

Economic Aspects of Transformation

A Changing Role of the Government

I.Maly, Masaryk University Brno

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 - From a centrally planned command economy to a market (mixed) one
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Some history...

- Until 1918, Austro-Hungarian Empire, Bohemia and Moravia were probably most industrialised parts (Skoda Pilsen: heavy industry, armaments), glass, textile, light industry...
- 1918-1938, „First Republic“, democracy, one of most developed countries in that time, however a heavy impact of Great Depression (1928-1934). Weapons, transportation vehicles, glass, textile, shoemaking (Bata)...

...continued

- 1938-1945 Occupation, World War II, a lot of damages (certainly not that much like Germany...)
- 1945-1948 Rebuilding, National Front Government, Nationalisation of German property, Coal mines, Heavy industry, Foreign Aid (UNRA), Devastating drought (1947)
- 1948 „Winning February“ – communist took all power – people's democracy, socialism (1960). Five-year plans, Industrialisation of Slovakia, Nationalisation of everything. Private sector almost disappeared.

Socialist Economy

- Centrally planned (five years plans)
- Private sector non existing
- Starting from late 60's some attempts for reforms, economic incentives, „chozrasčot“
- The growth of the economy was based on an output from heavy industry, coal mines, metallurgy, engineering, large constructions (dams), cement, energetic...
- A member of Council for Mutual Economic Co-operation (USSR, Eastern European countries, Viet-Nam, ...)
- A clear lag behind Western democracies in terms of standard of living.
- Environmental impacts (mainly northern parts of the country)

	Resource allocation	Currency	Ownership	Prices	Main trade partners
Socialist	Centrally planned by the government	Not-convertible	National – state...	regulated	USSR, COMECON...
Transformation Period (1990-20...)	Semistate banks (bank socialism..) until 2001 when last major banks became fully private	Convertible (fixed on DM and \$) – early nineties...	foreign investment, privatisation (details see below)	deregulation with several exceptions (housing, energies..)	Germany, EU (old markets were lost, surprisingly fast recovery in some industries – car producers.
Market	„Market“	Convertible (floating)	mixture like anywhere else	deregulated	ditto

Current Czech Economy

growth:	inflation:	unemployment	balance of payments	Total public expenditure.
close to 3%	below 2%	reached 10%	overall deficit	over 48%
Has started actually rise in 1999. Serious depression in 1996-1997	Core inflation even lower - price increase because of deregulations	this January	trade balance in a heavy deficit (although getting better) balance of capital flows – surplus (quite attractive for foreign investment)	increased from 41% in 1998 – left wing government struggling with „burned country...“

Changed role of the Government

- from state monopoly to plurality in many branches of social services – building up a real Public Sector
- from directive commands and plan to organising, standard legal environment, and economic incentives
- from preferred state ownership to an equal treatment for all kinds of ownership
- from the tough centralism to some decentralisation within government levels (stronger local govern. 's position)
- lower level of redistribution

Building up a New Public Sector

(Principles of the Public Sector Transformation - PST)

- diminishing of and changes in the general economic role of the government – the PS was created by reduction (a key question was „What should stay in government hands...“)
- privatisation, plurality – cream skinning, fears from losing a control....
- new fiscal and budget policy – (ambitious goals)
- new social policy - social, health care, education reforms
- public administration reform

Privatisation

- The specific nature of privatisation - it was a tool of eliminating a major systemic feature of the communist system - primarily ideological objectives!
- Government's top priority was to privatise the public sector quickly and she did – naturally with some unpleasant consequences – tunneling, unclear structure of owners, a large share of semigovernmental agencies and banks....

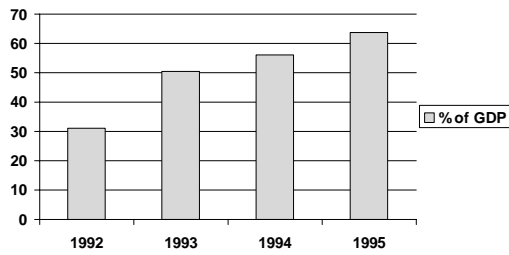
Privatization - methods

- restitution
- „small-scale“ privatization (services)
- “large-scale” privatisation (in order to privatise large industrial enterprises)
 - They have either been sold directly to pre-approved buyers or transformed into joint-stock companies whose shares were sold either
 - directly to investors
 - or through voucher privatisation.

Privatization – a magnitude

- the share of the private sector was not higher than 4.2% of GDP before 1990
- 63% of GDP from private sector in 1995
 - 85% services
 - 90% agriculture
 - 40% industrial output
- less than 2% of registered property was private
- much higher now

Non-state sphere share in GDP



Privatization 2

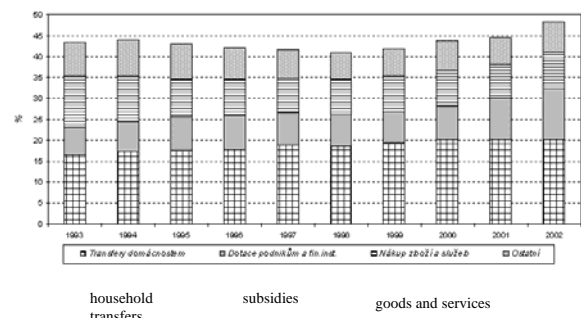
- „small“ privatization in 1990 (services)
- two waves of a coupon privatization
- 8.5 mil. stock-holders after 1995
- major owners - banks and investment funds
- massive foreign investment

„Capitalism without a capital...“

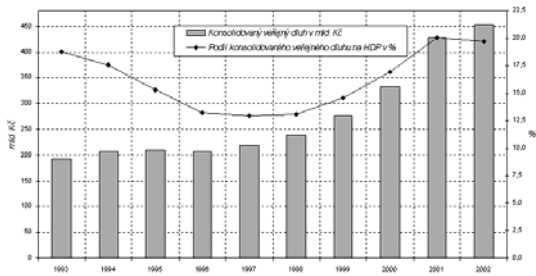
Fiscal policy strategy '93

- graduate decline in the general budget's share on GDP
- balanced public budgets
- stabilized public debt at current nominal level
- a new tax system based on a neutrality, equity, and simplicity

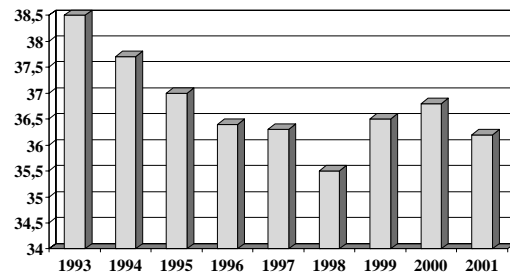
Public expenditures as a share of GDP (%)



Public Debt



Tax quota



Social policy strategy

- reform of the social benefit system
 - means tested allowances
- reform of the health care system
 - public insurance
 - market incentives