Ivo Bicanic
University of Zagreb, Central European University

THE ECONOMIC ROLE OF THE STATE IN SOUTHEAST EUROPEAN ECONOMIES IN TRANSITION

paper written for WIIW project
Long Term Economic Development in Southeast Europe

This paper will address three issues encapsulated in two questions concerned with the economic role of the state in Southeast European economies in transition. The two questions are: What is the appropriate economic role of "the state" in Southeast European economies in transition (SEET)? How does the current economic role relate to the appropriate one? The first question addresses the "grand" issue and it will not be answered straightforwardly, there is no simple answer. The second question implies two issues. The first and significantly easier one is an "empirical " issue in so far as it determines the current economic role of "the state". The second issue is "comparative" because it relates the current role to some benchmark. Since the benchmark will not be determined unambiguously the second issue will also be addressed in the paper only partially.

The paper will address the above issues in 4 sections and a case study. The first section will deal with the issues of the dimensions which must be included in the discussion of the appropriate economic role of the state. The second section attempts to determine the current economic size, scope and strength of the state in SEET. This section will also note some standard results of 10 years of transition regarding aspects of the state. The third will briefly discuss the current dominant paradigm on the economic role of the state, the cycles of opinions regarding the role of the state and brief historical perspective The final and concluding section is central because it tries to tie up the arguments in the previous two. It addresses two issues. The first is the probable changing economic role of the state in the medium term in SEET and the second is the favorable evolution of the role of the state in the medium term. At the end of the paper is a case study of the rise and failed dismantling of Croatia's crony capitalism.

The next important introductory note refers to the meaning attributed in this paper to in the economic role of the "the state" in SEET. Obviously it has a wider meaning than purely the institutional infrastructure of central and local government and extrabudgetary funds, i.e. the framework for the provision of public goods and public investments. In the context of SEET the role of the state must be expanded to include the regulatory function. Thus to be meaningful in the context SEET a the beginning of 21st the century of the paper it must include some additional aspects. First, it includes the institutional capacity to apply the institutions. This is embodied in the human and social capital available to the state (e.g. it is not enough to have the tax legislature in place but there must also be both a competent beaurocracy able to collect the taxes and the willpower to collect the revenue). But given the state of SEET another important aspect of the state must be included: all the informal ties and networks the private sector has with "the state" and their consequence of nontransparent redistribution of public money and state rent (e.g. not only the public bidding system but also the side payments and bribes involved in disbursing public money or for building policy capture relations).

The third introductory remark concerns the meaning of "crony capitalism". The argument of the paper will rely heavily on the notion that first generation transition policies in SEET generated "crony capitalism" which is now being dismantled through electoral pressure and outside conditionally. The term first emerged in the literature when describing Latin America and has been used for East Asian economies. It does not have a clear meaning but will be used here to imply a type of capitalism characterized by the dominance of insider interests, extensive clientism, non-market based financial sector allocation and a close link of the state and government with entrepreneurs and the financial sector. The outside signs of this is a weak state: widespread small and large corruption, subjected to policy capture and generating significant quasi-rents.

1. THE STATE

Leaving paradigms and theories aside and taking a heuristic view over the last decade "the state's" economic role in economies in transition generally and SEET in particular is certainly wider than the traditional role noted by Musgrave (1957)(provision of public goods and services, macroeconomic stability and distribution goals) or those cited by Stiglitz (1997) (promoting education, promoting technology,, supporting the financial sector, investing in infrastructure, preventing environmental degradation, creating and maintaining a social safety net and creating markets) or the main ones listed by Gupta (2001) (political economy, growth and allocation). In economies in transition it has developed into a multitude of different and extremely varied roles.

For the purpose of understanding the role of the state in SEETS this paper will recognize six such roles. Namely: (i) continued economic transition, (ii) macroeconomic stability, (iii) supporting private entrepreneurship, (iv) redefining social entitlements (v) management of state portfolio and (vi) public capital investments. Each of these roles includes many diverse economic functions which are as likely to be mutually contradictory as they are can be complementary. Thus the states economic role does not make a coherent picture: a clear set of goals with all policies in some way contributing to it. It seems useful, however, to approach these roles from two standpoints. The first is a pro-active one which is future oriented and deals with supporting the development of a modern market economy and for real and nominal convergence. This is assumed to be the goal expressed by the electorate. The second is takes a reflexive interventionism view which concentrates on dealing with various issues unpredictably thrown up by economic development. These can be either conscious or not developments which act as barriers for the former. Bearing this in mind each of these roles must be described in a little more detail (an exhaustive analysis would be outside the scope of the paper).

1. Continued economic transition. No SEET has yet established a functioning modern market economy. The first generation of transition policies led in each of them to another point of discontinuity (either after an economic meltdown as in Albania and Bulgaria or after electoral defeat of authoritarian regimes as in Croatia, Yugoslavia and Bosnia and Herzegovina, Romania is the exception by averting the crises in 1999 while Macedonia's situation is unclear). Even more importantly they are all currently engaged in dismantling the crony capitalism generated by the first generation of transition policies or still dealing with the aftermath of an economic meltdown or war. These tasks are so demanding that some authors have called it the "second transition". As a consequence there is a new kind of institutional deficit made up both of the standard deficit (i.e. of institutions not having been built during the first generation transition policies) and those which are the institutional support of crony capitalism (and hence unadapted to a modern market economy). In their continued transition SEET are thus faced with a deficit (which results with the need for institution building and restructuring) and inappropriate social capital (as an inheritance of socialism and failed first transition and successful crony capitalism). As in the case of the first transition the success very much depends on socially costly policies being backed by a wide social policy consensus. The task of building, maintaining and developing such a wide policy consensus for change under conditions of sluggish growth and large and sometimes rising economic inequality would be demanding even in economies with long democratic traditions. This role requires both pro-active policies (defining the speed and sequencing for applying the "acquis", increasing institutional credibility, etc.) and reflexive ones (dismantling first generation transition policies, rolling back state and policy capture, reducing corruption).

