BB countries started in 1990 from almost the same point (except Czech Republic and Estonia, which had the lowest level of unemployment) and followed a very similar pattern. I observed for AS/SP countries a heterogeneous trend, Croatia and Slovenia had an overall increase of unemployment rate. The A_BB countries had the highest unemployment rate, while the GR countries experienced the second highest overall increase.

About inflation, in the early ‘90s of last century, many ex-communist countries experienced hyperinflation due to broken old linkages in terms of economic structures and institutions, economic reforms, price and foreign exchange liberalization. Inflation was brought under control in the mid-‘90s, while the inflation targeting continued until today. The BB countries and Hungary and Slovenia stabilized the fastest the high inflation due to better initial conditions and more effectively stabilization policies. Many A_BB countries and the GR ones fought longer to inflation dilemma due to economic, institutional, political problems and even social instability.

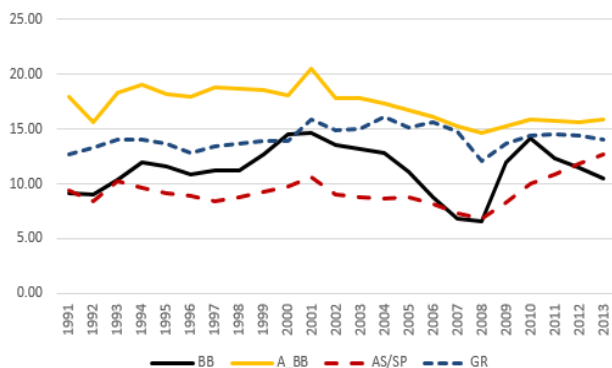


Figure 1 - Unemployment, total (% in total)
Source: World Bank Data

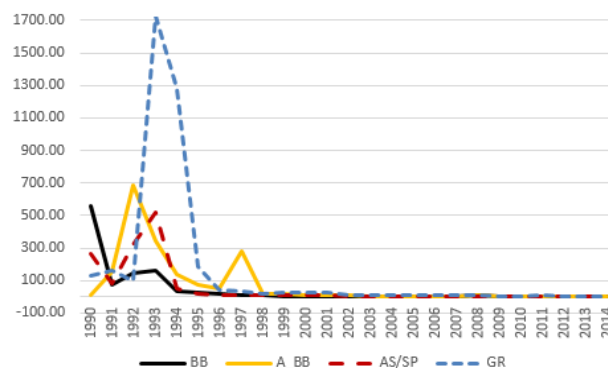


Figure 2 - Inflation, consumer prices (annual %)
Source: World Bank Data

II. POST-COMMUNIST REFORM PROGRESS. FROM SHOCK-THERAPY TO GRADUALIST APPROACH

Table 1 explains very clear that necessary steps to adopt a shock-therapy reform (the so-called Washington Consensus). These policies were successfully implemented by Poland under its Prime Minister Leszek Balcerowicz, in Czech Republic by Vaclav Klaus and in Russia by Igor Gaidar. (Havrylyshyn, 2007, p.3) Cutting the old privileges with the past could represent a radical diminish of rent-seeking behaviors that happened in the gradualist policies context. On the other hand, important gradualist economists, like Aghion and Blanchard, had a paternalist vision, a protectionist approach based on the institutionalist doctrine, saying that it was needed powerful institutions to face the radical rupture with the past. The gradual reforms should have allowed to accommodate the new status quo before breaking down the dead system. (Havrylyshyn, 2007, pp.3-4)

Table 1. Washington Consensus policies

Policy Type	1-2 years	2-5 years	5+ years
Macroeconomic stabilization	implementation	continuation	continuation
Price and market reform	implementation	continuation	continuation
Trade liberalization	implementation	continuation	continuation
Labor market reform	Preparation	implementation	continuation
Financial reform	Preparation	implementation	continuation
Small privatization	implementation	implementation	continuation
Private sector development	implementation	implementation	continuation
Large privatization and governance	Preparation	implementation	continuation
Legal: tax, property rights, commercial codex, etc.	implementation	continuation	continuation
Institutional reform (administration, regulation)	implementation	implementation	implementation
Unemployment insurance	implementation	continuation	continuation

Source: Oleh Havrylyshyn (2007), *Fifteen Years of Transformation in the Post-Communist World*, The Cato Institute, Center for Global Liberty & Prosperity, No. 4, p.3.

The basic differences between these two main doctrines, which may explain the divergent dynamics in post-communist transformation, are the following:

- “1. Big-bangers worried that delays in stabilization and liberalization would result in huge rent-seeking and opposition to, and perhaps reversal of, reforms.
2. Big-bangers agreed on the need for institutions but not necessarily in advance of reforms.
3. Gradualists feared that moving too fast would cause greater social costs and pain for the population.
4. Gradualists proposed that institutions come before liberalization and privatization to ensure maximum efficiency gains.” (Havrylyshyn, 2007, pp.3-4)

The rent-seeking behaviors of political leaders, in many cases, captured the economic reforms for their own interests and political gangs. “Consequently, it is possible to argue that the theory of gradualism was abused by political leaders in the less liberalized countries. Those leaders were not interested in real economic and institutional reforms but used the gradualist arguments to delay reforms, which, as shown below, resulted in large rent-seeking and state capture. Conversely, it may be argued that the leadership committed to firm progress on economic liberalization was also committed to progress on institutional development.” (Havrylyshyn, 2007, p.7)

The fear that a shock-therapy will generate chaos in the absence of powerful and needed institutions that may buffer the effects of such radical reforms is a constant theme generated by the lack of control in a paradigm based on uncertainty and unintended consequences. Such a perspective is based on forces that could not be intended or designed by an omniscient policymaker, no matter how intelligent and well-intentioned he could be. Therefore, to draw institutions and patterns of explanatory rules before a real and functional market system really pre-existed is a true sophism and, on the long term, the negative effects will overwhelm the positive achievements. (Rohác, 2013, p.74)

Also, the political leaders may act as rational actors, more like decision-makers who seek to maximize their own profits detrimental to social gains through necessary reforms. “In turn, under democratic conditions, where the discontent can find political expression at the polls, even the most promising reform strategies may be abandoned. Either politicians are concerned about electoral support and reverse policies that will cause them to lose elections, or they lose to competitors more attuned to the political consequences of structural transformation. And in some cases, egalitarian ideologies with strong populist and nationalistic overtones can be mobilized against both democracy and reforms.” (Przeworski, 1991/95), p.138)

Because the gradualists argued that their approach is less painful due to lesser social costs (higher inequality in society), they embraced such a perspective automatically. Joseph Stiglitz once said: “gradualist policies lead to less pain in the short run, greater social and political stability, and faster growth in the long [run]. In the race between the tortoise and the hare, it appears that the tortoise has won again.” (Stiglitz, 2002, p.15) Maybe he meant that some countries which followed the gradualist prescriptions, privatizing with a slower speed, for instance Slovenia, successfully managed to adhere to a dynamic market economy.

