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An Analysis of the Factors That Have Determined the Success of Macroeconomic Stabilization Programs in Transition Economies

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Abstract: It is important to know the determinants of the transition process to help different countries develop strategies that are appropriate to their national context and ultimately successful. Central and Eastern Europe is a typical transition country, and the disparity in the degree of transition between individual countries provides scholars with valuable research experience and food for thought. This article outlines the reasons why different countries in Central and Eastern Europe succeeded or failed, and how different strategies had positive or negative effects after starting the transition. In conclusion, the success of transition economies depends on the establishment of good market systems on the economic front, effective systems on the political front, and the development of approaches that are appropriate to the national context.

Keywords: Eastern Europe, transition economies, macroeconomic policy, Poland, literature research

1. Introduction

Since the 1990s, the countries of Central and Eastern Europe have been in a phase of transition involving the creation of political and economic systems, as well as social structures and institutions [1]. The transition from a centrally planned to a market economy was one of the most important institutional changes in economic history. The process came at a social cost. In some countries the transition was not successful, not only in economic terms, but also in establishing a good social order, as in the case of Azerbaijan and Armenia. However, most countries have been more successful, successfully transitioning to and maintaining high rates of economic growth [2]. The determinants of the transition process need to be discussed, as these countries had similar starting points, but such different results. The Polish economy is now in the upper middle class of the Central and Eastern European countries [3]. In economic terms, the material well-being of the population has improved considerably, with GDP per capita and the Human Development Index (HDI) reaching the level of developed countries. A system has been established in which power is restrained and the legitimate interests of the people can be effectively protected and exercised. Poland does not have a fully planned economy due to the different circumstances of the country. Agriculture remains private, with only 10% of the land in the hands of state companies, and is therefore more receptive to the new norms of

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a market economy [4]. There are more analyses of Poland's transition or the transition process in specific countries, summarizing the reasons for success or failure, but there are few comparisons between failed and successful countries. They critically assess the viability of sustainable development in Poland in a transition economy, the limitations of different factors and positive examples that can be emulated compared to developed countries [5]. This article will build on their research to conduct further comparative studies and draw more direct lessons for other transition countries. This paper is based on a documentary analysis to summarize the scenarios in which monetary and fiscal policies have been applied in different periods of time to help the transition from a planned economy and socialism to a market economy and a liberal democracy.

2. Shock Therapy

Shock therapy is a general economics programme in which the state imposes monetary controls, reduces state subsidies, liberalizes trade and undertakes a process of large-scale public-to-privatization measures. It is used in countries with planned or socialist economies, when they are facing an economic crisis, or when they are preparing to transform their economies. Strictly tight financial and monetary policies, complemented by a compression of consumption, are used to forcefully close the gap between aggregate supply and aggregate demand, with the aim of curbing inflation in a short period of time.

3. Policy Implications of the Transition Process in Poland

During the Soviet period Poland suffered from a number of negative influences, such as the unjustified pace and strategy of development. However, the high level of education and culture brought about by socialism also helped Poland to transition more smoothly and quickly, taking full advantage of its strengths to make adjustments. In 1980, more than 70 per cent of Poland's factories were privatized, and the planned economy was not entirely widespread in the state sector [6]. The government provided a guarantee of full employment, but businesses were under supplied with consumer goods due to price controls.

3.1. Poland's Response

Poland introduced 'shock therapy' during the transition process to curb transition-induced inflation and capital outflows through a tight monetary policy with monetary controls and heavily reduced state subsidies. In Poland, where the transition reforms began, hyperinflation and supply shortages supported the use of shock therapy. But it did not solve the problem well, with real wages falling by almost 33% from 1990 and industrial production falling by more than 50% from 1989 to the end of 1922 [7]. Secondly, the problem of unemployment has gradually come to the fore. As a result of the new employment act enacted during the transition process, which no longer provided security of employment for workers to meet the characteristics of a market economy, unemployment gradually rose, with the unemployment rate remaining greater than 10% from 1991 to 1998. As a result, the problem of the gap between rich and poor also became more acute, with the unemployed population reaching 46% in 1993 [8]. But in the process, the privatization of enterprises went smoothly and fairly. The aim of privatization was to restructure management, production and other processes and to improve the competitiveness of enterprises at home and abroad. It is also a source of additional revenue for the state budget and a source of income for the population. The pace of the privatization process has always been a matter of debate, but in this article priority is given to achieving the goal of privatization. Overall, the results of the shock therapy, which centered on structural reforms to move the country towards a market economy, are more evident and have laid a solid foundation for the creation of a market economy in Poland.