2. State support for orderly private entrepreneurship. In SEET the private sector is dominant (most GDP is produced by it, especially if the large unofficial sector is included) but with the development of crony capitalism large sections were based on corruption, tax fraud, policy capture, siphoning funds and many other illegal as well as unofficial and untransparent practices. Over the decade of the nineties crony capitalism has developed a institutional framework (supporting it) and social capital (a wide and powerful network). All SEET are, however, firmly committed to dismantle crony capitalism and expand and support the development of an "orderly private sector" (based on the rule of law and effective markets). This task is being achieved through a set of varied policies. In this role pro-active policies are as important as reflexive ones. An important aspect is the states commitment to the unusual task of reducing their own size and scope (but not necessarily strength) at the expense of the nascent private sector. Pro-active policies here include maintaining macroeconomic stability (which cannot be reduced only to price and exchange rate stability and must. at least, be expanded to include policy stability and the rule of law), further privatization (in all SEET large privatization is still on the agenda), support for start ups (soft credits for small business due to the firm belief about the extremely favorable effects of "de novo" firms) promote FDI (not only to fill in for the domestic low investment and savings ratios but, as is believed, to introduce new management and efficiency standards and bring new technologies), develop the informational base for the economy (by organizing the land books and catastar, deposit agency, etc.) and maintain competitive conditions (to develop well performing markets and reduce quasi-rents). This role involves many reflexive policies as well. The state is the most prominent actor for dismantling untransparent flows of funds (involving siphoning both from the state but intra private sector as well), increasing the risk in the unofficial economy (through the legislature and break up of crony networks to expand the rule of law and tax base), eliminating policy capturence (where crony capitalism has developed networks and extensive policy capture), etc.

3. Redefining social entitlements. Like other economies in SEET inherited from socialism a very wide ranging system of social entitlements. It involved an overt "cradle-to-grave" system like free and very widely accessible education, a liberal "pay-as-you-go" pension system, publicly funded extensive child support and care schemes, wide ranging publicly funded health and public health system with minimal or no user participation, etc. There was also a covert system encapsulated in employment policies designed to absorb unemployment and providing employment security. In the case of SEET (and other economies of transition) this system was neither supportable by the economy either because of its social costs (especially in view of the revenue collapse of the early nineties) or because of demographic changes (population aging and the pension and health system). Furthermore it was an inefficient system (both horizontally because it left out some who were entitled to it and vertically because it was subject to abuse) and not adapted to a mixed market economy. The social entitlements related to security have a special place in SEET. Not only were all faced with downsizing a military and police but four SEET were involved in the Wars of the Yugoslav Succession. For them the system of social entitlements was also part of the war and post war effort (through pensions, often abused and inflated for select veterans, social benefits, etc.). Generally SEET postponed reforming social entitlements, leading to the deterioration of the provision of public services, and some expanded them, in the aftermath of war. Changing social entitlements in times of a transition crises, when the political cycle is extremely short is a delicate procedure creating uncertainty for the population. Postponing the reforms could not go on indefinitely so SEET have embarked on changes involving both pro-active policies (pension reform, privatization of some public services, etc.) are being mixed with reflexive interventionism (cost cutting, reduction of entitlements, etc.).

4. Managing the state portfolio. In spite of extensive privatization in SEET the state is still left with large portfolios. Regarding them it has the double task of organizing their further privatization and of managing them. In most SEET this portfolio is a varied collection of firms. There are lucrative ones for which there is no problem of finding potential buyers but which have in all SEET raised the issue of sale of "family silver" and the possible favorable effect of leaving some firms in continued state ownership for "national reasons". There are also white elephant firms which are part of the socialist inheritance, often are loss making and as major regional employers lead to a complex politically issues. The portfolio also includes smaller profitable or potentially profitable firms who are sufficiently small to attract varied buyers and were part of the "crony" privatization network. Finally there is a large number of firms which are not earmarked for privatization either for policy reasons (e.g. oil industry) or due to the nature of their business (railways, public utilities). Apart from privatization the portfolio also forces the state to over the responsibility of managing the portfolio. Nominating managers, corporate governance, employment policies. All these were very closely linked to "crony capitalism" as the state portfolio provided extensive opportunity for siphoning (state funds into private fortunes), clientism (appointing party faithdfulls or proteges to multiple well paid directorships or management board membership or providing employment), corruption (in signing contracts and the forms) and political cycle (buying regional votes). As can be seen the state portfolio is faced with pro-active (continued privatization, investment decisions) and reflexive policies (dismantling networks, prevention of corruption) in equal measure. Especially important in this area are accommodating policies which the state permits for "its" firms (pensions and health fund arrears, utilities arrears, etc.).

5. Deciding on a economic policy package. Just like crony capitalism which was not thrust on SEET economies but largely a result of choice and policy options so SEET are now faced with new sets of policy options: the policies, speed and sequencing of dismantling crony capitalism, the speed and sequencing of applying the "acqui", the appropriate role for pro-active growth and development policies and industrial policies, redistribute policies and those related to managing economic inequality, policies designed to increase technology absorption capacities, etc. Here pro-active policies dominate reflexive interventionism. The issue about these pollicies is not only that many issues involved are theoretically controversial (e.g. the proper scope for a growth policy and exogenous and endogenous growth theories) but also issues cannot be resolved by domestically generated results (due to lack of data).

6. Infrastructure. Being Europe's least developed economies SEET (but still upper middle income economies by World Bank standards) SEET have an inadequate infrastructure. Investments into infrastructure involve large up front costs and large sunk costs, long gestation periods, on average lower levels of return over a long period so the state is faced with involvement in their construction.

Of course the above discussion of the economic role of the state in SEET is "forward looking" and has not dealt with how the large weak state and crony capitalism emerged in SEET. This discussion would be outside the scope of the paper.

2. THE SIZE, SCOPE AND STRENGTH OF THE STATE IN SEET

The empirical data on the size, strength and scope of the state in SEET should serve three purposes. First it should try to determine the current state (size, strength and scope). Second it should try to determine whether it is line with the dominant paradigm. Third it should see what sort and medium term changes the data implies.

The standard approach for determining and explaining the size of the state concentrates on the consolidated state expenditure and its share in GDP. The consolidated state expenditure (i.e. state cash expenditures) includes in addition to central government and local government expenditure the very important pension and health funds expenditure (whose large deficits are financed by the state and thus a major cause of the overall deficit). In this way consolidated state expenditure captures all financial expenditures and measures the flow of funds under state supervision. This permits its use as a proxy variable for the state's role in the economy. The use of this proxy variable has another advantage. International accounting standards should be used so the values should be comparable for all economies. This share is then linked to explanatory variables. Using cross country regressions is the natural extension of the approach.