It was claimed that, in the case of Russian transition, the radical structural policies were, after all, a success, although the very low rhythm of implementing them. (Åslund, 2007; Åslund, 2009)

A clue for advocating the shock-therapist economists was the Human Development Index (HDI), which measured the individual prosperity but, also, the spread of poverty and access to basic needs such as health services, education or housing etc. The HDI indexes challenged the gradualists’ doctrine, emphasizing a fact:

the shock-therapy policymakers recorded much better results than their opponents. (Havrylyshyn, 2007, p.9)

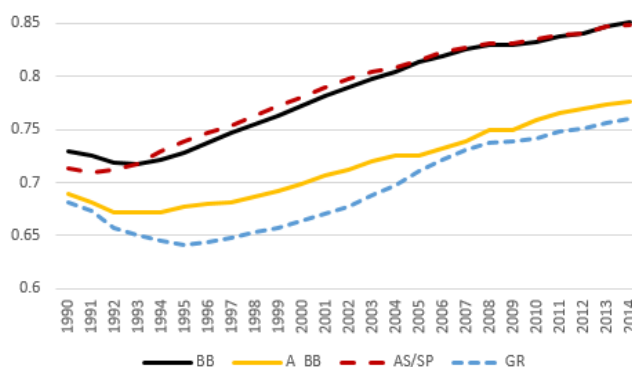


Figure 3 – Human Development Indexes

Source: United Nations Development Programme, Human Development Reports

For better understanding the implementation of reforms in different speeds and degrees, we construct the average of EBRD reform indexes 1992-2014 for 22 countries grouped in 4 categories as we said before. The scale is between 1 (no reform) and 4 (great success to implement market reforms). The average EBRD reform indexes contains several dimensions like: price liberalization, trade liberalization, small-scale privatization, large-scale privatization, corporate governance and enterprise reform, competition policy, banking reform and interest rate liberalization, and securities markets and other non-bank financial institutions. (EBRD Transition Reports 1992-2014)

Since 1992, all the countries followed an increased trend, so it means they implemented with some success the transformation reforms to the free-market system, but the speed differed greatly among these four groups. The BB countries obtained the best scores for the EBRD reform index. The AS/SP countries have the second best performance relating the reform index. Hungary experienced the highest evolution among all countries. The A_BB countries had an increased trend by all countries, very homogeneous. But, overall, the performance is below the average of BB and AS/SP countries. The GR countries had the most heterogeneous pattern, but they experienced an increased trend. I took into consideration that Serbia, Montenegro and Bosnia-Herzegovina started the reforms later. Overall, the GR countries recorded the fourth transformation progress index.

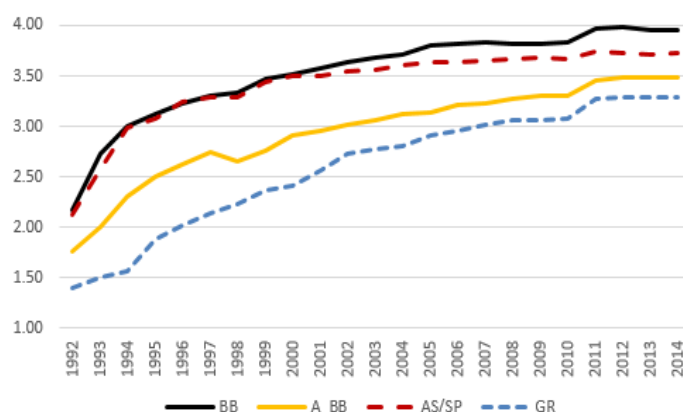


Figure 1 - EBRD Reform Index (1992-2014)

Source: European Bank for Reconstruction and Development

Although the shock therapy reforms were and still are challenged by many economists, in terms of post-communist transformation in Central and Eastern Europe, this economic policy seemed to be compatible with a liberal therapy. The neo-institutionalist approach was by far the most complex critique for Bing-Bang policies. The new paradigm suggested gradual policies and, more, a post-1978 Chinese-type dual-track liberalization reform. The latter was a design-reform policy to accommodate the ‘old fashion’ system to the new one, with less or no negative secondary effects. (Rohác, 2013, pp.68-69) We must consider that “Overall, the evidence on economic performance and social costs seems to contradict the first hypothesis of the gradualists, who argued that gradual reforms would smooth and minimize adjustment costs.” (Havrylyshyn, 2007, p.11)

III. THE HOLISTIC VERSUS THE EXTENDED ORDER. AN EXPLANATION OF THE DIVERGENT PATTERNS AND TRAJECTORIES OF GROWTH IN CENTRAL AND EASTERN EUROPEAN POST-COMMUNIST COUNTRIES

While some scholars said that a major role for a successful transition is played only by policymakers and their approaches rather than the initial conditions and the historic legacies (Havrylyshyn, 2001, p.72; Fischer, 2001, p.2), I adhere to the conviction that the historic legacies may have shaped the divergent growth patterns in Eastern and Central post-communist countries. Elecheş (2007) stated that “historical legacies seem to matter more rather than less as the post-communist transformation takes its course.” (Pop-Elecheş, 2007, p.924) These patterns really influenced the present mentalities and institutions, therefore having a profoundly effect on the development process (Dryzek and Holmes 2002; Gerner, Hedlund et al, 1995; Grugel 2002). Jan Fidrmuc (2003) emphasized the initial conditions, proxied by the distance from a Western country’s capital (for instance, Brussels) to each of our countries’ capitals. “The distance measure is likely to be correlated with factors such as historical legacies, social, cultural and religious traditions, institutional factors as well as with economic development. In addition, it also reflects the cost of engaging in economic relations with Western Europe.” (Fidrmuc, 2003, p.590) Therefore, the longer the distance from each of our countries’ capitals to Brussels, the lowest propensity to adopt and implement radical economic transformations. (Fidrmuc, 2003, p.590)

We saw in the figure below a very interesting statistics according to which, generally, post-1989 weaknesses and slow economic dynamics could be determined by the pre-1989 political background and by post-communist communist parties which acted as predators and corrupt crypto-political elites. Since the emergence of national states (usually 1918 for many of them), it is clear enough that gradualist countries experienced the longest period under the left governments, which is traditionally inimical from different point of views to free-market economic system. The champions of post-1989 transition were AS/SP countries, followed by the shock-therapy-type ones, which experienced the longest duration of right-wing governments and the shortest duration of left-wing ones.

