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ASSESSMENT OF TRANSITION IN THE YUGOSLAV SUCCESSOR STATES

ПРОЦЈЕНА ТРАНЗИЦИЈЕ У ДРЖАВАМА НАСЉЕДНИЦАМА ЈУГОСЛАВИЈЕ

Summary: *This paper will assess the results of transition in the Yugoslav successor states using objective and subjective criteria. Four objective criteria related to economic growth will be used to compare economic performance in Yugoslavia and its successor states; 1. Speed of recovery after war/change in system, 2. Absolute growth rates, 3. Relative growth rates, 4. Place in world development. This will be supplemented by a survey of public opinion conducted by the European Bank for Reconstruction and Development.*

All the four objective criteria show that the Yugoslav economy performed much better than the economies of its successor states. The survey shows that only 20 percent of population are happy with the results of transition in South Eastern European countries, while 64 percent are unhappy and 16 percent are undecided. In the former Yugoslavia much less than 20 percent of population are happy with the changes brought by the transition.

Key words: *Transition, Objective assessment of transition, Subjective assessment of transition, Absolute Growth Rates, Relative Growth Rates.*

JEL Classification: *E 60, F 31*

Резиме: *Овај рад има за циљ да оцијени уз помоћ објективних и субјективних критерија резултате транзиције у државама насљедницама Југославије. За поређење економских резултата у Југославији и државама њеним насљедницама биће кориштена четири објективна критеријума који се односе на економски раст: 1. брзина опоравка након рата/промене у систему, 2. апсолутне стопе раста, 3. релативне стопе раста, 4. мјесто у свијету у погледу развоја. Допуна овоме ће бити истраживање јавног мишљења које је провела Европска банка за обнову и развој.*

Сва четири објективна критерија указују на то да је југословенска привреда имала много боље економске резултате него што их имају привреде њених држава насљедница. Истраживање показује да је само 20 посто становништва задовољно са резултатима транзиције у земљама југоисточне Европе, док је 64 посто незадовољно, а неодлучних је 16 посто. У бившој Југославији много мање од 20 посто становништва је задовољно са променама насталим услед транзиције.

Кључне ријечи: *транзиција, објективна процјена транзиције, субјективна процјена транзиције, апсолутне стопе раста, релативне стопе раста.*

ЈЕЛ класификација: *E 60, F 31*

1. INTRODUCTION

It has been two decades since the collapse of communism in Eastern Europe. This seems to be a sufficiently long period of time to enable an assessment of the transition process from a command to a free market economy. It will inevitably require a comparison between young market economies and *the ancient regime*.

A complex analysis between the two systems would be a paramount intellectual exercise. Only in economic sphere it would include the following: a thorough analysis of the major macroeconomic objectives namely economic growth, unemployment, inflation and exchange rates, external balances and external debt; the structure of economy, its efficiency,

distribution of income, level of wages, the standard of living, the quality of life, macroeconomic and microeconomic policies etc. Outside of economic sphere it would require philosophical, sociological, legal and cultural comparisons of the two systems, level of freedom, stability and many other complex aspects of life. Such a project would need years of research and almost certainly would require a team of experts to cover multitude facets of the two systems.

The pillar of this work will revolve around a comparative analysis of economic growth in the first two decades in Yugoslavia and the Yugoslav successor states. Although narrow and limited this aspect of economic performance can shed some light in comparing the achievements of the two systems in the first two decades of their existence. For economic growth, expressed in a percentage increase in GDP, eventually materialises in a higher level of development and the higher standard of living. It is therefore generally assumed, *ceteris paribus*, that in the long run the system which generates high growth rates is economically more successful than systems which produce low growth rates.

The work is consisted of three parts. The first section compares economic growth in Yugoslavia and the Yugoslav successor states in the first two decades of their existence. For this purpose four criteria will be used: 1. Speed of recovery/reconstruction after wars/change in the system, 2. Absolute levels of growth rates, 3. Relative levels of growth rates, compared with other countries in the same period, 4. Relative place of Yugoslavia and its successor states on the world development list.

The second section is allocated to problems which arise in dealing with facts in economic analysis. Those problems could be classified into four categories: 1. Intentional omissions and neglect of relevant objective criteria and facts, 2. Ideological bias in interpretation of facts, 3. Different interpretation of the same facts related to the same objective criteria usually caused by difference in the system value and 4. Use of different objective criteria in drawing theoretical and practical conclusions.

The third section is devoted to subjective assessments of the achievements of Yugoslavia and its successor states. The subjective assessment of the achievements in Yugoslavia will be derived from the opinions of two famous Yugoslav economists. The achievements of the Yugoslav successor states will be derived from the view of general public, based on a survey conducted by the European Bank for Reconstruction and Development.