The above approach was first developed for transition economies by Begg and Wyplosz (1999) and has since become the standard. Using this approach they conclude what has now largely become a stylized fact that there has been significant state downsizing but that its size is still larger than the level of development and the tax base can sustain, except for Bulgaria. Other variables such as indebtedness, arrears etc. are also used in the same procedure.

The popularity of this approach is probably partly due seeming lack of data problems (international accounting standards for limited number of variables), comparability (same accounting standards in various economies) and the use of cross country regressions (assuming one accepts the premises). However the role of the state described in the previous sections cannot use the share of cash expenditure as a proxy variable for such varied role subject to dynamic change. As a result major data problems are unavoidable.

Obviously pre-transition data is not relevant for determining the SEET role of the state. However the data generated after the transition (post 1990 data) leads to different kinds of problems. First, some vitally important data is simply not collected or are estimated using questionable and incomparable procedures. Second the period involves hyperinflation (in all the economies with the Yugoslav inflation of 1993 being the second highest ever recorded) so that a large section of the data is unreliable (depending on when the economies achieved price moderate inflation of price stability). Thirdly the economies during the period faced extraordinary and extreme shocks (either meltdown or the direct and indirect effects of wars and embargoes as well as subsequent recovery and donations). Fourth restructuring the statistical services and the slow introduction of SNA made some data collections unreliable (especially for small enterprises and agriculture). Fifth a large part of the economy was unreported (the dynamic small enterprises, the large and vibrant unofficial economy which is estimated to be at least a quarter of the official one). Finally it must be noted that at most for Southeast European economies there are no more than 5 years with usable data (the exception may be Romania), certainly not enough for standard econometric analysis. Data problems emerge even when the seemingly reliable state expenditure data is used. With regard to the consolidated state expenditure they are smaller than elsewhere, even though Gupta et al (2001) point that even this data is suspect (they note incomplete records of commitments, noncash transactions, statistical coverage). However in spite of these additional efforts should be made to determine the economic importance of the state with regard to: macroeconomic stability, the states strength, its own entrepreneurial activity, regulatory activity and entitlements.

As a result of all this "hard" econometric techniques cannot by used and national data sources need not be comparable. This leads to the use of "soft" econometrics and an important role for descriptive statistics and with that the unavoidable ambiguity. The very important consequence of such data problems is that robust SEET generated empirical results about the growth in the region cannot be derived and as a result they cannot be used for resolving growth related theoretical or policy disputes. Given such large data problems the size, scope and strength of the state in SEET will be analyzed from data bases compiled by the World Bank (social development indicators and Kaufman et al.) and EBRD data which includes all SEET economies.

One of the central roles of the state is its ability to provide a stable macroeconomic environment. Even though the inflation rates are much higher than those in the more successful "North tier" economies in transition the inflation rates indicate high moderate inflation at worse and price stability for most. At first glance it seems successful as by 2000 no SEET is experiencing high inflation rates and the exchange rate is stable.

Table 2

However as Table 2 shows Bulgaria and Romania did have high inflation rates in the mid nineties while Croatia, Macedonia and Yugoslavia experienced hyperinflation twice (late eighties and early nineties) and frequent bouts of high inflation (during the eighties). So in spite of medium or low inflation rates prevailing the state has not yet got a track record and inflationary expectations may exist. Much more telling signs of macroeconomic instability is provided by the overall budget deficits, see Table 3, and the size of the consolidates budget expenditure, see Table 4. Both tables indicate that restructuring is probable (for reducing the deficits and rolling back the state).

Table 3

Table 4

Table 5

Policy instability, see Table 5, may also indicate macroeconomic instability. Taken in toto the data shows that the state has not yet been able to "deliver" credible macroeconomic instability. There are other reasons which underpin this conclusion: the dismantling of crony capitalism, extensive sectoral and institutional restructuring are all macroeconomic destabilizing effects.

Another set of data deals with two aspects of the role of the state. The first aspect the data covers is about the support of orderly private sector entrepreneurship or, perhaps more precisely, the deviations from it. The second concerns its role as a regulator. Both in some way are related to the strength of the state. State strength could be viewed as its ability to implement the rule of law and not get involved in accommodating policies which undermine initial policy choices. State strength could also be related to the absence of corruption. Data on all these are rare and a result of questionnaires and hence subject to all kinds of data problems. The data is not collected regularly but usually on a one-off occasion. Also national data is difficult to compare. The only comparative study is the one by Helman et. al. (1999). Their data on other malfunctioning of the judiciary is in Table 6 and corruption in Table 7.

Table 6

Table 7

In both cases the SEET fare significantly worse than the North tier economies and both present major problems for these economies. Both these variables are somewhat exceptional in that the variations in the North tier are larger than in SEET economies (usually the variations are larger in the latter). The judiciary malfunctions in the sense that it is slow to respond, court cases take a long time to get resolved and in many cases the courts are not independent. A different course, the EBRD, collects comparative questionnaires on another aspect of government strength. The data on government effectiveness which combines perceptions of the quality of the public service of the beaurocracy, the competence of civil servants, independence of civil service from political pressures and the credibility of the governments commitment to policies is given in Table 8.

Table 8

A third set of data refers to the government support to the orderly private sector. Data on the high levels of corruption were given in Table 7.

Table 7

But the EBRD also collects important data from questionnaires by firms reporting state intervention. These are given in Table 9. Table 10 provides from the same source data on the regulatory burden which measures the perception of market unfriendly policies, inadequate bank supervision, excessive regulation etc.

Table 9

Table 10

The SEET in both tables fare much worse than the North tier economies and the level of state intervention and regulatory burden is high.

There is one set of data, however, which gives a mixed picture regarding the states activities. The general government final consumption, given in Table 11.

Table 11

The data shows that the SEET have a lower share (with the exception of Croatia) than the North tier economies.

Table 12

Also, as Table 12 shows, the state has successfully downsized its operations as an aggregate and in education and health. Furthermore the share of state wages has also fallen. The reason for concern is that the reduction may also imply a fall in quality of the services and a limited capacity for increasing the effectiveness of the state by further reducing crony capitalism (e.g. the reduction of health expenditure could lead to bribes and inequalities of services provided).