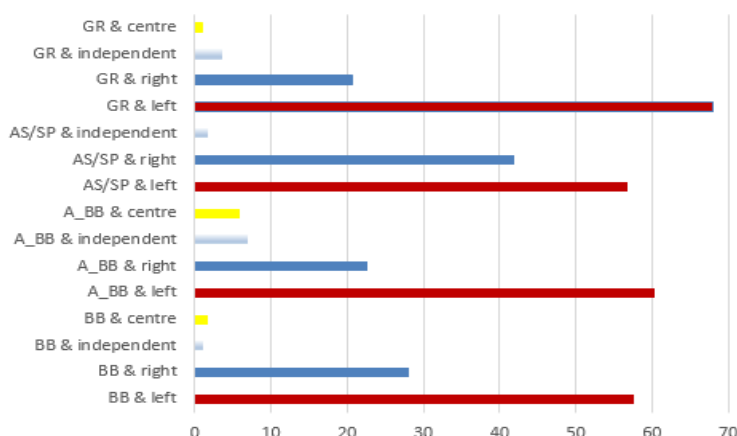


Figure 4 - The number of years in which different governments were in power since the emerging of national states (right, left, independent and center parties)

Source: My own calculations

Gerner et al. (1995) affirmed unequivocally the superiority of Western Christendom. In contrast, the Eastern Orthodoxy and the state were inimical to progress due to religious dogma which was conservative and blocked many civil and individual initiatives. The West was superior due to a greater accent put to “the Catholic invention of and subsequent belief in purgatory [that] stimulated social differentiation, individualism and the concept of citizen.” (Bågenholm, 2005, p.10) The isolation of the Orthodox Europe generated important steps behind the so-named revolutions in Western realms, like the Renaissance or the Enlightenment, which pushed those countries to new trajectories, such as capitalism and liberal democracy. The superiority of the Catholic tradition and legacy are to be found around 1600 years behind. (Gerner, Hedlund et al, 1995, p.108)

A clear definitions of holistic and extended realms are given by Zweynert and Goldschmidt (2005). According to them, the first concept, the holistic society, is a rational, omniscient and self-sufficient social, political and economic structure. Therefore, it “is characterized by an ideology or religion that claims validity for all spheres of action and thought. Hence, whatever the individual does, he or she will do it in a way that does not violate general binding moral prescripts, imposed by a superior authority and learned in the course of socialization. In a society where general binding moral prescripts govern men’s conduct, there will not be much

functional differentiation. Functional differentiation means that people act according to an economic, i.e. capitalistic logic, when buying and selling things, to a political logic, when searching for solutions to political problems, to a juridical logic when judging a crime and so on.” (Zweynert and Goldschmidt, 2005, pp.8-9) In this societal pattern, the resistance to change is hard to made, it is considered as an enemy from outside. Hence, the structural transformation with a new external institutional patterns (for instance, formal institutions) are seen as inimical elements, creating a powerful bridge and, further, conflict between what are called “inside morals” and inferior or decrepit “external morals”.

In all holistic societies, the elements which are the foundation of the most complex Western civilizations (for instance, social differentiation) are removed and, instead, personalized trust became the fundamental basis. (Zweynert and Goldschmidt, 2005, p.12,19)

The much more complex one, called the extended order, characterized the Western civilization since the Middle Ages and “there is no sole generally binding logic according to which the system is organized, but a multitude of competing rationalities. The functioning of an extended order does not rest on “common concrete ends” (Hayek 1988, 64), but on highly formal and abstract rules. Extended societies are composed of different subsystems, functioning according to their own kind of rationality.” (Zweynert and Goldschmidt, 2005, pp.8-9) It is considered that the competition between social classes, a symbolic fight which challenged the absolutist power, through the mediation of liberalism, created this kind of extended order. “Both democracy and the exchange economy are prime examples of spontaneous, self-organizing systems interacting within the framework of a spontaneous total system.” (Zweynert and Goldschmidt, 2005, p.10)

Some scholars, referring to the particular case, Russia, put it clearer. Some said that in that society there was no competition between the mundane power and the religious one like in Western Christianity. In Russia, the differentiation processes underlying Western civilization were stifled due to an omnipotent state and a holist Orthodoxy. Therefore, the Russian secular culture, powerfully influenced by a holist Orthodoxy, was contradicted by the rationalistic Western realm that there could be two-sided behaviors of each person, one in which he could act as a believer and another one as a person imbued with mundane functions and duties. (Zweynert and Goldschmidt, 2005, pp.16-17) The failure of implementing free-market economic reforms in such a society was generated by such status-quo, only in rare cases the result was Frankenstein-type-of-hybrids between holistic and extended complex systems. (Zweynert and Goldschmidt, 2005, pp.17-18) Milan Kundera expresses more laconic in his essay “The Tragedy of Central Europe” this split: “Geographic Europe (extending from the Atlantic to the Ural Mountains) was always divided into two halves which evolved separately: one tied to ancient Rome and the Catholic Church, the other anchored in Byzantium and the Orthodox Church. After 1945, the border between the two Europes shifted several hundred kilometers to the west, and several nations that had always considered themselves to be Western woke up to discover that they were now in the East.” (Kundera, 1984, p.1)

It is considered that the incapacity of the Orthodox countries to implement higher complex patterns is due to incongruity between informal and formal institutions between holistic and extended orders. “As formal and informal institutions are mutually connected, the imported formal institutions clearly stimulated the development of ‘fitting’ informal institutional arrangements. But as the original setting of informal institutions in the Orthodox countries was significantly less compatible with the imported Western institutions than it was in the ‘Latin’ ones, the process of acculturation took more time, and the tensions between formal and informal settings as well as the division of society into advocates and opponents of the modernization process were significantly stronger.” (Zweynert and Goldschmidt, 2005, pp.20-21)

The Ottoman legacies which may have influenced the Balkans are also interested to be analysed further. (Diamandouros and Larabee, 2000, p.29) In conclusion, “According to advocates of this perspective, when a country has a culture that is assumed to be detrimental to the development of a market economy and democracy, the prospects for turning the tables have been considered to be very difficult, since culture and mentality neither change very easily nor quickly.” (Gerner, Hedlund et al, 1995, p.106) Also, a historic past with no democratic institutions and subsequent know-how highly handicapped those countries which had to make a radical transformation. (Bova, 1993, pp.257-258)

Another closed perspective is emphasized by Simeon Djankov (2016) who made it clear that those countries which experienced the Austro-Hungarian Empire’s tutelage in the 19th century remained attached to the European values under the communist rule and it was extremely easy to accommodate with these values when the transition to Western economic model was a must. It wasn’t that easy for those countries which, instead, experienced the Ottoman or Russian influences, therefore they were inimical or, at least, inorganic to democracy. (Djankov, 2016, p.4)

Fidrmuc (2003) considered that democracy is not enough to generate superior economic growth, but is a strong stimulus for economic liberalization, which, in turn, stimulates the process of economic development.

(Fidrmuc, 2003, p.601).