2. COMPARISON BETWEEN ECONOMIC GROWTH IN YUGOSLAVIA AND THE YUGOSLAV SUCCESSOR

2.1. States using Objective Criteria

Economic growth in Yugoslavia and its successor states will be compared by using four criteria: a). Speed of reconstruction/recovery after wars, b). Absolute growth rates in real GDP, c). Relative growth rates in GDP and d). Place in the world development ranking.

2.2.1. Speed of Recovery after War

Yugoslavia recovered its economy less than two years after the end of the Second World War. In 1947 Social product was 20% higher than in 1939. This was the fastest recovery in the world. (Bicanic Rudolf 1973: p38).

Slovenia, which experienced 10-days war reached the level of GDP per capita in 1989 only in 1998. Croatia's GDP per capita was at the pre-war level in 2005, ten years after the war ended. FYROM, which did not experience war at all, reached the 1989 GDP per capita only in 2008.

The other three Yugoslav successor states have not yet reached the 1989 level of GDP per capita. In 2008 GDP per capita in Bosnia and Herzegovina, Montenegro and Serbia was at 84%, 90% and 72% of the 1989 level respectively. (The European Bank for Reconstruction and Development Transition Report 2008: p109, 117, 125, 177 and 185).

2.2.2. Absolute Growth Rates in Real GDP

Yugoslavia experienced a vigorous growth in the first 20 years after the Second World War. Expansion of the Yugoslav economy was particularly strong between 1952 and 1964, when social product (similar to GDP) grew at an average rate of 9.6%. (Moore John 1980: p60).

From 2000 until 2008, when the economies of the Yugoslav successor states experienced economic expansion, GDP per capita grew at an average rate of 6% in Bosnia and Herzegovina, 5.9% in Serbia, 4.8% in Montenegro, 4.6% in Croatia, 4.4% in Slovenia and 4.3% in FYROM. (EBRD Transition Report 2008: p109, 117, 125, 177 and 185).

Comparing growth rates in Yugoslavia and its successor states leads to a conclusion that Yugoslavia had 60% higher growth rate than Bosnia and Herzegovina and Serbia and more than a double growth rate than its other four former republics.

When comparing absolute growth rates in real GDP per capita one needs to take into account two things. First, Yugoslavia started from a lower level of development. Countries at a lower level of development do not achieve high growth rates at the beginning of development. This is because an undeveloped country requires infrastructure. Building infrastructure calls for high investment with a high capital-output ratio. Investments do not bring high growth rates until gestation period is over. But once infrastructure is completed country with a low GDP per capita will easier achieve high growth rates than a country with a higher level of development. This is because of economies of scale and increasing returns on capital especially when new products are launched.

Second, Yugoslavia had better economic environment than its successor states. Financial crisis in 1997 and the current world recession did not have equivalents after the Second World War. The world economy enjoyed an unprecedented prosperity. It grew at an average rate of 5.6% per annum while world trade expanded at an even higher rate of 7.3%. In such an environment, with open goods and financial markets it is easier to achieve higher growth rates. This is why comparison of growth rates relative to the growth rates of other countries might be more adequate.

2.2.3. Relative Growth Rates in Real GDP

From 1952 until 1964 the Yugoslav economy grew at an average rate of 9.6% .This was one of the highest growth rates in the world. Only Japan, with a growth rate of 11.2% and Israel, with a growth rate of 9.8% fared better, Romania had the same growth rate as Yugoslavia of 9.6%. This means that Yugoslavia shared third and fourth place in the world according to a growth rate in GDP. (Moore John 1980).

According to one estimate in 2006 Serbia's growth rate was at 43 place, Bosnia and Herzegovina's at 45 place, Slovenia and Croatia at 59 and 60 place respectively and FYROM at 105 place. Only Montenegro, temporarily after gaining independence, was given a third place. (Wikipedia.org/wiki/List of countries by GDP (real) growth 2010).

2.2.4. Place in the World Development Ranking

In 1947 Yugoslavia had a GDP per capita of \$200. In 1965 its GDP per capita was \$513. A GDP per capita of \$500 was considered a border line between developed and developing countries.

One needs to take into account that Yugoslavia calculated a Social product, not a GDP. The difference between the two aggregates is that the former one does not include public services. If public services are included and if adjustments in the purchasing power of money are taken into account, according to some calculations Yugoslavia's GDP per capita was \$702 in 1965. (Bicanic Rudolf 1973: p60).

