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INSTITUTIONAL FRAMEWORK AND TYPOLOGY OF ECONOMIC TRANSITION IN POST-COMMUNIST COUNTRIES OF CENTRAL AND EASTERN EUROPE: THE ROLE OF BRETTON WOODS INSTITUTIONS

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Abstract
Institutional framework and typology of economic transition in post-communist countries of Central and Eastern Europe: the role of Bretton Woods institutions
Departing from the concept of transformation and transition, this article highlights some main directions and problem areas of this process. It starts with description of transitory architecture in countries of Central and Eastern Europe based mostly on the concept of "Washington consensus" as the main method being used during the first stages of transition in many post-communist countries. Firstly we start with description of "Washington consensus" and its application in different countries in transition – from Latin America to the region of post-communist countries. After this theoretical part we start with concrete examples from particular countries where the key transitional processes will be described. Main focus will be put on the privatisation process in the Czech Republic in comparison to other post-communist countries. Typology of transitory processes in particular countries from "shock therapy" to "gradualist" ones will be placed. Than alternative approaches to transition will be introduced, focusing on the concept of path dependency, network analysis, regulation theory and their approaches to state socialism and post-communist transformations. Summarisation of main findings and the counterbalance to neo-liberal approach will be discussed. Is there some "post-Washington consensus" which has learnt from previous mistakes?

Key words
transition, transformation, institutions, Central Europe, Eastern Europe

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1. Introduction

Economic transformation in the region of Central and Eastern Europe is a story which has not finished yet. In this paper I will focus on some selected features of this process, especially on the role of existing global economic order and prevailing paradigms and ideologies. After almost twenty years since falling of the Berlin war or falling of the iron curtain dividing Europe we can try to look back. And ask if everything was done the correct way, which mistakes are still visible, which of them have been overcome and what were, still are and will be the costs of transformation (or transition). The costs I mean not only in financial or material sense. I mean also the other ones: moral, ethical and many other non-material dimensions. However, this article can not cover all aspects of economic and social transformation. It also can not be understood as an accusation of global economic order. But taking into account the global financial (and more and more also economic) crisis occurring in autumn 2008 and influencing almost each of us we should ask what was done wrong way and what could be possible solutions to prevent such mistakes in the future.

2. The origin and the role of Bretton Woods institutions in the world economic order

During the Great Depression in 1930s most of developed world experienced one of the deepest and the longest lasting economic and social crisis in the modern history. It has led to installation of one of the cruelest authoritarian regimes and to the experience of the Second World War. It was clear that the shared experiences of the Great Depression and its consequences should lead to establishing of some mechanism preventing these events. It was easier to establish this mechanism also because of the concentration of power in a small number of states (further enhanced by the exclusion of a number of important nations because of the war) and also because of the presence of a dominant power (USA) willing and able to assume a leadership role in global monetary affairs.

Main aim was higher stability of the world economic system. Conference in Bretton Woods (1944) led to establishing of the key institutions and the new international economic order. Since this time we can speak about the Bretton Woods system. At the birth of these institutions was very important personal role of John Maynard Keynes, who formulated main principles of Keynesian economic policy, based on stimulation of demand during economic recession in form of public spending. This paradigm has been working until the crisis in the first half of 1970s (oil shock crisis, stagflation, etc.).

In short and with some simplification we can describe pillars of Bretton Woods system as following:

- Free trade relied on the free convertibility of currencies
- The liberal economic system
- Gold standard replaced by fixed exchange rates using the U.S. dollar (which was a gold standard currency for central banks) as a reserve currency
- Establishing of International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), later renamed to World Bank (WB)
- Reduction of trade barriers in the framework of General Agreement on Tariffs and Trade (GATT), later (since 1995) World Trade Organisation (WTO).

2.1. Development of Bretton Woods institutions

Bretton Woods institutions played substantial role by reconstruction of post-Second World War Europe and it was quiet successful. Together with Marshall plan and other integration arrangements it contributed to unprecedented economic prosperity and political stability in post-war Western Europe. Very important role was fulfilled by integration of post-war West Germany into all these processes and institution as prevention of possible conflicts in Europe.