Juan Linz and Alfred Stepan (1996) dealt with a striking theory according to which the more repressive a Communist regime was, the poorer (in terms of success in implementing reforms) the transition processes were. The solution was a compromise between the old elite and the new one. The success of such a solution depended on how strong the old elite played in the new status-quo. (Linz and Stepan, 1996, pp.12-13) Therefore, “the conclusion is that only in the countries in which the democratic forces clearly dominated the transition process, was there a clear break with the past and a successful democratization, while countries in which undemocratic forces, i.e. the old regime dominated, resulted in continued dictatorships.” (Bågenholm, 2005, p.13)

Maybe all these ideas may explain the slow progress in terms of political competition and democratic transformations.

Polity2Index measures the degree by which a country is more an autocracy (scores between -10 to -6), an anocracy (-5 to +5) and a true democracy (+6- to 10). The BB countries made the transformation in a very obvious way. They recorded scores better than 8 and, therefore, are categorized as democracies. More, almost all are consolidated democracies. The A_BB countries experienced a very different situation. Macedonia, Bulgaria and Albania are considered democracies, but not consolidated ones. Russia is an anocracy, characterized by political instability, structural vulnerabilities and ineffectiveness. The overall trend is very irregular and, after some improvements that may have generated an increasing level of democracy, some ‘critical junctures’ altered this trajectory. For instance, in the mid ‘90s of last century, Albania experienced periods of civil disorder and high violence – the Albanian Rebellion recorded more than 2000 deaths – which put an end to the positive democracy process already started some years ago.

For AS/SP countries, the process of consolidating democracy was successful, all three countries are de-facto democracies, with Hungary and Slovenia as consolidated ones, and Croatia with almost the same trend (score 9 out of 10). Croatia experienced an important period of instability, a social crisis due to the Croatian War of Independence that ended at the end of 1995, but recorded one of the highest progress to regain the democratic values and institutions.

The GR countries experienced no regularities regarding the democratic progress and transformations. Many of them are considered autocracies (Azerbaijan) and anocracies (Armenia, Ukraine and Bosnia). Georgia, Romania (the highest level!), Moldova, Serbia and Montenegro are the only real democracies among the GR cluster, but none is considered a consolidated democracy.

Herfindahl Index Government is a measure for political competition between parties, its scores range between 0 and 1. If the scores are closed to 0, this means perfect political competition and this situation is highly desirable. In our case, BB countries recorded the highest level of political competition, only Poland has a poorer situation and, far away, also Latvia (scores of 0.79 and 0.59). Slovakia is the champion regarding this variable. All countries, except Poland, followed since the early ‘90s of last century, better political competition than their counterparts. The A_BB countries, except Russia, since ‘90s of last century had almost a similar trend, from no political competition to some improvements. The GR countries experienced a very irregular political transformation, some countries recorded dissolution of parliament’s liberty (a very low progress in Azerbaijan), some a very narrow improvement (Montenegro and Serbia), while some others experienced general improvements (Romania, Moldova, Bosnia, Ukraine and Armenia). Georgia witnessed an important fall regarding the political competition since 1990.

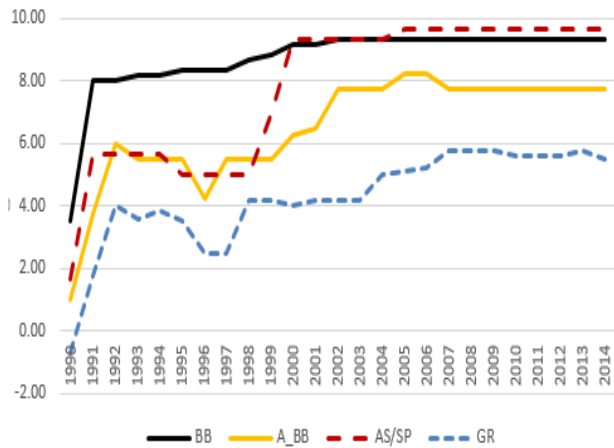


Figure 5 - Polity2 Index
Source: Polity IV Project

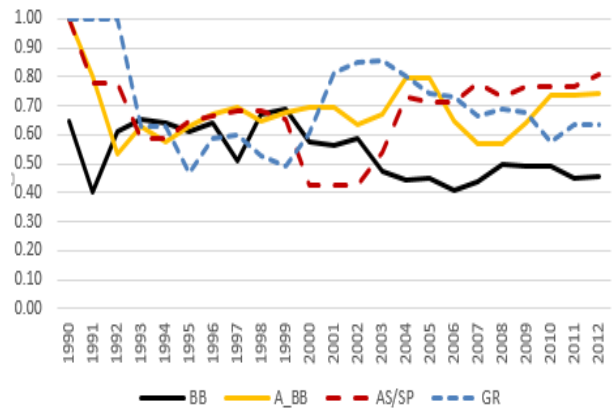


Figure 6 - Herfindahl Index Government
Source: Herfindahl Index of Parties Sharing in Government, 1990 – 2012

While the modernization theory was unable to explain why some countries succeeded to implement democracy and others didn't, the new transition theorists put in forefront the universal symbolism of democracy. In other words, they claimed that democracy could be installed everywhere only and if only a democratic political apparatus pre-existed and had the will to implement such a perspective. (Shin, 1994, p.139)

IV. THE POSTCOMMUNIST TRANSFORMATION IN FIGURES

Freedom of Corruption. The countries present some regularities and a common perspective regarding corruption. We can emphasize a convergence in time since 1995. The black countries and the red-dotted ones have the lowest corruption index. Black countries recorded an increase of corruption between 1995-2014 (Czech Republic, Latvia, and Slovakia). The highest anti-corruption progress was in Slovenia and Estonia. The yellow countries obtained important improvements, but the overall average is below the black countries and red-dotted ones. The same case happened in blue countries, except Armenia. Georgia made the highest progress fighting against corruption.

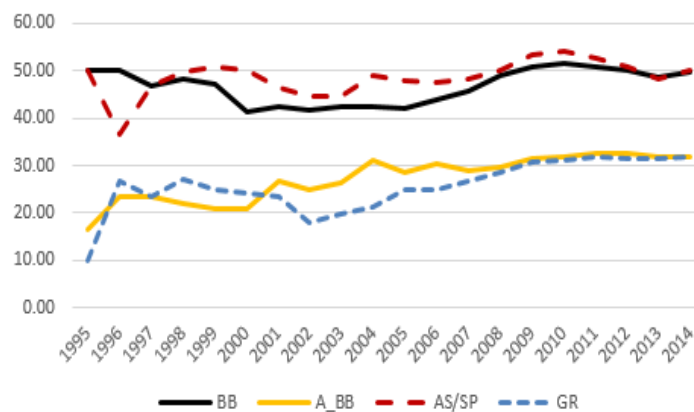


Figure 9 - Freedom of Corruption
Source: The Heritage Foundation

Foreign Direct Investment, net inflows (% of GDP). There is a positive trend regarding net inflows of FDI since 1990. The BB countries experienced irregular increase trend, but since the mid-2000s they experienced a decline of FDI net inflows (in 2013, less than 5% of GDP). The A_BB countries had an overall increased trend (Bulgaria with the highest progress between 2000 and 2008, when FDI started to drop due to the world crisis effects), but still a modest performance. The GR countries had an increased trend of FDI net inflows (very homogeneous trajectory), but since 2007 they followed a dramatic fall. In the case of AS/SP countries, Slovenia made some progress between 1995 and 2002, but had a negative trend since 2012; Croatia made some good progress, but irregular.