In March 1962 issue The American Economic Review gave the list of almost all the countries in the world. The countries were classified into six groups. The first group was consisted of G7 countries: USA, Japan, Canada, United Kingdom, France, West Germany and Italy. The second group, named 'developed economies', had 17 countries. Switzerland and Sweden were on the top of the list. Yugoslavia was ranked 15 in this group. (The American Economic Review, Volume 52, Issue 1, March 1962).

The list was followed by four other groups of developing countries. It did not include Eastern European communist countries. Among them, East Germany, Czechoslovakia and probably Soviet Union were more developed than Yugoslavia.

This means that in the first half of the 1960's Yugoslavia found herself near the bottom of the list of developed countries, being ranked among 25-26 richest countries in the world.

Among the Yugoslav successor states only Slovenia is considered a developed country. It is grouped together with the Czech Republic and Poland as one of the former communist countries which joins the league of 18 Western developed economies. Croatia is a mixed case, with a huge potential to join the group of developed countries, but with a GDP per capita which still lags significantly behind. The other four Yugoslav successor states are classified as developing countries.

According to the IMF ranking Slovenia is 31, Croatia 49, Serbia 73, Montenegro 76, FYROM 82 and Bosnia and Herzegovina 93 on the world list of development among 181 countries.

According to The World Bank ranking Slovenia is 27, Croatia 33, Montenegro 52, Serbia 60, FYROM 69 and Bosnia and Herzegovina 73 among 164 countries.

According to CIA World Factbook Slovenia is 37, Croatia 54, Serbia 81, Montenegro 85, FYROM 89 and Bosnia and Herzegovina 106 among 192 countries. (Wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita).

3. SOME PROBLEMS IN ANALYZING OBJECTIVE CRITERIA

The German sociologist Max Weber was a proponent of value-free Sociology. He succinctly expressed his attitude towards research in sociology and other social sciences in the following two statements:

1. *"The whole understanding of the facts is halted where the scientific scholar permits the intrusion of his own value judgements"* Weber Max: 'Wissenschaft als Beruf' - Science as profession (no year of publication, city or publishing company is given), quoted from Lewis John: 'Max Weber and Value Free Sociology – A Marxist Critique' (1975), p4.

2. *"Whoever lacks the capacity to put on blinkers may as well stay away from science. Without this you have no calling for science and you should be doing something else"* Weber Max: 'Essays in Sociology' - Science as profession (no year of publication, city or publishing company is given), quoted from Lewis John: 'Max Weber and Value Free Sociology – A Marxist Critique' (1975), p5.

According to Weber a social scientist should stick to facts and objective criteria and remove personal feelings, emotions, preferences and ideological inclinations from their research. If this statement applies to Sociology than it should be even more relevant to more exact and semi-mathematical science of Economics.

Following this attitude the conclusions of the first section should be clear. Using the objective criteria everyone should come up with a definite answer that the Yugoslav economy performed much better than the economies of its successor states. However, things are not that simple. When dealing with facts and objective criteria at least four problems could arise: 1. Intentional neglect of relevant facts and objective criteria. 2. Ideological bias in choosing and interpreting facts and objective criterion/criteria 3. Different interpretation of the same facts and objective criteria and 4. Use of different facts and objective criteria to draw relevant conclusions.

3.1. Intentional neglect of relevant objective criteria and facts

A social scientist could deliberately ignore objective criteria and facts which might lead to undesirable theoretical conclusions. Subjective criteria than could replace objective criteria and facts. The famous German philosopher Friedrich Niche expressed this attitude with a short statement: "There are no facts, there are only opinions". Alternatively, relevant objective criteria could be replaced by irrelevant, but suitable objective criteria and facts in order to reach desirable theoretical conclusions.

3.2. Ideological bias in choosing and interpreting objective criteria and facts

A social scientist could choose a suitable objective criterion and apply facts in order to draw desirable conclusions. For example, an economist might compare unemployment in North Korea with unemployment in USA. As all other market economies USA has unemployment. Its government aims at reaching a NAIRU (non-accelerating inflation rate of unemployment). This rate is between 5.5% and 6%. Only rarely, such as in 1990's, during economic boom, NAIRU fell to 3.5%. It is not desirable to reduce unemployment below this level or achieve full employment because it will lead to unacceptably high level of inflation. In other words there is a trade-off between unemployment and inflation. This correlation is expressed in the so called Philips curve.

North Korea, being a centrally planned and command economy, officially does not have unemployment. Comparing rates of unemployment in the two countries ideologically biased economist might reach a ludicrous conclusion that North Korean economy performs better than the USA economy.