3. SURVEY OF THE CURRENT PARADIGM, CYCLES OF WISDOM AND HISTORICAL TRACK RECORD OF THE ECONOMIC ROLE OF THE STATE

The roles of the state treated in section 1 and the size, scope and strength of the state analyzed in section 2 must be compared to the dominant paradigm interpreting the changes in the state's position. This paradigm defines the appropriate role of the state according to the dominant current thinking in the economic profession.

This paper will not offer a comprehensive survey of the literature on the appropriate role of the state in transition economies. This is a controversial topic and authors have presented different approaches. Neither will it present a historical overview dealing with changing paradigm of the role of the state in the rise of the modern economy. Instead on the basis of the three previous sections and some additional points it will try to draw attention to shortcomings of the currently ruling paradigm.

The current dominant paradigm regarding the economic role of the state is the one developed by the international financial community (the IMF and WB especially). This paradigm has been embraced by other international bodies (the EU and EBRD for example). For SEET it is important because all SEET are, through conditionally or domestic preferences, implementing it, at least in principle. In this sense the paradigm is very important and influential. For lack of a better name it is often referred to as the "New Washington Consensus".

The "New Washington consensus" was supposed to patch up the admitted shortcomings of the initial recipe and not offer a radically new approach. The "holy trinity" of the old consensus were forced internal and external liberalization (to introduce competition and eliminate resource allocation barriers), accelerated privatization (to expand profit motives and restart the economy with new incentives) and multiparty democracy (to guarantee political freedoms and an accountable and transparent state). The approach envisaged a fundamentally new role for the inherited state and major institutional restructuring and institution building. First it implied rolling back the state to a role without active interventionism and subsidies, second it reduced the state to creating and maintaining macroeconomic stability in the form of tight monetary policy, stable exchange rates and balanced budgets, third it required a restructuring of the provision of public goods and services. Following this policy through thick and thin, it was firmly believed in the early nineties, would lead first to economic recovery and then to sustained growth which would in turn, as predicted by the theory, lead to economic convergence. The paradoxes involved were quickly recognized, see BiŠaniŠ and Okreb (1992) and later Blanchard (1997), Dallago (1996) and Stiglitz (2000), but the strong international conditionality backing the initial recipe did not waver until the late nineties. In the economy the two most visible inadequacies concerned the of the state and ineffective markets. The state could not successfully fulfil some of its tasks. It kept maintaining soft budget constraints and pursuing accommodating policies, rising corruption, policy capture, uncontrolled rise in inequality, loosing pro-transition consensus due to rising social strains, was subject of policy capture, etc. Markets, even when officially liberalized remained inefficient markets so the economy was kept of its convergence path. The causes of inefficient markets were determined by large quasi-rents and rent seeking, oligopolistic markets and investment and FDI unfriendly environment, etc. The recipe did not work, especially in Southeast Europe.

As a result earlier policy recommendation were expanded into the now reigning "New Washington Consensus". It became clear the state could simply not fulfill the tasks allocated to it. The policy approach was expanded by stressing the importance of the state's regulatory function and including and providing incentives for institution building (where the remarkable success of the IMF in creating its own negotiating partner was left unnoticed), institutional capacity (largely concentrating on policy implementation and infrastructure), absorption capacity (to deal with the structural ability for change) social capital (to deal with corruption and investment environments) and human capital (which was increasingly viewed as both a growth factor and solution to the above policy recommendations).

But even after all these changes the basic concept of the role of the state remains unchanged. International conditionality backs institutional restructuring and institution building supporting and leading to a minimal but strong state. Whereas the latter part is not controversial the accepting the minimalist view may be, especially in the context of

SEET. The remainder of this sections will try to provide some additional considerations relevant for SEET which cast a shadow of doubt on the dominant paradigm.

The role of the state in modernization (i.e. the development of modern economies) has always interested economists. The approach most often quoted is Gerschenkrons who interpreted modernization as coming in three waves. The first in the late 18 and early 19 century was dominated by the rise of England where he saw little scope for the state acting as a engine of growth. Individual entrepreneurs and stock markets for raising capital were seen as dominating and led to England emerging as the world leader. This pattern was followed by the German burst of development in the second half of the 19th century. The pattern was dominated by oligopolies and cartels as well as the dominance of credits and bank loaning to finance development. This pattern of industrialization led to Germany's and the US convergence into the group of leaders. The third came at the end of the 19th and early 20th century and here the state took on itself the responsibility of development. It managed major investments, chose national champions and tried to direct the course of development. In the context of market economies Gerschenkron analyzed it as the growth spurt that failed in Austro-Hungary. This claimed failure has since undergone careful scrutiny, see Good (1986) and Good (1994), and the current dominating view is that in the late 19th and early 20th century Austro-Hungary experienced a boom and modern economic growth started (and hence a much discussed paradox that the empire broke up in spite of economic success). The second instance of state led growth in its extreme for of central planning was part of the "socialist experiment". The data, Estrin et al. (1996) clearly show that while growth was based on moving resources from agriculture to industry (extensive growth pattern) it was successful but failed when technical progress (and intensive growth) started dominating. As with other "grand designs" in history the clear and appealing model has difficulties in explaining the details. Gerchnenkrons ideas about the late comer advantages however remain discussed and powerful even today. In so far as SEET are less developed the minimalist view of the state may not be appropriate.

Another misconception regarding the role of the state concerns late 18th and early 19th century development. Until recently the dominant approach was that the industrial revolution and the rise of England was based on a weak and small state. Vigorous entrepreneurs in a laisez faire environment and stock markets for raising capital were thought to dominate. The state was weak and small and in fact an insignificant "player" in the this modernization. Until recently this view was dominating economic history. Recent studies, see Weiss and Hobson (1995) or Musgrave (1999), show that the state had a much more prominent role (and not only due to demand and financing the Napoleonic wars). This view points that there was major institution building and state support for the entrepreneurs and the state was far from taking the "back seat", indeed it was taking a leader role in many aspects.