Later has their focus moved to the Third World countries. We can speak about the rising role by problems solving in Third World countries and the rising influence on credit policy for developing countries and on their general economic policy. Here must be the success of Bretton Woods institutions evaluated much more carefully and in quiet controversial way, especially since 1980s.

In 1980s there were series of economic, social and political crisis in Latin American countries caused mostly by wrong fiscal policy, inefficient public sector and rising of internal and external debts. International Monetary Fund and the World Bank were the main providers of financial help and loans. They became simply very influential also in terms of their internal policy. At the same time we must stress that 1980s is also connected with the shift in paradigms in the world economic theory and applied economic policy. Keynesianism, the main way how to manage economic system, was replaced by neoliberal approaches. In the practical policy we speak about the period of Reaganism and Thatcherism, applied especially in the USA and in the UK.

2. 2. Elaboration of Washington Consensus

As reaction to this crisis in Latin America it was elaborated a "prescription" how to cure these countries to be more economically strong and competitive. It was presented as a policy advice by Washington-based institutions such as the International Monetary Fund, World Bank, and U.S. Treasury Department, which were believed to be necessary for the recovery of Latin America from the economic and financial crises of the 1980s.

In 1989 one of the main proponents of Washington consensus Mr. Williamson said that it is "the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989". By critiques and opponents now it is often seen as synonymous with "neoliberalism" and "globalization" or "market fundamentalism".

Principles of Washington Consensus by Williamson (as of 1989) are summarised into "The Ten Commandments":

- Fiscal discipline,
- Redirect public expenditure,
- Tax reform,
- Financial liberalization,
- Adopt a single, competitive exchange rate,
- Trade liberalization
- Eliminate barriers to foreign direct investment
- Privatize state owned enterprises,

- Deregulate market entry and competition,
- Ensure secure property rights.

It must be stressed that there is no discussion about necessity of most of the proposed arrangements. But there were doubts about the speed and sequence of particular steps. The other missing things are that they take into account only macroeconomic arrangements, neglecting microeconomic and other non-economic aspects of the issue (legal, social, environmental and other dimensions). It was also believed that these prescriptions are universal for all countries in the world ("one size fits all" policy).

3. Bretton Woods institutions and transformation (transition) in Central and Eastern European countries

At the same time when the Washington Consensus was elaborated, substantial political changes occurred in the region of Central and Eastern Europe. And there was demand from countries in this region for help by transforming of their command economies to the fully market economies. There were not enough skilled and experienced experts in these countries, so their political establishments decided to ask for help IMF and WB. International advisors from IMF and WB recommended in early 1990s this strategy universally for all countries in transition. We must stress this strategy was freshly elaborated and there were not experiences from Latin America yet.

Experts in the region were divided into two unequal groups. Majority supported recommendations prescribed by IMF and WB. This group was for radical, quick and all encompassing economic reform. The main argument was that the old system was so bad that the sooner it will be replaced by the new economic order, the better. Sometimes it is described as "shock therapy" approach. Of course, one of important decision making factors was that loans for collapsing economies of this region were tightly connected with accepting of "bitter pill" of the Washington Consensus prescriptions. Gradualist approach was different in sense of speed and sequencing of particular steps. It was based on the assumption that gradual changes are slower, but you can avoid many mistakes caused by quick speed and impetuous decisions. And also that it is not possible to break one system and at the same moment to establish fully functioning market economy. As the best known proponents of Washington Consensus in CEE can be mentioned Yegor Gaidar, Russian prime minister and architect of Russian economic reform starting in the beginning of 1992, Leszek Balcerowicz, Polish finance minister and architect of the first stage of economic reforms in Poland and Václav Klaus, Czechoslovak finance minister, later Czech prime minister and current Czech president.