3.3. Different interpretation of the same facts related to the same objective criteria

In the XVII century the top 1 percent of population in Russia owned 99 percent of the nation's wealth. Two economic historians might interpret this fact in two completely different ways. One could say that Russian society in the XVII century was deeply class divided with huge differences in wealth between a rich minority and poor majority. The other one could say that the Russian society was egalitarian since a vast majority of population, 99%, owned almost equal amount of assets.

In the 1990's the top 20 percent of households in the United States owned 85 percent of marketable wealth. Conservatives would say that 20 percent of households created 85 percent of marketable wealth. (Krugman Paul 1997: p53). Different phrasing of the same fact related to the same objective criterion leads to different interpretations. The first statement suggests a huge inequality and unfairness in a distribution of marketable wealth in the United States. The second statement suggests that there is nothing unjust about the distribution of marketable wealth in the United States since the top 20 percent of households created and therefore deserved to acquire 4.25 times more assets than the rest of population.

3.4. Use of different objective criteria

Scholars use different objective criteria in order to reach theoretical and practical conclusions. In macroeconomic analysis they often revolve around four major macroeconomic objectives, namely growth, unemployment, inflation or price stability, sometimes combined with the stability of the exchange rate and external balances. These objectives can be grouped in different ways; development (growth and unemployment) and stability (rate of inflation) and internal equilibrium (growth, unemployment and inflation) and external equilibrium (external balances, i.e. the balance of payments). The four macroeconomic objectives are conflicting and achieving all of them at the same time is next to impossible to the extent that Paul Schweitzer, the first chief executive of the International Monetary Fund, called them **the magic quadrangle**. Governments and economic policy makers make priorities in targeting macroeconomic objectives.

In economic theory there is a clear difference regarding priorities in macroeconomic objectives between Keynesians on one side and neo-classical economists and monetarists on the other side. Former give priority to development, i.e. growth and unemployment while latter prefer stability, i.e. a low rate of inflation. There is a consensus between the proponents of the two doctrines that a triple-digit rate of inflation, for example, is detrimental to an overall economic performance. However, they differ when it comes to a moderate inflation. Keynesians think that a moderate inflation is beneficial to investment and growth. Some orthodox Keynesians, such as Professor Robin Marris, claim that any inflation which does not jeopardize growth and low unemployment is acceptable. (Marris Robin 1996). For monetarists and neo-classical economists, however, any inflation exceeding 3 percent is detrimental to an overall economic performance. They claim that gains to growth and unemployment from higher inflation are short-term since in the long run The Philips curve turns into the Phelps straight line. In other words short term gains from higher inflation are exhausted in the long-term, leading to even higher inflation.¹

Different approach of Keynesians and monetarists and neo-classical economists to the four major macroeconomic objectives is relevant to the assessment of relative performance of the Yugoslav economy and the economies of its successor states. Keynesians would point out a superior performance of the Yugoslav economy in terms of development, i.e. higher growth rates and correspondingly lower rate of unemployment. Monetarists and neo-classical economists would emphasize better performance of the economies of its successor states in terms of stability of prices and the stability of the exchange rate.² In spite of the fact that up to 70 percent of prices in Yugoslavia were under control she experienced higher rates of inflation even before 1980's. During the 1980's inflation rate soared turning into a hyperinflation which reached 2700 percent in 1989. The Yugoslav dinar devalued a several times before the 1980's. During the 1980's in the system of flexible exchange rates it sunk to unrecognisably low level.

Most of the Yugoslav successor states recorded single-digit rates of inflation. Serbia experienced a highest inflation of 17 percent, a negligible rise in prices in comparison with the Yugoslav hyperinflation.

Most of the Yugoslav successor states maintained the stability of the exchange rate either through the currency board, like Bosnia and Herzegovina, adopting the euro, like

¹ The Philips curve shows the relationship between unemployment and inflation. However, a modified version of the Philips curve can show the relationship between growth and inflation via a so called Okun law, named after the professor Arthur Okun. The Okun law states that an increase in growth rate of 1 percent will lead to a decrease in unemployment of 0.5 percent.

² This does not apply to external balances. Yugoslavia recorded the worst performance in external balances in 1979 when trade deficit reached 6.1 billion dollars and balance of payments deficit 3.7 billion dollars. This led to a devaluation of the dinar of 30 percent in June 1980. Deficit of the balance of payments amounted to 6 percent of GDP, a miniscule proportion in comparison with the deficits of the balance of payments of the Yugoslav successor states.