Regarding more recent events the post war Golden era of European development is cited as an example. While the Marshall plan is used quite erroneously (there was no transition involved and with it no massive and sectoral restructuring, institutional building, social capital creation, perhaps the only analogy which is not used are the possible similarities of dismantling national-socialist regimes with nationalist-authoritarian ones) too little attention is given to the social compact. That aspect is almost overlooked but here important lessons can be seen. The state, according to Eichengreen (1996), was active in building institutions and maintaining a wide social consensus for growth. In the consensus the trade unions (workers) agreed to wage restraint but the entrepreneurs agreed to reinvest profits and increase employment. From hindsight it looks like the consensus worked because of the commitment and agreements of the entrepreneurs. Looking at SEET while the former is kept in check (by high unemployment, weak trade unions, external conditionally and a right wing political swing) it seems the latter is missing. Domestic investment rates remain low, entrepreneurs remain unorganized, crony capitalism increased economic inequalities and behavior makes them conspicuous. Learning from history again the state may have a more active role with regard to the commitments of the entrepreneurs for reinvestment and growth.

Finally one should not that current paradigm which could be called "minimal strong state" was not always the ruling paradigm. Even after unjustly disregarding the discussions on industrialization patterns and pre World War I events there has been both a period where the current ruling paradigm dominated and where the opposite one riled the day. The current paradigm ruled in the first half of the interwar period. Krugman (1996) cites examples from the Latin American experience, Solimano (1991) from the East European policy recommendations offered by the League of Nations and Bicanic and Ivankovic (2001) provide a case study of Yugoslavia's monetary policies during the same period. This paper does not allow for detailed discussion but the

The period after the Great Depression also offers numerous examples where the opposite paradigm ruled. Again disregarding extreme cases (central planning or nazi dictatorships) there was ample examples for pro active growth policies. For example the Balkan economies relied on strong state intervention (the state taking over debts from private sector, managing development through a large state sector) and even market economies after the Second World War thought a prominent state could contribute to growth (growth substitution, state choice of national champions, state trade).

In all cases the paradigm offered economic convergence and when it failed to deliver it the cycle changed. On this it may be that if in SET modern economic growth does not emerge according to the present state paradigm it may also change as the pendulum swings.

CONCLUSIONS

BIBLIOGRAPHY

Begg David and Wyplosz Charles (1999): "How Big a Government? Transition Economy Forecasts Based on OECD History", paper presented at the Fifth Dubrovnik Conference on Transition Economies, Dubrovnik

Bicanic Ivo and Škreb Marko (1992): "A Paradox of the Transition to a Market Economy: How Will the Role of the State Change" in Targetti Ferdinando, editor (1992): "Privatization in Europe", Dartmouth, Aldershoot

Dallago Bruno (1996): "The market and the state: paradox of transition", Moct-Most, Vol 4, pp:1-29

Eichengreen Barry (1996): "Institutions and economic growth: Europe after World War II" in Crafts Nicholas and Toniolo Gianni, editors (1996): Economic growth in Europe since 1945, Cambridge UP, Cambridge

Estrin Saul and Urga Giovanni (1997): "Convergence in output in transition economies: Central and Eastern Europe 1970-1995" CEPR Discussion Paper No:1616

Good David (1986):

Good David, editor (1994): Economic Transformation in East and Central Europe, Routlegde, London

Gupta Sanjeev, Leruth Luc, de Mello Luiz and Chakravarti Shamit (2001): "Transition Economies: How Appropriate Is the Size and Scope of Government?", IMF Working Paper WP/01/55

Hellman Joel, Jones Geraint, Kaufmann Daniel and Schankerman Mark (2000): "Measuring Governance, corruption and State Capture", World Bank Policy Research Working Paper No: 2312

Havrylyshyn Oleh and McGettigan Donal (1999): "Privatization in Transition Countries: A Sampling of the Literature", IMF Working Paper WP/99/1

Krugman Paul (1996): "Cycles of conventional wisdom on Economic Growth" International Affairs, Vol.: 72, No:1, pp:717-732

Musgrave Peter (1999): "The Early modern European Economy", Macmillan Press, London

Raiser Martin (1997): "Informal institutions, social capital and economic transition: reflections on a neglected dimension" EBRD Working paper No: 25

Solimano Andres (1991): "Central and Eastern Europe: An Historical Background" in Corbo Vittorio, Coricelli Fabrizio and Bossak Jan, editors (1991): Reforming Central and Eastern European Economies: Initial Results and Challenges" World Bank, Washington

Stiglitz Joseph (1996): "The Role of Government in Economic Development", ABCDE conference 1996 pp: 11-23,

Weiss Linda and Hobson John (1995): "States and Economic Development", Blackwell, Oxford

APPENDIX 1: THE CROATIAN CASE

Undoubtedly the main failure of Croatian economic development during the nineties and especially at the beginning of the new millennium concerns the role of the state in general (most notably regarding policy failures, introducing hard budget constraints, corporate governance and clientage system) and public finance in particular (state and local government financing and extrabudgetary funds financing with the consolidated deficit they produce). The problem becomes even more evident if one recognizes that at the beginning of the transition (in the early nineties) Croatia in this respect faced favorable initial conditions (it did not have central planning, it started with a small state apparatus and a non existent foreign service and so could choose its size and shape, it had a developed tax system for firms and citizens and a decent level of tax compliance, there was no excessive budget deficit, etc.).

Over the decade these advantages were squandered so that now Croatia has an
- overgrown "state" (the public debt foreign is 5.2 bill USD, and the total foreign debt 11.3 bill. USD and 59% of GDP and close to the "rule-of-thumb" 60% maximum, public sector wages are 12% of GDP and almost double that of other transition economies, some sectors like the military and police have bloated employment, aggregate expenditures were 60% of GDP, etc.),
- which provides public services inefficiently (health expenditure is 9% of GDP and double that of other European economies, pensions are 13% of GDP and pension fund contributions cover only 60% of the bill with the rest coming from the central budget),
- still dominating the economy (in addition to owning 12 companies employing 87.000 workers the state through the peculiarities of Croatian privatization ended up as a major asset holder in many other companies, some of them the most lucrative, e.g. pharmaceutical Pliva and oil pipeline, or potentially most lucrative, e.g. tourism, but also with many "lame ducks", e.g. steel industry, shipbuilding, etc.),
- has shown a taste for strongly interventionist policies (by continuously passing accommodating policies and maintaining a soft budget constraint with a lot of discretionary decision making, by giving state bank guarantees to state and private firms, bail outs, e.g. shipbuilding and banks, road construction, through a tendency to choose "national champion" industries, etc.), is
- consistently listed as one with a relatively high level of corruption (not only "grand" corruption regarding public procurement and bribes, not only the notorious cases in the military, and large state backed projects, especially in infrastructure, but also "small" corruption in the provision of public services, health, customs, administration, etc.)
- which is institutionally a continuous source of instability (through reorganization, continuos negotiations over downsizing which repeatedly fails, providing external shocks for the rest of the economy, strong favoritism and clientage, subject to international conditionally, etc.).
- and which is increasingly being seen as having to provide a engine for growth (so large funds are being established outside parliamentary control, quietly state banks are being established, grand growth strategies being discussed, infrastructure investments favored)