Overall, all these countries witnessed a drop of FDI net inflows since 2008, in 2013 the level was almost the same like in 1995.

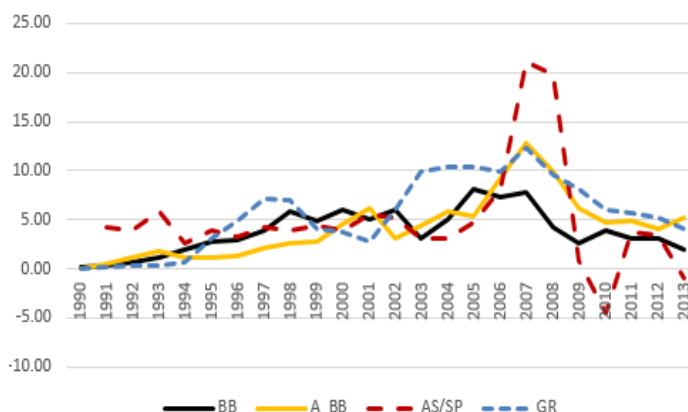


Figure 10 - Foreign Direct Investment, net inflows (% of GDP)

Source: World Bank Data

Some considered that a positive relationship between liberalization and economic growth and a negative one with inflation (De Melo et al. 1996) is a fact. Berg et al. (1999) stressed that the decrease of GDP after the fall of communism was attributable to the initial conditions and to a high proportion of instability in the economies. They found an overall positive relationship between liberalization and economic growth, although the contraction of public sector was overwhelmed by the increase of the private one.

Exports – Imports (% of GDP). The GR countries experienced the lowest levels for this variable, for many of them (Moldova, Armenia) the trend is descendent, meaning that or exports are diminishing relating to imports, or the imports are growing faster relating to exports (maybe because of lost markets, restructuring economic policies, transition difficulties etc.). The A_BB countries had a divergent trend, some experienced a decline (Albania), some an increase (Russia and Bulgaria). The BB countries had a stable trend, linear, almost the same situation in 2014 like in the 1990s. All countries, except Latvia, had, by the end of period, positive values for exports minus imports variable.

The AS/SP countries had a homogenous and increased trend, all countries had, by the end of period, positive values for this variable. I found almost a similar evolution like the BB countries (an exception, Latvia with negative variables), this fact demonstrates the effect of early liberalization, openness and privatization took there.

Openness [trade (exports+imports), % of GDP]. In the early 1990, there was a very heterogeneous trend. Overall, a positive trend is recorded since 1990 until 2013. In 1990s, most of the countries recorded an openness between 40-100% of GDP. In 2013, about half of them recorded openness more than 100% of GDP.

The BB countries followed an increased trend (Slovakia performed the best, 180% of GDP), the same happened to AS/SP countries (Hungary performed the best (170% of GDP). The A_BB countries had an increased trend, with poor performance for Russia, while the best performance for Macedonia and Bulgaria.

The GR countries made some improvements. Romania, Ukraine and Serbia recorded good improvements, while Armenia, Azerbaijan and Bosnia regressed.

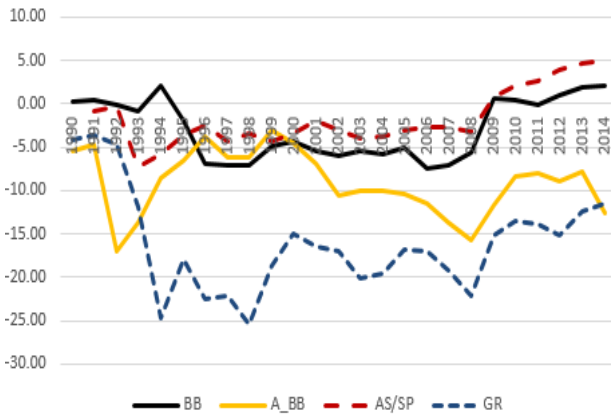


Figure 11 - Exports minus imports (% of GDP)
Source: Own calculus based on World Bank Data

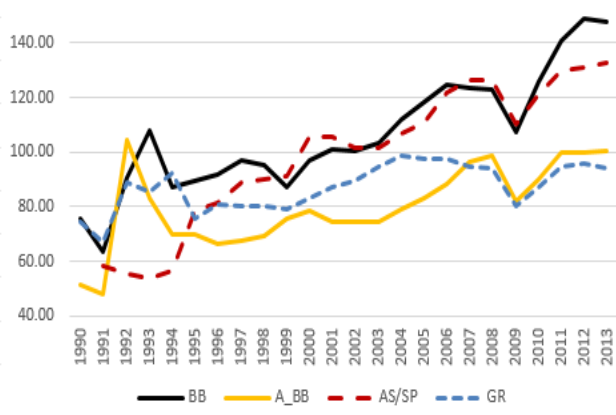


Figure 12 - Openness (% of GDP)
Source: World Bank Data

The above figures demonstrates the overall superior performance of the black and red-dotted countries in terms of trade liberalization and integration in regional and global commerce.

Regarding the living standards, life expectancy and internet users, some statistics are interesting to emphasize.

Fertility. The trend is decreasing for all groups of countries. All the BB countries have a decreased trend, a very homogenous group. The A_BB countries are more heterogenous, but all decreased in the analysed period, some experienced first a decrease then an increase, in 2013 they recorded levels almost the same like in 1990 (Russia or Bulgaria). In the group of AS/SP countries, Croatia had in 2013 the same levels like in 1990, Hungary followed a decreased trend, while Slovenia marked an increase. The GR countries experienced a decreased trend.

Mortality. An overall decreased trend. In 1990s, the highest rates were recorded by the GR countries (outlier: Azerbaijan), then the S_BB countries (Albania, Macedonia). The lowest levels were experienced by AS/SP countries (the lowest levels in Slovenia and Croatia), followed by BB countries (for example, Czech Republic). During the period prior to 2013, the AS/SP countries continued to decrease to the lowest rates, also BB countries and some GR ones (Serbia, Montenegro). The highest progress was done by GR countries.