At the same time when there were introduced IMF reform packages in CEE countries, in some regions of the world was more and more visible, that Washington Consensus has also its big snags. From the mid-1990s followed series of economic crises mostly in Third World countries, but not only there (Stiglitz 1998,1999, 2002). Firstly was affected by economic crises in 1994 Mexico, despite it was evaluated as a "pattern-pupil" of IMF which followed all prescriptions of Washington Consensus. Than economic crises came suddenly in 1997 South East Asia and almost destroyed not only economically, but also politically the largest country of the region – Indonesia. Russia followed very soon in 1998. Domino effect followed in many countries of Latin America. Lastly it was state bankruptcy of Argentina in 2001 with unbelievable impact on living conditions of vast majority of people. It is necessary to stress that special crises package for regions and countries undergoing economic crises often failed (Stiglitz 2002). At the same time we also could observe failing of these packages throughout CEE region. Economic crisis affected Russia and other countries of CEE. Most of them blindly followed prescriptions of Washington Consensus. This awaked strong criticism of the market fundamentalism and neo-liberal practices recommended by IMF and WB. Common features of critiques were connected with neglecting of path-dependency or history, neglecting of law environment establishing and general mistrust to public sector efficiency.

4. Criticism on shock therapy and practices of IMF

Rising critique of Washington consensus was coming not only from academic sphere, especially from alternative economic approaches, but also from WB. Joseph Stiglitz, by that time the director of the WB and former head of advisors of president Bill Clinton, strongly criticised IMF especially in following points (Stiglitz 2002):

- Badly managed privatisation
- Bad timing for capital market liberalisation
- Privatisation before establishing of legal framework and infrastructure
- Focusing on just certain macroeconomic characteristics, especially inflation
- Social cost of transition (widening gap between rich and poor – possible extinction of middle class)
- Revolutional (bolshevik) instead of evolutional approach to reforms.

As the main recommendations for IMF J. Stiglitz (2002) during crisis (crisis management) suggested that capital market liberalisation is usually dangerous (because of "hot money" transfers). Other important point is to introduce necessary changes in the Act on Bankruptcy (to share responsibilities between creditor and debtor) that investors will not relay so much on rescue packages by IMF. Very actual also today seems to be improving of banking committee and regulation (call for broader, less ideological approach to regulation), improved risk management (especially in case of exchange rate maintaining, interest rates regulation, credit crunch), than improving of social networks (social tension can cause very difficult environment for reform promotion). This all should lead to improving of reactions on economic crises.

Also very important and comprehensive constructive critique to IMF and WB policies in 1990s was brought by M. Naím (Edwards and Naím, 1998). Naím served as an executive director at the World Bank and directed policy studies on economic reforms at the *Carnegie Endowment for International Peace.* He also served as Venezuela 's minister of trade and industry in the early 1990's. Prior to his ministerial position, he was professor and dean at IESA, a business school and research centre in Venezuela. As an insider, who was an important person in the WB he tried to understand better why Washington Consensus failed. He elaborated with his team constructive points of improving of previous recommendations. He says that most of points of Washington Consensus are correct, but next stage must follow. It is summarised in this overtaken Tab. 1.

Tab. 1: Moisés Naím‘s team alternative recommendations for economy transformation.

Two Stages of Economic Liberalization	Stage I	Stage II
Priorities	• Reduce inflation • Restore growth	• Improve social conditions • Increase international competitiveness • Maintain macroeconomic stability
Reform Strategy	• Change macroeconomic rules • Reduce size and scope of the state • Dismantle institutions of protectionism and statism	• Create and rehabilitate • institutions • Boost competitiveness of the private sector • Reform production, financing, and delivery of health care, education, and other public services • Create "economic institutions of capitalism" • Build new "international economic insertion"
Typical Instruments	• Drastic budget cuts and tax reform • Price liberalization • Trade and foreign investment liberalization • Private sector deregulation • Creation of social "emergency funds" bypassing social ministries • "Easier" privatizations	• Reform of labour legislation and practices • Civil service reform • Restructuring of government, especially social ministries • Overhaul of administration of justice • Upgrade of regulatory capacities • Improvement of tax collection capabilities • Sectoral conversion and restructuring • "Complex" privatizations • Building of export promotion capacities • Restructuring relations between states and federal government
I. Principal Actors	Presidency • Economic cabinet • Central Banks • World Bank and IMF • Private financial groups and foreign portfolio investment	Presidency and cabinet • Congress • Public bureaucracy • Judiciary • Unions • Political parties • Media • State and local governments • Private sector
Public Impact of Reforms	• Immediate • High visibility	• Medium and long term • Low public visibility
Administrative Complexity of Reforms	• Moderate to low	• Very high
Nature of Political Costs	• "Temporary corrections" widely distributed among population	• Permanent elimination of special advantages for specific groups
Main Governmental Challenge	• Macroeconomic management by insulated technocratic elites	• Institutional development highly dependent on midlevel public sector management