While part of the rise of the overgrown state can be explained by circumstances (i.e. the Homeland War or the Croatian episode of the Wars of the Yugoslav succession which started in 1991 and ended in 1995, at its height in 1992 Croatia had a military with around 150.000 soldiers and faced an arms embargo which forced many state defense activities underground while in 1995 when in operations "Flash" and "Storm" the government gained control of the whole territory the share of military expenditure was 9.4% of GDP, as a result the state is left with a large "veteran" problem and major downsizing of the military and police) and partly by path dependency (a couple of traditions for large state involvement emerged over time, e.g. the Austro-Hungarian cum socialist notion that the state is responsible for growth and development, the Byzantine/Serbian/Yugoslav tradition where the state is viewed by its employees as a justified means for making personal fortunes and getting rich, the communist policy tradition which viewed the state as giving "cradle-to-grave" extensive social entitlements and responsible for public welfare, communist tradition of a disrespect for hard budget constraints and rigorous accounting, etc.) the main reason is elsewhere.

The main reason for Croatia's current problems with an overgrown state is a result of choices made by the elected and re-elected politicians during the nineties and their task of defining Croatia's second transition path (the first one being the brief but very influential transition experience in Yugoslavia). These unforced choices led to crony capitalism: privatization which created a large state sector, nationalism with a large foreign service and efforts to build a national capitalist class which led to extensive state clientage and paternalism, reform sequencing which gave wide scope for rent seeking behavior and quasi-rents with exploding economic inequality, social considerations which led to extending the soft budget constraint, extensive non market links of financial sector with politicians and businessmen, etc.

Once crony capitalism had lost its credibility (by not producing growth or rising living standards) and viability (by not consolidating and going from crises to crises, first in foreign trade, then banking, increasing deficit problems, then a recession) and social momentum built up (the ruling party started its downward spiral in the mid nineties) it met with an electoral defeat. A six party coalition was elected at the beginning of the millennium (January 3rd 2000) with a mandate to dismantle crony capitalism. They, out of ignorance and inexperience (they had virtually no experience of government of a capitalist economy and leading politicians did not have the education required for such an occupation), disorganization and uncontrolled institutions (out of fear of being accused of "revachism" the cadres of the previous regime in the judiciary, military, secret police and police remained), uncertainty and risk aversion (with consequent insecurity and postponement of all decisions until the course of events makes them inevitable) and above all lack of will power and absence of decisive actions and decisions (resulting from a mixture of personal traits of leading politicians and the mechanics of a first six and then five party coalitions) have left unused a unique opportunity of post election enthusiasm. Namely they did not start dismantling the legacy of crony capitalism sufficiently convincingly or decisively. In their two year in power they have made a lot to promises about decisive action at some future date but in actual fact so far have done little to dismantle crony capitalism and done a lot to unnecessarily install a new political architecture which makes the goal even more difficult.

Under such conditions the problem of Croatia's overgrown state is not a transitory, cyclical or a short term phenomena but structural and long term. This, of course, should determine the approach to dealing with the problem. Rolling back the Croatian state should be a result of clear goals with a medium term strategy with clearly set priorities and backed by a credible policy supported with a wide ranging public consensus (the process inevitably leaves a considerable sector worse off, at least in the short and medium term). The current government has none of these components in place and has shown a remarkable talent for bad public relations.

As a consequence crony capitalism adapted and there is an increasing credibility gap between the politicians and an increasingly frustrated and disappointed population. The conditions were not favorable for improving the economy. While the recession has passed and medium growth (around 3-4%) resumed the budget deficit remains high (and covered by increasing foreign debt and sale of assets), unemployment constant (at over 20%), the inherited "white elephants firms" unrestricted (leading to accommodating policies), institutions weak (especially the judiciary which failed to set in motion a dismantling process) and economic inequality rising out of control (both regionally and in income and wealth). Certainly the lesson of the first two years is that dismantling crony capitalism is a much more demanding task involving further expansion of the state and not it weakening.

APPENDIX 2: THE TABLES

Gross domestic product (% growth)

Table 1a

		Country Average	Group Average	Country Maximum	Country Minimum	Variation for Country (max-min)	max/min for Country
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	**Croatia**	4.28	1.824	6.80	-0.40	7.20	-17.00
	Albania	6.14		13.30	-7.00	20.30	-1.90
	Romania	-0.74		7.10	-6.10	13.20	-1.16
	Bulgaria	-1.96		3.50	-10.90	14.40	-0.32
	Macedonia	1.40		2.90	-1.20	4.10	-2.42

Table 1b

	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group	Group Maximum	Group Minimum	Group Variation (max-min)	Group max/min
	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	6.72	-5.12	11.84	-4.56	13.30	-10.90	24.20	-1.22

Table 1c

		Country Average	Group Average	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
North group	**Poland**	5.78	3.83	7.00	0.31	6.69	-1.80
	Latvia	3.22					
	Estonia	4.48					
	Lithuania	3.24					
	Czech Rep.	1.34					
	Slovak Rep.	5.02					
	Slovenia	4.20					
	Hungary	3.36					
Average for All Transition Countries		1.93	1.44	6.46	-4.78	11.24	-1.81

Table 1d

	1990-99
Lower middle income	3.40
Upper middle income	3.60
Heigh income	2.30

Source: World Bank, World Development Indicators, 2001.