Slovenia and Montenegro, or by pegging its currency to the euro, like FYR Macedonia. Croatia, with flexible, but managed exchange rate system has also maintained the stability of its currency. The only exception is Serbia whose currency depreciated by 11 percent during the recession in 2009; again a negligible erosion of external value in comparison with the devaluations and depreciations of the Yugoslav dinar.

As the first part of the next chapter will show the use of different objective criteria is not confined to the four major economic objectives.

4. SUBJECTIVE ASSESSMENT OF ECONOMIC PERFORMANCE IN YUGOSLAVIA AND ITS SUCCESSOR STATES

Comparison between economic performance in the communist regime and transition period is relatively simple for countries like Hungary and Poland. It is one-dimensional since it involves only comparison between the two economic systems. In the case of Yugoslavia and its successor states it is more complicated. It involves two types of changes; a change in economic system and a break-up of the country in six/seven independent states.

Four hypothetical conclusions could be drawn. First, a socialist Yugoslavia was the best solution. Second, a capitalist Yugoslavia would be the best solution. Third, independent socialist successor Yugoslav states would be the best solution (for example an independent socialist republic of Croatia would be an optimal solution for the Croatian people). Fourth, independent capitalist states will produce the best results. Therefore, the following matrix could be drawn:

Table 1 – Matrix of possible solutions for the former Yugoslavia

	Yugoslavia	Independent States
Socialism	Socialist Yugoslavia	Independent Socialist States
Capitalism	Capitalist Yugoslavia	Independent Capitalist States

Here are the two assessments of the performance of the Yugoslav economy, given by two prominent Yugoslav economists. Both of them belong to the left side of the matrix. Both of them think that Yugoslavia is the best solution for its nations. However, they differ ideologically. Branko Horvat was a passionate advocate of the workers' self-management system. Ljubo Sirc has always been a sharp critic of any type of workers' participation, especially in an economy where the means of production are socially owned.

In his books 'Political Economy of Socialism' and 'ABC of the Yugoslav Socialism' Horvat calls years 1952-1964 'a golden period of the Yugoslav economy'. In 12.5 years Yugoslavia achieved such a progress for which France needed 80 and Italy 40 years. An excellent performance of the Yugoslav economy from 1952 to 1964 Horvat explains by the introduction of the workers' self-management, which according to him released enormous creative energy of employees and managers. Later retardation in growth rates was caused by suppression of self-management and re-imposition of the role of the central authorities. Instead of being promoted workers' self-management was stifled, especially after the students' demonstration in 1968 and the Croatian spring in 1971.

Horvat claims that Yugoslavia achieved a highest level of education, health service, life expectancy and the quality of life in the world relative to its level of development. (Horvat Branko 1991: p264).

Ljubo Sirc claims that experience with workers' participation in the Western European countries has shown that there is inevitable change in a distribution of income in favour of

salaries and wages at the expense of investments. This was even more pronounced in the Yugoslav socialist self-management system. Workers did not mind investment so long as they were financed from somewhere else, but not from their income.

In addition, the Yugoslav self-management system had one weakness, which it shared with the command economies in Eastern Europe. Imperfect labour market and a total absence of the capital market led to a paradoxical situation. Labour, which was abundant, was expensive. Capital, which was scarce was cheap. As a result a misallocation of resources occurred, which decreased an overall efficiency of the economy.

To illustrate his point Sirc uses a marginal capital-output ratio. Marginal capital-output ratio is a fraction between the number of additional units of capital employed to produce one unit of output. Lower the ratio more efficient an economy is. Higher the ratio, less efficient economy is. Although the Yugoslav economy was more efficient than the command economies in Eastern Europe, it was less efficient than Western economies at a similar level of development, namely Spain, Portugal and Greece. Sirc estimates a marginal capital-output ratio for Soviet Union 7:1, 5.5:1 for Yugoslavia and 3.5:1 for Greece, Portugal and Spain. This means that Yugoslavia had to invest 30-40% more capital in order to produce the same output as the three above mentioned countries. (Sirc Ljubo 1997: p13).

Transition brought significant changes in standard of living, welfare and distribution of income in East European countries. These changes have been caused mainly by three factors: 1. Sharp decline in output and GDP per capita at the beginning of transition, 2. Change in ownership structure as privatization and creation of new businesses turned overwhelmingly state-owned economies into the ones with a predominant private sector, 3. Change in economic structure with the decline in the manufacturing sector and the expansion of the service sector.