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3.2. After Shock Therapy

After 'shock therapy', Poland plans to follow suit, continuing the transition while addressing the high unemployment rate and maintaining economic growth as important goals. At the same time, Poland's economic growth has been an advantage in terms of attracting large amounts of foreign direct investment (FDI), low levels of taxation and relatively cheap labour. in 2006, FDI exceeded €11 billion and in the transition process FDI has brought not only capital but also new technologies, human resources and methods of management organization. At the same time, social security spending was increased and a guarantee fund was set up to protect employees of state-owned or private enterprises, to avoid the recurrence of mass unemployment; to promote youth employment, to provide more jobs and to guarantee the social welfare of the population. The economy has grown significantly since Poland joined the European Union in 2004, and the strict implementation of monetary policy and the slowdown in economic development have effectively helped Polish companies adapt to the increased competition after joining the EU. As a result, Poland's domestic market has seen a strong supply and demand and a marked increase in competitiveness. Poland's economy grew by almost 60% from the early days of the reforms in 1989 to 2006, and it successfully reformed its political system and introduced Western-style democracy. The Polish government regulated power so that society itself followed the laws of the market economy and completed its transformation.

3.3. The Key Point to Economic Growth

Poland has been able to maintain its economic growth for several reasons: firstly, Poland has been implementing a strict economic policy for many years, with strict control and regulation of the banking sector, and foreign financing or FDI is not relied upon to avoid excessive risk of financial crisis. Secondly, Poland has a relatively large domestic market demand that can effectively absorb exports. In the IMF's assessment, it was noted that Poland's losses during the 2008 economic crisis were minimized by strong economic principles and effective counter-cyclical policies [9]. Along with its achievements, Poland is facing a number of problems in the process of economic transformation, one of which is the ageing of the population. The ageing of the population will lead to a slowdown in Poland's economic growth, which will be constrained by a shortage of labour force. At the same time, the loss of Poland's human capital due to strong migration trends is also an important factor, which shows that Polish nationals have little confidence in their country's career prospects and is a key concern for the Polish government. Income inequality among the population has still not been eliminated and the Gini coefficient is well above the EU average, with 0.34 for Poland and 0.3 average for the EU. During 2008-2011, the bottom 10 percent of the population's income increased much less than the other population, especially the top 10 percent of citizens [10]. Although the number of unemployed people has fallen and the government has made some gains, the employment rate is still below the EU average and unemployment among young people is too high, requiring further policy adjustments, such as strengthening education and vocational training, reducing labour costs for businesses, encouraging start-up offices and increasing employment opportunities.

3.4. Failure in Transition Process

There are of course failures in the transition process. Countries that fail have an unstable social order, no significant economic growth, and are still full of uncertainty about their future development. Countries such as Uzbekistan and Kyrgyzstan have seen their incomes plummet compared to the pre-Soviet economy and the transition has been a complete failure. There has also been no success in terms of political transformation, with presidents in most of the failed countries adopting long-term rule or succession systems, not absorbing national talent and stagnating the system. The oligarchy

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problem was also very serious. After the collapse of Ukraine, for example, oligarchs took over most of the country's wealth, with the richest 50 oligarchic groups controlling at least 45% of the country's wealth. A large part of the reason for the failure of the transition in these countries came from the lack of a better foundation of private property rights and democratic consciousness prior to the transition, and the initial privatization was done very poorly, resulting in oligarchs occupying most of the country's wealth. And the most important reason is that these countries lost confidence in the transition after the post-shock therapy recession and did not continue to move firmly towards marketisation of the economy. The state has strengthened its control over the economy and its policies have gradually tilted towards the oligarchic category of companies, without paying attention to the development of small and medium-sized enterprises and technological innovation, resulting in a reduction in market dynamics, a gradual decline in FDI and a very unstable outlook for economic development.

4. Conclusion

In summary, the success of transition economies depends primarily on the establishment of a dynamic and growing market system on the economic front and, secondly, on the political front, on the establishment of a system in which power is restrained and the interests of the people can be effectively protected. Whether shock therapy is the right thing to do is a key topic in the study of transition economies. The eventual success of shock therapy in Poland and the eventual failure of shock therapy in Uzbekistan and Kyrgyzstan show that shock therapy is not the key to successful transition and that defining clear goals will lead to success regardless of whether the transition is radical or gradual. Although this paper analyses the reasons for the success or failure of Poland and a few other countries, the sampling is not large enough and more country data from CEE is still needed to authenticate this conclusion in detail. In the future, evidence needs to be taken in terms of data analysis, comparing most countries in CEE to identify similarities and differences between successful transition countries and vice versa to draw more detailed conclusions.

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