Inflation, consumer prices (annual %)

Table 2a

		Country Average	Group Average	Country Maximum	Country Minimum	Variation for Country (max-min)	max/min for Country
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	**Croatia**	4.40	68.48	6.00	4.00	2.00	1.50
	Albania	15.00		33.00	0.00	33.00	
	Romania	66.20		155.00	32.00	123.00	4.84
	Bulgaria	252.80		1058.00	3.00	1055.00	352.67
	Macedonia	4.00		16.00	-1.00	17.00	-16.00

Table 2b

	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group	Group Maximum	Group Minimum	Group Variation (max-min)	Group max/min
	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	253.60	7.60	246.00	114.34	1058.00	-1.00	1059.00	-1058.00

Table 2c

		Country Average	Group Average	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
North group	**Poland**	16.40	12.33	21.25	4.88	16.38	6.33
	Latvia	11.60					
	Estonia	14.80					
	Lithuania	11.60					
	Czech Rep.	8.00					
	Slovak Rep.	8.00					
	Slovenia	9.60					
	Hungary	18.60					
Average for All Transition Countries		51.45	60.17	199.93	5.83	194.09	42.57

Source: World Bank, World Development Indicators, 2001.

Overall budget deficit (including grants)

Table 3a

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1998	1998	1998	1998	1998	1998
South Group	**Croatia**	0.60	-3.63	2.80	-8.50	11.30	-0.33
	Albania	-8.50					
	Romania	-3.90					
	Bulgaria	2.80					
	B i H	-					
	Macedonia	-					

Table 3b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1998	1998	1998	1998	1998	1998
North group	**Poland**	-1.00	-1.76	0.20	-6.20	6.40	-0.03
	Latvia	0.20					
	Estonia	-0.10					
	Lithuania	-0.40					
	Czech Rep.	-1.60					
	Slovak Rep.	-4.20					
	Slovenia	-0.80					
	Hungary	-6.20					
Average for All Transition Countries		-2.49	-3.61	-0.10	-6.05	5.95	0.10

Table 3c

	1998
Lower middle income	-4.00
Upper middle income	-3.50
Heigh income	-1.10

Source: World Bank, World Development Indicators, 2001.

General government final consumption expenditure (% of GDP)

Table 4a

		Country Average	Group Average	Country Maximum	Country Minimum	Variation for Country (max-min)	max/min for Country
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	**Croatia**	27.00	16.76	29.00	26.00	3.00	1.12
	Albania	11.60		13.00	10.00	3.00	1.30
	Romania	12.80		14.00	10.00	4.00	1.40
	Bulgaria	14.20		16.00	12.00	4.00	1.33
	Macedonia	18.20		19.00	17.00	2.00	1.12

Table 4b

	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group	Group Maximum	Group Minimum	Group Variation (max-min)	Group max/min
	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	18.20	15.00	3.20	1.25	29.00	10.00	19.00	2.90

Table 4c

		Country Average	Group Average	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
North group	**Poland**	15.80	18.90	20.25	17.75	2.50	1.14
	Latvia	20.40					
	Estonia	23.40					
	Lithuania	20.80					
	Czech Rep.	19.80					
	Slovak Rep.	20.40					
	Slovenia	20.20					
	Hungary	10.40					
Average for All Transition Countries		17.09	17.37	19.22	15.16	4.06	1.34

Table 4d

	1999
Lower middle income	14.00
Upper middle income	15.00
Heigh income	16.00

Source: World Bank, World Development Indicators, 2001.

Policy instability

Scale from 1 (no obstacle) to 4 (major obstacle).

Table 5a

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
South Group	**Croatia**	3.060	3.21	3.39	3.03	0.36	1.12
	Albania	3.389					
	Romania	3.370					
	Bulgaria	3.030					
	B i H						
	Macedonia						

Table 5b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
North group	**Poland**	2.650	2.50	2.78	1.59	1.19	1.75
	Latvia	2.784					
	Estonia	2.570					
	Lithuania	2.470					
	Czech Rep.	2.750					
	Slovak Rep.	1.590					
	Slovenia	2.560					
	Hungary	2.630					
Average for All Transition Countries		2.85	2.77	3.29	2.40	0.88	1.44

The data is based on a number of questions in the Business Environment and Enterprise Performance Survey conducted by the World Bank in 1999.

Research project by Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition" (PRWP 2444).

Malfunctioning of the judiciary

Scale from 1 (no obstacle) to 4 (major obstacle).

Table 6a

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
South Group	**Croatia**	2.720	2.53	2.72	2.18	0.54	1.25
	Albania	2.613					
	Romania	2.590					
	Bulgaria	2.180					
	B i H						
	Macedonia						

Table 6b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
North group	**Poland**	2.210	2.01	2.29	1.29	1.00	1.78
	Latvia	2.184					
	Estonia	1.700					
	Lithuania	2.190					
	Czech Rep.	2.130					
	Slovak Rep.	2.100					
	Slovenia	2.290					
	Hungary	1.290					
Average for All Transition Countries		2.09	2.13	2.47	1.61	0.86	1.57

The data is based on a number of questions in the Business Environment and Enterprise Performance Survey conducted by the World Bank in 1999.

Research project by Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition" (PRWP 2444).

Corruption

Scale from 1 (no obstacle) to 4 (major obstacle).

Table 7a

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
South Group	**Croatia**	2.620	2.82	3.25	2.59	0.66	1.25
	Albania	3.250					
	Romania	2.830					
	Bulgaria	2.590					
	B i H						
	Macedonia						

Table 7b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1999	1999	1999	1999	1999	1999
North group	**Poland**	2.210	2.12	2.57	1.63	0.94	1.58
	Latvia	2.246					
	Estonia	1.850					
	Lithuania	2.570					
	Czech Rep.	2.140					
	Slovak Rep.	2.380					
	Slovenia	1.630					
	Hungary	1.910					
Average for All Transition Countries		2.44	2.49	3.01	1.98	1.04	1.55

The data is based on a number of questions in the Business Environment and Enterprise Performance Survey conducted by the World Bank in 1999.

Research project by Joel S. Hellman, Geraint Jones, and Daniel Kaufmann, "Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition" (PRWP 2444).

Government effectiveness

The six governance indicatorsare measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

Table 8a

		Estimate	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		97-98	97-98	97-98	97-98	97-98	97-98
South Group	**Croatia**	0.150	-0.493	0.150	-0.814	0.964	-0.184
	Albania	-0.653					
	Romania	-0.570					
	Bulgaria	-0.814					
	Macedonia	-0.576					

Table 8b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		97-98	97-98	97-98	97-98	97-98	97-98
North group	**Poland**	0.674	0.358	0.674	-0.032	0.706	-21.226
	Latvia	0.068					
	Estonia	0.258					
	Lithuania	0.127					
	Czech Rep.	0.595					
	Slovak Rep.	-0.032					
	Slovenia	0.567					
	Hungary	0.606					
Average for All Transition Countries		-2.396	-0.068	-0.006	-0.126	0.121	-0.821

Composite Indicator Dataset
Research Project by Daniel Kaufmann, Aart Kraay and Pablo Zoido-Lobaton, as described in "Governance Matters" research paper (PRWP 2196).
The governance indicators reported in this file reflect the statistical compilation of perceptions of the quality of governance of a large number of survey respondents in industrial and developing countries, as well as non-governmental organizations, commercial risk rating agencies, and think-tanks during 1997 and 1998.