1. Most of the East European transition economies experienced a sharp fall in output at the beginning of transition. Although some decline in GDP was expected a few could predict such a dramatic contraction in economic activity with its dire consequences for the standard of living and well-being of the majority of population. In addition, war in Croatia and Bosnia and Herzegovina and severing economic links between the Yugoslav successor states further contributed to the fall in output. In spite of these SEE countries experienced a smaller fall in GDP compared to the Baltic States. In 1993 GDP in the latter was by more than 50% lower than in 1989, while in the former it fell to 68% of the level in 1989. (Economic Survey of Europe 2004: p164). However, recovery in SEE countries was slower than in the other transition economies. This was due to the prolonged conflicts in Kosovo and FRY Macedonia, the collapse of pyramidal scheme in Albania and political and economic vacuum in Bulgaria and Romania. In words of John Kenneth Galbraith, for many years one strong and imperfect system was replaced by the absence of any system. (Galbraith John Kenneth 1994: p245). As a result, absolute poverty, almost non-existent before 1989, soared.³

³ The concept of absolute poverty was introduced in the 1980's and was applied in the beginning only to poor tropical countries. It is considered that any person who has less than \$1 per day lives in absolute poverty. When later applied to SEE countries the amount was corrected upwards for two reasons. First, the population in SEE countries lives in colder climate and has therefore higher expenses for clothes and heating. Second, the level of development is higher and consequently needs and wants of the population. It is considered that any person in SEE countries who has less than \$2.15 per day lives in extreme poverty and that any person who has less than \$4.30 per day lives in poverty. Any person whose income is less than a half of an average income in a country is considered to live in relative poverty. However, the concept of relative poverty is less relevant to SEE countries.

Table 2 - Percentage of the population in South-East European transition countries living in absolute poverty using international poverty standards

Selected countries	Survey date	Per cent living in extreme poverty (\$2.15 PPP/day)	Per cent living in poverty (\$4.30 PPP/day)	Total population extremely poor (thousands)	Total population poor (thousands)
Albania	1996	11.5	58.6	383	1952
Bulgaria	1995	3.1	18.2	256	1503
Croatia	1998	0.2	4.0	9	187
Romania	1998	6.8	44.5	1531	10016
FRY Macedonia	1996	6.7	48.9	135	882

Source: Adapted from World Bank, *Making Transition Work for Everyone*, Oxford, Oxford University Press (2000), quoted from *Economic Survey of Europe*, op.cit, p169.

At the end of 1980's all the countries of Eastern Europe and the former Soviet Union enjoyed relatively high levels of human development and social welfare. This was reflected in high life expectancy, which was well above other countries with comparable levels of GDP per capita. For example, life expectancy for males was 68% in Russia, and as high as 72 years for males and 76 years for females in Yugoslavia. This was mainly due to a high level of health care. The health care, albeit inefficient according to the Western criteria, was of extremely high level, comprehensive and free at the point of delivery. Access to health care, therefore, was not an issue.

A sharp fall in output negatively affected real spending on health. It remained low by international standards even when economic growth resumed. The proportion of births taking place without skilled attendants, a key indicator of the quality of health care services, has increased. Impoverished health professionals require informal payments for performance of medical services, which put poor sections of population in disadvantageous position. Universal access to health care, taken for granted in the communist regime, was put in danger in a new economic environment. This is because of an increased strain between health care budgets and the actual costs of care. As a result the quality of health services sharply deteriorated. In addition households feel an increased burden of both, official charges and more commonly under-the-counter or informal payments.

An additional problem, which contributes to the inefficiency and unfairness of the health system is the mixture of unregulated prescription charges and payments for consultations. The costs falling on the users of the health services vary widely. However, the evidence shows that health costs are increasingly regressive, putting much more burden on poor than on well-off. As a result the ability to pay for health care is now a major problem among the poor and there is growing evidence that access to health care is being affected. In other words, although health care remains in public sector and officially free, the growing proportion of the poor cannot longer afford all types of medical care. This problem is most pronounced in the successor states of the former Soviet Union, but it is present to a lesser extent in most of the transition countries. (*Economic Survey of Europe 2004*: p164-178).

Education, the brightest spot of the communist system, was another victim of transition. During the communist regime a high proportion of GDP was allocated to education. Education standards were extremely high even in comparison with the most developed Western countries. Primary education was compulsory and illiteracy among adult population was almost eradicated. There was an extensive network of kindergartens for pre-school children age 3-6 as well as a network of vocational and technical schools for post-compulsory education. Secondary and higher education were also free. However, there has been a major reversal in many countries and it is unlikely that high literacy rates will be maintained in the future.