Life expectancy. Overall, an increased trend, the highest rates in 2013 were observed in the case of Slovenia, Czech Republic and Albania, while the lowest ones for Moldova. Bosnia was one of the champions, recording an increase from 67 years in 1990 to 76 years in 2013! BB countries and AS/SP ones experienced an increased trend, superior in terms of years to other countries. Also, they experienced superior starting values for this variable. The A_BB countries are heterogeneous in their evolution, the life expectancy are increasing over time, more in the case of Albania and Macedonia. The GR countries experienced an overall increase, while the differences between countries are the highest.

Internet users (per 100 people). Here, I found extremely interesting results. In the early 1990s, there was none or extremely low number of internet users. Since the middle of the 1990s, the number of internet users started to increase. The highest increase are recorded by the black countries, also today. Very close to this evolution are the red-dotted countries. Overall, these two categories of countries grew the fastest and the highest (especially the black ones, Estonia, Slovakia and Latvia). The yellow countries record an increasing trend, higher than the blue countries one. The yellow countries are the third in the ranking, superior only to blue countries regarding the number of internet users (per 100 people).

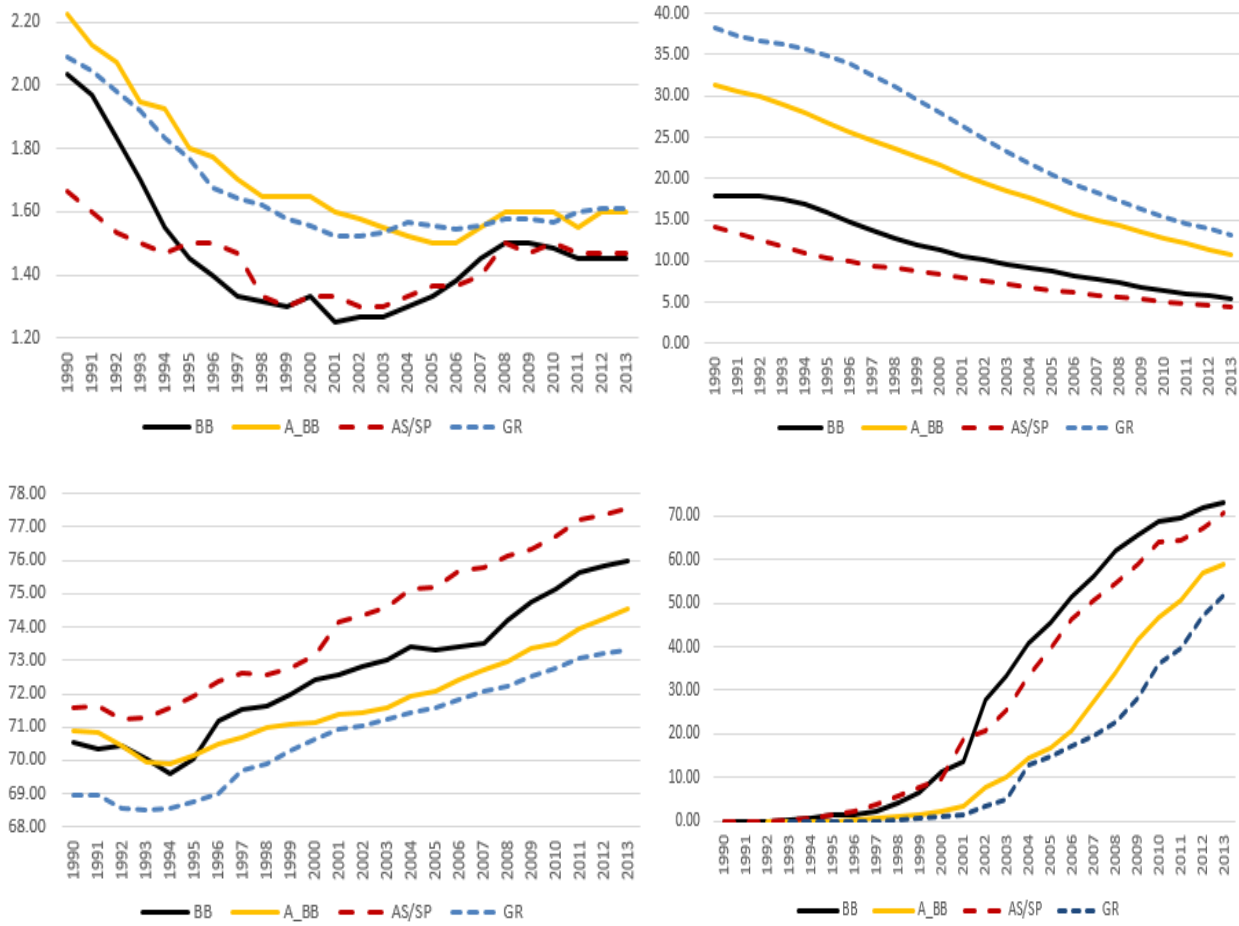


Figure 13 - Fertility rate, total (births per woman); Mortality rate, under-5 (per 1,000 live births); Life expectancy at birth, total (years); Internet users (per 100 people)

Source: The World Bank

In terms of economic transformations, several variables are important clues to demonstrate our main ideas.

After a period of market reforms (1994-1996), it followed one with turmoil and recovery (1997-2001), then a boom in economic growth rates (2002-2007), unhealthy as it was proved because it were fueled by external borrowing that stimulated the unproductive consumption which deteriorated the current account deficits. (Roaf, Atoyan et al, 2014, pp.37-38)

GDP growth (yearly %). The BB countries followed an increased trend since 1990, while in 2007-2008, the crisis dropped the GDP growth dramatically. The AS/SP countries had a homogeneous pattern, Hungary experienced a positive trend of GDP growth, Slovenia an overall steady trend, and Croatia had a decreased trend over time. Since 2007, a dramatic fall of GDP growth rates happened for all. The GR countries were very homogeneous (except Bosnia in the '90s), with an increased trend in the '90s until the starting of 2000. 2008 is the year when the growth rates became negative. The starting point of A_BB countries were more heterogeneous than other countries, the trend was increasing until the start of 2000s. Again, 2008 is a decreased critical point, but the magnitude of the phenomenon is the weakest, some A_BB countries continued to have positive economic growth (for instance, Albania).