Source: Moises Naim: Latin America's Road to the Market: From Macroeconomic Shocks to Institutional Therapy (San Francisco; ICEG, 1994)

Naím stresses that it is necessary to introduce the second stage of liberalisation process which will prevent negative effects of reforms. It is true that very often the second stage did not follow.

Tab. 2: Countries accepting and opposing to Washington consensus.

Countries accepting Washington consensus	Countries opposing to Washington consensus
Argentina, Bolivia, Brazil (Plano Real), Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, India, Indonesia, Mexico, Marocco, Nicaragua, Paraguay, Peru, South Korea, Thailand, Tunisia, Uruguay , Zambia Czech Republic, Estonia, Latvia, Lithuania, Macedonia, Poland, Russia (in early stages of transition)	China, Malaysia, Singapore, Ethiopia, Hungary, republics of ex-Yugoslavia (especially Slovenia)

Source: Own proposal, http://en.wikipedia.org/wiki/Washington_Consensus (18. 11. 2008).

5. The case study of (voucher) privatisation in the Czech Republic

By 1990 in Czechoslovakia was one of the most etatised economies in CEE (similar to GDR, Romania or Soviet Union). The share of state owned property was over 95 %. There was no question if to privatise or not, but the privatisation mode and its pace were crucial issues of the economic reform. As the scenario of economic reform was selected the implication of neo-liberal prescriptions of IMF, called the Washington consensus. One of the main ideological axioms was: "private ownership is always better than state or public ownership". So we must "privatise as quick as possible" without regard to external legal and institutional environment and regulation mechanisms. Tomáš Ježek, the privatisation minister of that time, very often repeated the idea that "we can not wait for new legislation, for new laws, we must be always several steps in front of lawyers, time is running! "

To summarise, we can find three main modes of de-etatisation of the state property which share was almost 100 %:

- The restitution act (returning of the property expropriated to original owners after 25/2/1948)
- Transfer of the property to municipal level (it was the case of majority of typical municipal property like houses, water or gas pipelines and other technical infrastructure and similar)
- Privatisation

Privatisation itself became an icon of the whole economic reform as the main flagship of newly established right-wing government of the prime minister Václav Klaus. We can (with some simplification) distinguish three main modes of privatisation:

- Selling to domestic entrepreneurs
- Selling to foreign investors (in the first half of 1990s was very limited because of ideological reasons, but in retrospective seems to be the most successful)
- Distribution of property among citizens (voucher privatisation)

Especially thanks to the first and the third method of privatisation a huge share of the state ownership was privatised in a very short time of two or three years. But was it real privatisation? While the state ended its direct ownership in privatized enterprises, it continued to own many banks and other major financial institutions in the Czech Republic (and Slovakia) throughout the 1990s financial institutions in turn established the largest privatisation investment funds (IPFs) in the early 1990s to amass a huge number of former state properties in the form of enterprise shares during the period of voucher privatization (Pavlínek 2003). And more over, this method of privatisation did not actually bring any (or very limited) investment into technologically backward companies which lost quickly most of their markets in the former communist countries of CEE.