Deterioration affected both supply and demand side of education. In a several countries of the former Yugoslavia, mainly Serbia, Croatia and Bosnia and Herzegovina, war and its aftermath forced thousands of teachers and university lecturers and professors to leave the country. In other countries, such as Romania and Bulgaria, a low pay and a loss of status and professional dignity enjoyed in the previous system drove some teachers out of education. With the shrinking of material resources this negatively affected the quality of education.

On the demand side a negative impact was three-fold. First, the school attendance among poor decreased because of the inability to purchase uniforms, textbooks and other necessary equipment. Second, some children do not attend the school regularly since they need to work to supplement a household income or to look after younger siblings. Third, even if they attend the school regularly children might not benefit much. This might be because of poor heating or ventilation, a lack of basic resources, or because low paid teachers could be absent working a secondary job in order to meet ends. (Economic Survey of Europe 2004: p174).

One conspicuous feature in Eastern European countries has been the expansion of higher education through the proliferation of private universities. Private universities, better equipped than their state counterparts, provide courses which were previously underrepresented, such as computing, business studies, marketing, management, accounting, law etc. The quality of private universities varies considerably, since the sector is fairly unregulated. There is some evidence that the most responsible posts still require state university degree. Unlike in the USA and some developing countries private universities do not guarantee a higher quality of education. It seems that in this stage private education is the opportunity for academically less able, but well-off to buy a place at university.

2. Eastern European countries enjoyed a fairly egalitarian distribution of income in the communist system. Poverty, at least officially, was unheard of, and the number of rich did not exceed 5%. They included 2-3% in political oligarchy and a roughly the same percentage of those who operated in the informal economy. In the absence of significant ownership of capital and land the difference in income among the rest of population mainly depended on the level of education and responsibility at the work place. These differences, however, were negligible in comparison with the Western capitalist countries.⁴

Economic transition has resulted in a rise in inequality in all Eastern European countries. A twin process of transition from the command to the market economy and a large-scale privatisation of state-owned enterprises played a major role in a sharp widening of the gap in income distribution.

Market system increases income inequality since it implies a closer association between earnings and risk-taking, training, individual talent and effort. Also, pay differentials are usually much higher in the private than in the public sector. A trend of increased inequality in income distribution has been conspicuous in developed Western countries since 1979 when more market oriented neo-classical economic doctrine replaced Keynesian economic policy. However, there are three differences between the Western and Eastern European countries. First, the percentage of privatized state-owned assets in mixed economies in the West was much smaller than in the Eastern Europe. Second, the Western countries retained progressive income tax in order to correct market failure while most of the East European countries adopted a flat and a low tax rate. Third, flawed methods of privatization led to the concentration of wealth in a few hands and were accompanied by a high rise in unemployment.⁵ Unemployed, without safety net which exists in developed Western countries were put in an extremely vulnerable position. Additional reasons for an increase in income

⁴ In Czechoslovakia, for example, the average net monthly salary was 3000 crowns. The lowest salary was around 1200 crowns and top managers could have earned 8000 crowns.

⁵ Privatization in Western countries was not immune of fraud and corruption. For example, as a result of fraud, a factory in Austria was sold for 1 Austrian schilling, equivalent to £0.25£.

distribution have been a large informal sector, sources of income other than employment and the widespread failure to respect employment contracts with the practise of wages being paid in arrears, especially for the less well paid. (Economic Survey of Europe 2004: p164).

As a result Gini coefficient rose in all Eastern European countries. Gini coefficient, which was in most of Eastern European countries between 0.22 and 0.28 in 1989, exceeded Gini coefficient in OECD at the beginning of the XXI century. The rise in Gini coefficient was most pronounced in Russia, where it increased from 0.27 in 1989 to 0.52 in 2001. South-East European countries experienced a sharp rise in Gini coefficient, especially Romania, where it increased from 0.16 to 0.39.⁶⁷

3. Transition from a command, economy, or in Yugoslav case from semi-market to a market economy brought many changes. One conspicuous change relates to a shift in economic structure. The significance of industry has relatively declined and the importance of a service sector has increased.

In the first stages of industrialisation after the Second World War there was a high demand for scientists and engineers. They were highly respected in a public view. On the other hand, managers had a low reputation. This was based on a Lenin's statement that anybody who can perform four basic arithmetic operations was able to run an enterprise.

With a change in economic structure there is a less demand for scientists and engineers and a higher demand for managers, marketing and financial experts and lawyers.⁸

Various surveys show that transition to a market economy has benefited younger and more educated people. On the other hand the well being of unemployed, pensioners and families with many children has deteriorated since the beginning of transition. Apparently, transition created some winners and many losers.

