

Economic transition and transformation of the government

Abstract

As far as the transition from centrally planned, socialist economy to the open, market economy is concerned, most of the time the liberalization and privatization are pointed to as the most important processes. However, transition can not succeed – even if liberalization has evolved quite far and private sector has become dominant – if the market institutions are not developed and the role of the government is not redefined.

The systemic vacuum – neither plan, nor the market – is a serious threat and can be a significant obstacle in sustained economic growth and social development. Unfortunately, to quite a degree it had been the case at the early stage of transition among the East Central European (ECE) transition economies and the former Soviet Union republics (FSU), including Poland and Russia.

Considering the gradual process of institutional building – i.e. the establishment of new law and organizational structure of the government, central and local, as well as changing of the business culture – of great importance is the transformation of the government, which must be compatible with the new, emerging market environment and capable to address the new kind of challenges, unknown under the socialist regime.

The serious mistake, committed in so many post-communist countries of ECE and FSU during last 15 years, has been the negligence of the role of the state (government). The dilemma – so much publicized by the naïve neoliberal economic and political thought – “small government *versus* large government”, has been misleading and has caused a lot of harm for the efficiency of the transition to a market economy. The alternative is not “small government *versus* large government”, but “efficient” (*vis-à-vis* social and economic policy and sustainable development) and “inefficient” government.

There are many activities where the government should withdraw, in more or less radical or gradual manner, yet there are also important and vast areas where the government activity must be sustained or even should become more active. These are, *inter alia*:

- the institutional building;
- re-regulation (not just de-regulation) of the economy, performing already on the market foundation;
- investment in the hard infrastructure;
- investment in the human capital;
- and – of course – the sound macroeconomic policy.

It is also a matter of the state (government) responsibility to lead a national policy enhancing the business sector competitiveness and ability to expand in the context of globalization. Last but not least the government must be able to coordinate the policy of institutional change and advancement (“reforms”, “transition”, “transformation”) with the national policy of socio-economic development. From another perspective, the transition toward a market economy calls also for far going de-centralization of the state (including also the de-centralization of the public finance system). That requires, in turn, an enhancement of the local governments and appropriate reforms of the administration.

From such perspective there are not a lot of good experiences from ECE and FSU economies. Most of these countries have lost their historical chance and in many of them the current quality of the government (state) – its institutions, policy, cadres, credibility, soundness, etc. – is very weak. Despite far going liberalization and vast private sector, yet due to the institutional weakness of the governments, the rate of growth is relatively lower than it could be under the more positive circumstances. So is the level of social satisfaction.

Hence, certain reforms of the public services, provided and financed by the government (including the PPP form, i.e. the public-private partnership) must catch-up with the expansion of the profit-oriented private sector. The government administration must be reformed to be compatible with the market economy and supportive for its expansion. The market must be re-regulated and, at the same time, a political commitment to counteract over-bureaucratization and corruption is necessary for a successful transformation toward a full-fledged market, civic society and political democracy.