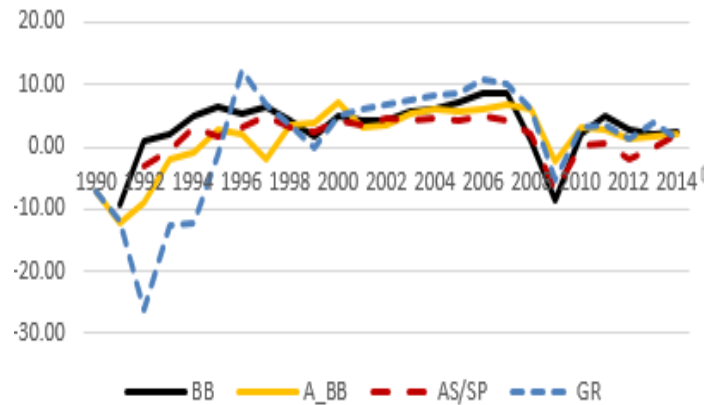


Figure 7 - GDP growth (yearly %)

Source: World Bank Data

Since 1990, the growth rate inequalities increased. The evolution was positive, but the levels were very diverse. The highest GDP per capita values were in Slovenia and Czech Republic. The BB countries and the AS/SP ones had the highest values. The A_BB countries were very heterogeneous (Russia was the positive exception, it competed with the BB and AS/SP countries), while the GR countries followed the same pattern. It is clear that the levels of incomes increased in very different rhythms, the inequalities between countries in terms of GDP per capita evolution increased over time.

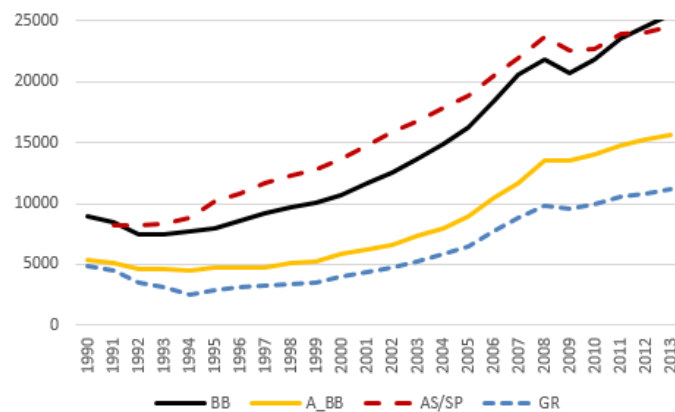


Figure 8. GDP per capita (current US\$)

Source: World Bank Data

Domestic credit for private sector (% of GDP). I chose this indicator because it signals the evolution of the private sector in the overall economy. It also means that financial resources (for example, loans and non-equity securities) are transferred to the private sector through the banks and other financial institutions. The effect of transfer is a higher propensity for investment in private businesses which may boost the economy, which may generate higher prosperity in terms of GDP per capita and job creation.

All countries experienced, overall, an increased trend, with BB countries and AS/SP ones being the champions, but also important improvements for some GR countries (Armenia, Georgia, Serbia, Romania, Montenegro and Ukraine) and A_BB ones (Russia and Albania).

At the beginning of the '90s, all BB countries and AS/SP ones recorded the highest level of domestic credit for private sector, also some A_BB countries (Bulgaria, Macedonia). The GR countries recorded the lowest domestic credit for private sector (% of GDP). After 2000-2002, the GR countries experienced important increases; also the A_BB ones, the AS/SP and the BB ones.

After 2008, most of the countries experienced a decrease due to the effect of the financial crisis, banks stopped lending in such conditions. Other countries increased: Czech Republic, Poland, Macedonia, Russia, Croatia, Moldova, Georgia, Armenia, and Azerbaijan (highest).

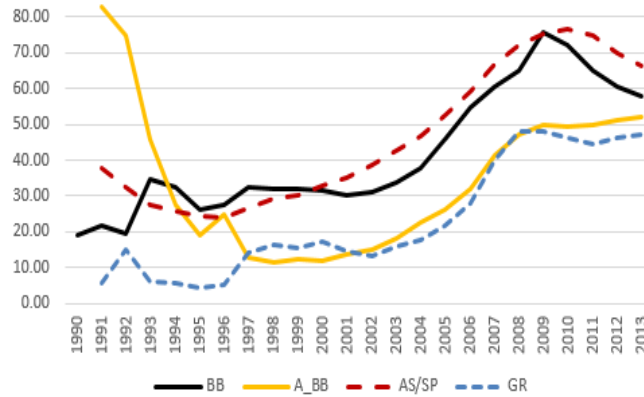


Figure 14 - Domestic credit for private sector (% of GDP)
Source: World Bank Data

Gross savings (% of GDP). The A_BB countries were very homogeneous, while the GR ones were the most heterogeneous. Also, the BB countries and AS/SP ones converged very interesting to an average of more than 20% of GDP. Overall, the GR countries had the lowest rate of gross savings (% of GDP) by the end of 2013. The A_BB countries were converging towards 2013 to almost 25% of GDP, the highest among all groups of countries, while, since the 1990s, they followed a divergent pattern, with big irregularities.

Gross public debt (% of GDP). The post-communist transformation that started after 1989 reflected different degrees of etatism. Some countries recorded in the first years of 1990s low percentages of public debts (Romania), while other countries higher ones (Bulgaria, Hungary or Russia). Until the end of 2011, there was a convergence of public debts, almost all countries recorded public debts no more than 40% of GDP, except for the red-dotted countries (almost 60%). Hungary is an outlier (80.6% of GDP in 2011), while Estonia had the lowest gross public debt (6% of its GDP in the same year).

The most regular and homogeneous convergence of gross public debt was among the GR countries (in 2011, all had public debts lower than 40% of GDP). The A_BB countries in 2011 had public debts under 40% of GDP, also the black ones.

Year 2008 was the starting point for public debt increasing process because of the world crisis, the state begun to expand, due to Keynesian therapeutics/policies.

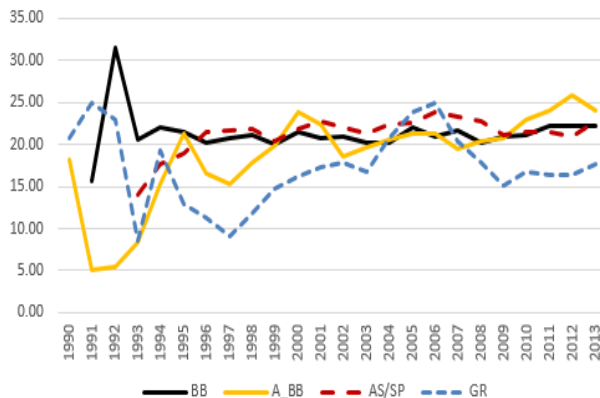


Figure 15 - Gross savings (% of GDP)
Source: World Bank Data

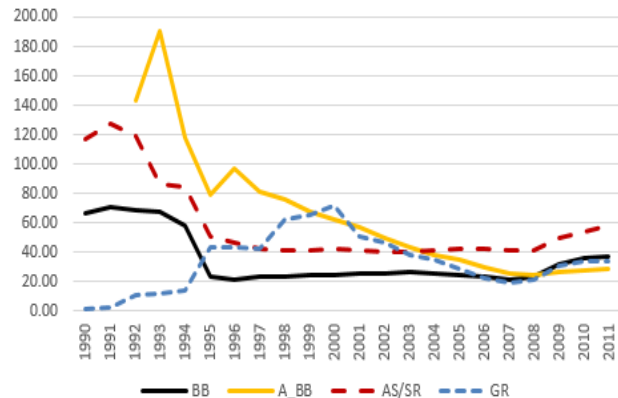


Figure 16 - Gross public debt (% of GDP)
Source: World Bank Data

The evolution of gross savings (% of GDP) and gross public debt (% of GDP) may argue the fact that, in emerging economies, the reduction of state's debt may increase the savings. Our case studies validate such an assumption, although in an inverse perspective than the one developed by Feldstein. (Feldstein, 1976, pp.331-336)