In 2006 ,the EBRD and the World Bank jointly carried out a 'Life in Transition survey' (LTS) of 29,000 individuals in twenty eight transition countries and Turkey (1,000 people per country). Interviewees were asked different questions about their attitude to a multi-party system, democracy, a market economy, a legal system, institutions, corruption, trust etc. The purpose of the survey was to find out whether people are happier with their lives now than in the communist system. The results are shown in a table below:

Table 3 - The economic situation is better today than in 1989 (Per cent of respondents)

	Agree	Disagree	Undecided
Central European and Baltic States	40	40	20
Commonwealth of Independent States	40	46	14
South East European Countries	20	64	16

Source: Adapted from EBRD/World bank Life in Transition Survey, quoted from Christopher Cviic & Peter Sanfey: 'In Search of the Balkan Recovery – The Political and Economic Re-emergence of South-Eastern Europe, p 154.

⁶ Gini coefficient is derived from the so called Lorenz curve, which depicts a distribution of income between households in a country. The Y axis in Lorenz curve diagram represents households, the x axis represents a proportion of income. If Lorenz curve overlaps a 45 degree line then all households receive the same income. If the Lorenz curve overlaps the x axis then only one household acquires total income. In the first case Gini coefficient is 0, in the second case Gini coefficient is 1. Lower Gini coefficient means that a country has more egalitarian distribution of income. Higher Gini coefficient means that there is a wider gap in distribution of income. Gini coefficient for the OECD countries is 0.31. Gini coefficient in the USA rose from 0.37 in 1980's to 0.46 in the first decade of the XXI century.

⁷ Economic Survey of Europe (2004) , p166 & 167

⁸ This process is especially pronounced in mature market economies, such as United Kingdom. Engineer of telecommunications is slightly more respected in a public view than a TV mechanic. A PhD holder in telecommunications could fetch a salary of £20,000. A PhD holder in law, marketing, management or accounting could earn two to three times more. In vocabulary of a neo-classical economic theory the marginal revenue product of the latter is much higher.

As the table shows the lowest level of satisfaction with the transition is in South-East European countries. One needs to bear in mind that SEE countries include a former Yugoslavia, Albania, Romania and Bulgaria. In Albania, the percentage of those who are happier now than in the previous system must be much higher than 20%. The communist system completely collapsed there endangering basic human needs. The same could be said for Romania where Ceausescu's decision to pay off all debts to the West at any cost required enormous sacrifice from ordinary people. Therefore, one could surely infer that the percentage of those who are happy with the transition is far less than 20 in the successor Yugoslav states.

5. CONCLUSION

It has been twenty years since the collapse of communism in Eastern Europe and a transition from a command economy, or in case of Yugoslavia from a semi-market economy to a market economy. It seems to be a sufficiently long period of time to compare economic performance of the two systems in the first twenty years of their existence.

A comparison between economic performance in Yugoslavia and its successor states was limited to a comparison in economic growth. Four objective criteria were used: 1. Speed of recovery after wars, 2. Absolute growth rates, 3. Relative growth rates and 4. Place in the world development ranking.

Yugoslavia exceeded the 1939 level of GDP by 20% in 1947. This was the fastest recovery in the world. Slovenia reached the 1989 level of GDP in 1998, Croatia in 2005 and FYROM in 2008. Bosnia and Herzegovina, Montenegro and Serbia have not yet reached the 1989 level of GDP.

From 1952 to 1964 the Yugoslav economy grew at an average annual rate of 9.6%. This is 60% higher rate than Serbia and Bosnia and Herzegovina achieved from 2000 to 2008 and a double the rate the other Yugoslav successor states achieved in the same period.

From 1952 to 1964 Yugoslavia shared 3 and 4 place in economic growth with Romania, only behind Japan and Israel. With the exception of Montenegro, which was temporarily in the third place, Serbia in the 43 place was the best placed amongst the Yugoslav successor states.

In the mid-sixties Yugoslavia found herself near the bottom of the list of developed countries, among 26 richest countries in the world. Among the Yugoslav successor states only Slovenia is classified as a developed country. Croatia is a mixed case, while all the others are treated as developing countries. Slovenia is ranked 27 in the world. The other successor states rank between 33 and 85 place in the world.

A survey conducted jointly by the EBRD and The World Bank shows that in the South-East European countries only 20% of interviewees think that economic situation is better now than in 1989. Further 14 % are undecided, while 64% think that life was better in 1989. One needs to take into account that the percentage of those who are happy with the transition must be much higher in Albania and Romania, where the communist system completely collapsed endangering the basic needs of population. It is therefore correct to infer that the percentage of those who are happy with the transition in the Yugoslav successor states is far less than 20.

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