Government Intervention

Percentage of firms which reported intervention.

Table 9a

		Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
South Group	**Croatia**	15.80	19.43	25.10	15.80	9.30	1.59
	Albania	-					
	Romania	25.10					
	Bulgaria	17.40					
	Macedonia	-					

Table 9b

		Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
North group	**Poland**	16.4	28.61	54.20	11.80	42.40	4.59
	Latvia	-					
	Estonia	11.8					
	Lithuania	20.8					
	Czech Rep.	23.4					
	Slovak Rep.	54.2					
	Slovenia	29.8					
	Hungary	43.9					
Average for All Transition Countries		26.10	25.78	41.45	14.63	26.83	3.09

Source: World Bank, World Development Indicators, 2001.

Regulatory Burden

The six governance indicatorsare measured in units ranging from about -2.5 to 2.5, with higher values corresponding to better governance outcomes.

Table 10a

		Estimate	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		97-98	97-98	97-98	97-98	97-98	97-98
South Group	**Croatia**	0.20	0.20	0.20	0.20	0.00	1.00
	Albania	-					
	Romania	0.20					
	Bulgaria	-					
	Macedonia	-					

Table 10b

		Country Average	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		97-98	97-98	97-98	97-98	97-98	97-98
North group	**Poland**	0.60	0.63	0.90	0.50	0.40	1.80
	Latvia	0.50					
	Estonia	0.70					
	Lithuania	-					
	Czech Rep.	0.60					
	Slovak Rep.	-					
	Slovenia	0.50					
	Hungary	0.90					
Average for All Transition Countries		0.06	-0.03	0.18	-0.30	0.48	0.81

Composite Indicator Dataset
Research Project by Daniel Kaufmann, Aart Kraay and Pablo Zoido-Lobaton, as described in "Governance Matters" research paper (PRWP 2196).
The governance indicators reported in this file reflect the statistical compilation of perceptions of the quality of governance of a large number of survey respondents in industrial and developing countries, as well as non-governmental organizations, commercial risk rating agencies, and think-tanks during 1997 and 1998.

Gros domestic investments (% GDP)

Table 11a

		Country Average	Group Average	Country Maximum	Country Minimum	Variation for Country (max-min)	max/min for Country
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	**Croatia**	22.82	20.25	28.20	17.60	10.60	1.60
	Albania						
	Romania	22.42		25.90	19.90	6.00	1.30
	Bulgaria	14.28		19.00	8.40	10.60	2.26
	Macedonia	21.46		23.00	20.10	2.90	1.14

Table 11b

	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group	Group Maximum	Group Minimum	Group Variation (max-min)	Group max/min
	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	24.03	16.50	7.53	1.58	28.20	8.40	19.80	3.36

Table 11c

		Country Average	Group Average	Average Group Maximum	Average Group Minimum	Average Group Variation	Average max/min for Group
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
North group	**Poland**	23.90	27.13	30.25	23.46	6.79	1.30
	Latvia	22.62					
	Estonia	27.86					
	Lithuania	24.60					
	Czech Rep.	31.98					
	Slovak Rep.	33.80					
	Slovenia	24.92					
	Hungary	27.32					
Average for All Transition Countries		23.32	22.74	26.49	18.95	7.54	1.50

Table 11d

	1999
Lower middle income	26.00
Upper middle income	22.00
Heigh income	22.00

Source: UN/ECE secreteriat, based on national statistics

Employment in government enterprises (% of population)

Table 12a

		90-95	95-99	changes in 000
zemlje sjevernog pojasa	**Poland**	4.90	3.40	-568.00
	Latvia	8.20	4.90	-95.00
	Estonia	7.80	1.80	93.60
	Lithuania	8.30	9.00	24.40
	Czech Rep.	4.30	8.70	448.00
	Slovak Rep.	8.60	1.60	-369.00
	Slovenia	8.90	4.50	-49.00
	Hungary	8.70	8.00	-83.00
Zemlje juznog kruga	**Croatia**	7.20	6.40	-50.00
	Albania	-	-	-
	Romania	3.30	3.90	128.00
	Bulgaria	7.70	4.20	-314.80
	Macedonia	3.90	4.80	21.00
Zemlje srednje Azije	**Tajikistan**	6.50	0.90	-307.00
	Kyrgyz Rep.	12.10	7.20	-210.00
	Kazakhstan	6.90	5.60	-240.00
	Turkemistan	8.40	4.40	-135.70
	Uzbekistan	7.60	21.60	3442.00
	Georgia	10.00	7.00	-165.00
	Armenia	13.20	7.90	-186.00
	Azerbaijan	9.50	13.50	346.00
Zemlje istocne Europe	**Russian Fed.**	9.30	5.70	-7411.00
	Ukraine	8.80	5.70	-1676.00
	Belarus	9.00	4.70	-9112.00
	Moldova	7.40	9.90	106.00
	Average	7.94	6.47	-681.77

Table 12b

		Employment	Group Average	Group Maximum	Group Minimum	Group Variation	max/min for Group
		1995-99	1995-99	1995-99	1995-99	1995-99	1995-99
South Group	**Croatia**	6.40	4.83	6.40	3.90	2.50	1.64
	Albania	-					
	Romania	3.90					
	Bulgaria	4.20					
	Macedonia	4.80					
North group	**Poland**	3.40	5.24	9.00	1.60	7.40	5.63
	Latvia	4.90					
	Estonia	1.80					
	Lithuania	9.00					
	Czech Rep.	8.70					
	Slovak Rep.	1.60					
	Slovenia	4.50					
	Hungary	8.00					
Average for All Transition Countries		6.47	6.27	11.73	2.78	8.95	8.34

Source: World Bank, World Development Indicators, 2001.