Index of Property Rights. The BB countries recorded an overall level that is the highest among all other countries. But, except Estonia, who developed since 1995 the property rights and guaranteed them the most, the rest experienced a steady trend with some minor improvements for Poland.

The general trend for A_BB countries is a decrease of property rights index since 1995. Macedonia recorded the only improvement. The other countries are homogeneous about the decreasing trend. Russia

recorded the highest decline of property rights index.

The AS/SP countries were very irregular. Slovenia has a high increase of property right index since 1995, while Hungary and Croatia followed a drop of it.

The GR countries experience a drop (Moldova, Armenia and Azerbaijan), an increase of the index (Romania, Georgia, Montenegro) and a steady trend (Ukraine, Serbia). Overall, the GR countries are below the BB and AS/SP countries and almost similar with the A_BB ones.

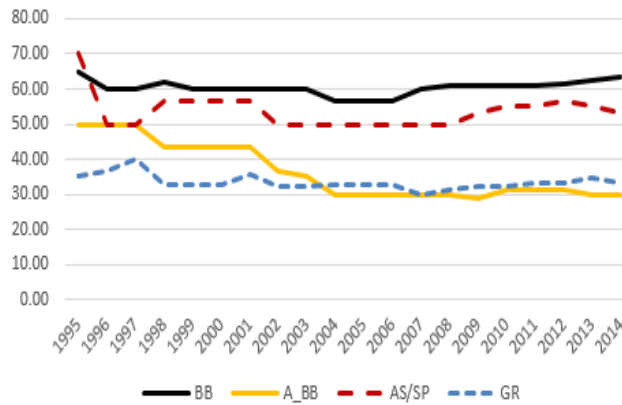


Figure 17 - Index of Property Rights
Source: The Heritage Foundation

Economic Freedom. The countries followed an increasing trend, it means that they were inspired by liberal policies in different degrees. The BB countries obtained the best scores for economic freedom, the trend is increasing since 1995, with good homogeneity. The Baltic countries, Estonia and Lithuania, plus the Czech Republic experienced the highest economic freedom indexes.

The same trend was developed by the A_BB countries, the increased trend is obvious for all countries, except for Russia (steady state). Overall, the performance is below the average of BB countries. The same increased evolution for economic freedom is for AS/SP countries, but lower than the BB countries and superior to A_BB and GR countries.

The GR countries had the most unbalanced situation, with the most striking extremes. On one hand, Ukraine with the poorest economic freedom, on the other hand, Georgia, who was ranked third, after Estonia and Lithuania, especially after the mid-2000s, under President Saakashvili, after the 2003 Rose Revolution. This group of countries is the least homogeneous among all other ones, but the trend is clear: since 1995, all countries improved their indexes of economic freedom, but with different intensities.

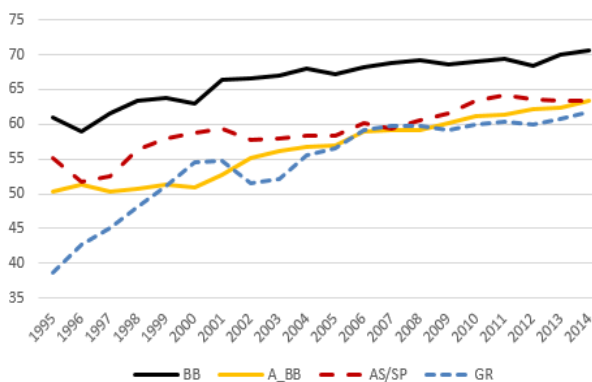


Figure 18 - Index of Economic Freedom
Source: The Heritage Foundation

Pejovich emphasized that “the success of capitalism in protecting individual rights and producing sustainable economic growth would create incentives for pathfinders to move the prevailing cultural values in C&EE closer to a culture supportive of capitalism.” (Svetozar, 2006, p.252)

V. CONCLUSION

Using 22 post-communist countries, we grouped them in four distinct clusters. One group implemented sustained Big-Bang reforms (Lithuania, Latvia, Estonia, Poland, Czech Republic and Slovakia); a group aborted these Big-Bang reforms (Russia, Albania, Macedonia and Bulgaria); a group applied an advance start/steady progress (Croatia, Hungary and Slovenia); the last group used a gradualist approach (Romania, Ukraine, Armenia, Georgia, Azerbaijan, Moldova, Bosnia-Herzegovina, Montenegro and Serbia).

The transformation of Central and Eastern European post-communist countries was difficult. The speed of this transformation was uneven represented. The mainstream theory makes a clear distinction between shock-therapy versus gradualist approaches of transition. It is considered that those countries (Poland, Czech Republic, Slovakia, the Baltic countries) who experienced a Big-Bang start, although facing numerous economic and social difficulties, had the most successful transition to free-market economic system. We demonstrate this statement using several economic, political and social variables for which we use relevant data. Also, the average EBRD reform indexes for the period 1992-2014 demonstrated that BB countries obtained the best scores for the transition.

We wanted to know what the main ingredient was for successfully adopt and implement this set of reforms. The explanation for this so-called “post-communist divergence” between BB and, partially, AS/SP clusters and the rest of countries is difficult to offer. Especially a universally valid and unequivocal one. The communist heritage or geography are the most cited inputs that influenced the transformation process.

We go deeper with understanding this structural process by using a “holistic versus extended order” model and demonstrate that BB and some AS/SP countries, at the proximity with the eastern border of Western realm, experienced the contagion of the extended society’s model, very compatible with the free-market economic system. The rest of countries that had a more difficult transition and still are in cloudy waters pay their tribute to a historical-impregnated-holistic-institutions, reluctant and even inimical to the external-Western-imported-formal institutions, needed to a full transition to a new state of being.

The shock-therapy adherents succeeded greatly than other doctrinal approaches (gradualism or intermediary ones) due to this belongingness to a higher order. The political legacy since the emergence of national states, usually around 1918, confirmed the geographical and ideological proximity with the Western border.

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