Voucher privatisation was a never experienced experiment which main reason was the quickest speed of privatisation. It should also teach citizens how to take care about ownership, how to became more entrepreneurial and of course, how to get political points before coming elections in June 1992. Property was distributed among people via vouchers. Every citizen older than 18 years could receive for relatively small administrative fee (1000 CZK) a voucher book with 1000 points. These points should be transformed to real shares by several rounds of company auctions. In these five or six rounds the price of individual companies should be set. The market represented by domestic people, not standard stock exchange should set the price per one share! For people who did not know how to invest their shares (vouchers) were established so-called Investment Privatisation Funds (IPFs). Their role should be according to the voucher privatisation proponents only marginal and should serve as a rescue service mostly for elderly people or so. But most of people was not prepared to play this game called "voucher privatisation" under rules and ideological ideas of Civic Democratic Party. And waste majority of vouchers were submitted by citizens to IPFs.

Four of the five largest IPFs were established by the largest banks in which the state represented by the National Property Fund (NPF) held the controlling majority. The state was also the major creditor to 80% of all large and medium-sized Czech companies because a large number of nonperforming loans were transferred to the state owned Konsolidační banka, which was controlled by the Ministry of Finance (Pavlínek, 2003). Banks were reluctant to force enterprise restructuring through bankruptcies in the 1990s because the government was following active anti-bankruptcy policies in order to preserve the social peace by preserving the low unemployment rate. This situation can be described as "banking socialism" or "pseudo-privatization" (Pavlínek 2003).

It resulted into reproducing of the old negative forms of enterprise behaviour: enterprises retained an information monopoly developed under central planning, new owners received only distorted and filtered information, enterprises were controlled by the same management joined by new representatives from IPFs creating "recombinant coalitions" that followed their own interests. The phenomenon of recombinant property has negatively affected enterprise performance typically paralyzed the industrial enterprises instead of leading to its successful development weak state chose not to enforce its ownership rights in the vast majority of cases, leaving many existing pre-1989 managers in charge of enterprises new owners, the IPFs and thousands of small shareholders, did not understand production in privatized enterprises. It resulted in their failure to establish an effective corporate governance. Recombinant ownership structure failed to exert strong enough pressure on enterprise managers to conduct the radical enterprise restructuring necessary for the future survival of the enterprises, nor did it make them accountable for their managerial decisions.

Managers continued acquiring large debts through soft loans and banks continued to provide loans to heavily indebted enterprises (especially between 1994 and 1996). The pre-privatization agony" has been in effect replaced by a "post-privatization agony". The neoliberal assumption that any new private owners would conduct effective enterprise restructuring immediately after privatization were largely false (Pavlínek 2003).

Privatization of SOEs to domestic owners typically resulted in profound organizational restructuring, it did not necessarily lead to immediate and effective restructuring.

More over many IPFs turned from the role of share managers to share owners in very untransparent way. Under very unfavourable price conditions they bought the share from small owners. In some cases they simply stole their property through many very unclear legal and financial operations for which was introduced a new name, "tunneling". It resulted into net outflow of money or capital into tax paradises. To preserve social peace and low unemployment, the state was forced to get back robed enterprises and privatise them later (mostly to foreign investors) under much less favourable conditions. This net outflow of capital connected with global financial turmoil resulted in 1997 into serious economic and political crises. After change of the political representation it has led into new methods of privatisation and economy restructuring based mostly on foreign direct investment (FDI).

The net costs of the experiment called "voucher privatisation" are difficult to calculate. But next to financial costs (estimated to several hundreds of billions of CZK) we must also take into account political and moral costs of the (voucher) privatisation. Discreditation of privatisation among ordinary people, introducing of grinder mode of capitalism can be mentioned as the main negative effects next to financial costs which are paid basically until today.

6. Alternative approaches to post-communist transformation in Central and Eastern Europe

Teleological "transition" approaches, associated with neoliberal and neoclassical economic interpretations, very often failed in explaining what is going on the CEE region. In 1990s a set of alternative approaches was elaborated and presented. Alternative "transformation" approaches are based rather on interpretations stemming from evolutionary and institutional economics, the analysis of networks of economic embeddedness, and Marxist political economy and regulation theory. This wide and diverse range of alternative approaches has in common several fundamental points and ideas.

Critiques of transitology stress that the simplistic and teleological view of "transition" as a relatively unproblematic shift from state socialism to capitalism through the process of modernization and democratization is very far from reality. It ignores the CEE transformation as a complex political, economic, social and cultural change. It concentrates on CEE as a whole or the national level and does not pay sufficient attention to the changes and processes taking place on other scales, especially at the local level, and the relations between these scales. It also ignores the geographical variability of the transformation and the issue of geographic scale. This is leading to many mistakes by interpretation of transformation (or transition?) Among common signs of alternative interpretations we can include path dependent and embedded nature of the process. Institution-building process (including market economy itself) was gradual, organic, and stresses the existence of continuities and similarities between the post-1989 developments and the previous state socialist system. There is direct opposition to the neo-liberal belief in the possibility of instant capitalism imposed through shock therapy on the imaginary *tabula rasa*. There is also *plurality of transitions* depending on individual histories and experiences of particular states and regions.

7. Conclusions

In the previous text I have tried to explain main driving forces influencing the process of social and economic transition in the countries of CEE. We can conclude with the statement that domination of neoliberal concepts by transformation of economies round the world, including CEE countries, is less dominant than before and that it is questioned by many social scientists and politicians. Practical experiences of ordinary people discreditated many good ideas brought by neoliberal political concept. Among others it is the mode privatisation, fast liberalisation and others.

Despite majority of countries have overcome the grinder period of the capitalism of 1990s and successfully finished building of fully functioned market economy, they are members of European Union and their real economy is converging with EU 15 economies quiet fast, there is still a bit of bitter taste of this period. More over current global financial and economic crisis is questioning the concept of Washington consensus, the role of global financial institutions more and more. So, at the end we can ask if there is some kind of post-Washington consensus emerging. And is it actually necessary or even possible to find some universal prescription for countries undergoing some kind of transformation?

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Summary

Economic transformation in the region of Central and Eastern Europe is a story which has not finished yet. After almost twenty years since falling of the Berlin war or falling of the iron curtain dividing Europe we can try to look back. In this paper I will focus on some selected features of this process, especially on the role of existing global economic order and prevailing paradigms and ideologies.

Departing from the concept of transformation and transition, this article highlights some main directions and problem areas of this process. It starts with description of transitory architecture in countries of Central and Eastern Europe based mostly on the concept of "Washington consensus" as the main method being used during the first stages of transition in many post-communist countries. After this theoretical part we start with concrete examples from particular countries where the key transitional processes will be described. Main focus will be put on the privatisation process in the Czech Republic in comparison to other post-communist countries. Typology of transitory processes in particular countries from "shock therapy" to "gradualist" ones will be placed. Than alternative approaches to transition are introduced, focusing on the concept of path dependency, network analysis, regulation theory and their approaches to state socialism and post-communist transformations.

The costs of transformation are meant not only in financial or material sense, but also the other ones: moral, ethical and many other. Despite majority of countries have overcome the grinder period of the capitalism of 1990s and successfully finished building of fully functioned market economy, they are members of European Union and their real economy is converging with EU 15 economies quiet fast, there is still a bit of bitter taste of this period. More over current global financial and economic crisis is questioning the concept of Washington consensus, the role of global financial institutions more and more.

We can conclude with the statement that domination of neoliberal concepts by transformation of economies round the world, including CEE countries, is less dominant than before and that it is questioned by many social scientists and politicians. Practical experiences of ordinary people discreditated many good ideas brought by neoliberal political concept. Among others it is the mode privatisation, fast liberalisation and others.

So, at the end we can ask if there is some kind of post-Washington consensus emerging. And is it actually necessary or even possible to find some universal prescription for countries undergoing some kind of transformation?

Also known as the Bretton Woods Institutions (BWIs), they were initially created with the intention of rebuilding the international economic system following World War II (WWII).Â However, others have noted that this analytical framework is flawed, as the private interests promoted by the Bank and Fund cannot always be understood in this light and there is a high degree of cooperation between the Bank and Fund and other multilateral institutions, including those established by China and other developing countries.Â The role of the Bank has also changed dramatically, from