ECONOMIC JUSTICE AND ECONOMIC EFFICIENCY IN POST-CONFLICT SOCIETIES IN TRANSITION[1]

Mrdjan Mladjan

Transition as a context for economic justice

Transition could refer to any period of change in the state of a society, its political or economic order. Recently, it has been associated with the process of change from a centrally planned economy to a market economy, as well as with changes in the political system from the rule of a single party or individual to a representative democracy (Kaličanin, 2001). Initiated in the last decade of the XX century, the process interacted with the concurrent wave of globalization and led to changes in the distribution of wealth, income, and political power, both across and within countries. Although apologetics of the changes emphasized the achievement of economic and political freedoms and economic efficiency as their goals, the justness of many phenomena that characterized them was often questioned (e.g. Kluegel, Mason, and Wegener, 1995; Fatić, 2004), while many changes actually led to economic decline.

The question of economic justice in transition was additionally emphasized by the frequently sharp contrast between the expectations that had preceded the changes and reality. Not all countries and individuals realized their hopes of economic prosperity. Recessions associated to structural changes were so long, with an average duration of 3.6 years, and so deep, with an average decline in GDP of 33.6 percent) (Fischer, Sahay, and Vegh, 1996) that they were more severe that those in industrial economies during the Great Depression (in which the worst performer, the United States, experienced a GDP decline of 30 percent; Wicker 1996:4). The changes were also associated with a rise in corruption (Rakita and Marković, 2013), a partial collapse of money economy through reverting to barter and money-alternatives (Woodruff, 2000), and increasing inequality (Milanović, 1998), causing severe hardship to many in societies previously accustomed to high levels of income equality[i]. The question of equity featured even more prominently in those multi-ethnic and multi-religious societies in transition that had experienced armed conflict, frequently not for the first time in the twentieth century. Wars have led to extreme transfers of wealth, disruptions of the production process, and life itself, creating new economic and other injustices.

The direction of economic changes was determined by a great faith in the power of market forces to lead to dynamic economic growth. It was believed that as soon as the 'chains' of central planning were broken, and the government was banished from the economy, economic prosperity would result. To faster unleash the forces of market economy, simultaneously making it less likely that the process of transition could later be politically reversed, changes were frequently sudden and deep rather than gradual (Popov, 2007). What added to the reformers' zeal was the concurrent wave of globalization: one of its distinct marks was the implementation by many countries around the world of the set of policies contained in the so called Washington Consensus (Williamson, 1990). These recommendations went beyond

[1] Another version of this text was published as: Mladjan, Mrdjan. 2018. Economic Justice and Economic Efficiency in Post-Conflict Societies in Transition. In Aleksandar Fatic, Klaus Bachmann and Igor Lyubashenko (Eds.), *Transitional Justice in Troubled Societies* (Chapter 4, pp. 123-142). London: Rowman and Littlefield International. ISBN: 978-1786605887.

what could arguably already be a reversion of the economic legacy of the communist revolutions that had shaken the east of Europe in the XX century. For instance, they not only demanded the respect of private property rights, upon which the communist governments had infringed in the previous decades, but also the privatization of those government owned enterprises that may have never been private, and that were still public even in many Western European economies.

The simultaneous privatization of a multitude of enterprises accounting for much of domestic product, coupled with trade liberalization that exposed to competition from abroad previously protected industries, unsurprisingly led to large disruptions of economic activity. The resulting changes made few rich, while many were impoverished, made unemployed, or even found themselves unemployable (due to inadequacy of their skills) in the new structure of the economy (Kupets, 2015). Death rates soared (as evidenced in Graph 1), not in the least for psychological reasons, and especially among the adult men who lost their jobs and were unable to find another one, but were culturally still expected to provide for their families.[ii] Because the changes in economic and human condition related to transition were already well documented in the preceding literature[iii], they are not in the focus of this chapter. Instead, I argue that a concern for economic efficiency need not exclude that for economic justice. Moreover, historical evidence suggests the contrary: that the pursuit of economic justice can lead to more efficient economic systems and social economic equilibria. I believe that my argument need not remain a mere historical narrative but can also be used to advise on modifications to already completed transitional processes and on a design of the remaining ones.

The rest of the chapter is structured as follows. The following section discusses the role of the Marshall Plan in supporting the 'losers of transition' during the reform of West European economies following the Second World War (WWII), and in contributing to the formation of a cooperative social contract that led to outstanding economic performance in the following decades. The section after that compares the Eastern European post-communist transition to the Western European post-WWII transition, while the one that follows provides an illustrative overview of market failures characteristic of post-communist economies. The final section analyses the features of post-conflict societies that make the achievement of both economic justice and economic efficiency in transition even more difficult.

The social dimensions of success of the post-WWII Marshall Plan

By the type and importance of change, as well as the size and population of the affected region, Eastern Europe after the fall of the Berlin Wall has a natural counterpart in Western Europe after WWII. In both periods, large parts of European population experienced economic transition from command to a market economy. The contrast between the two historical episodes in the importance given to caring for the most vulnerable social groups, 'the losers of transition', is telling about both economic justice and economic efficiency during the post-communist transition. In contrast to Western Europe after WWII, where the care for the vulnerable was the key to unlocking the process of economic change and assuring its success in the decades to come, it played a much smaller role in post-communist Eastern Europe. While the weaker care for the vulnerable in the post-communist transition could in part reflect a strong faith that limiting government's involvement in the economy would quickly lead to economic prosperity, it also ought to reflect the weakness of a political opposition to post-communist transition and a contemporary lack of intrinsic concern for economic justice.

West European governments at the end of WWII, similar to Eastern European governments in the late 1980s, were heavily involved in their economies. Regulation of prices, direct allocation of goods, and government ownership of companies, especially in heavy industries, were widespread. This resulted from a discrediting of the market economy by the events in the preceding two decades, starting with the Great Depression, and the need for government intervention in the economy during the war itself. That future would bring a change towards more market, within a mixed economy that contained both command and market elements, was not at all clear: communist parties were strong also in the West of the continent, and there was fascination with Soviet Union's command economy, not in the least because of its military successes.

Most of the economics profession would, however, agree that, were it not for reforms for a 'purer' market economy, Western European economies would have been much less successful in the decades after WWII. De Long and Eichengreen argue exactly that when they compare post-WWII Western Europe to contemporary Argentina. In Argentina 'the government allocated goods, especially imports, among alternative uses; the controlled market redistributed income (…) in Western Europe market forces allocated resources (…) the government redistributed income, and the outcome was much more favourable' (1991: 42). Starting as rich as a large Western European country at the onset of the Great Depression, Argentina had less than two thirds of the GDP per capita of West Germany or France in 1960.

What then, in spite of the strength of contemporary support for government intervention, enabled economic reform and the impressive development of West European economies in the decades after WWII?[iv] Were reforms and economic growth that followed indeed related, as the comparison with Argentina suggests? For Western Europe's economic wonder, both the popular opinion and more recent research ascribe an important role to the European Recovery Program of the United States, administered in the period 1948–1952 and better known as the Marshall Plan[v]. However, while the Marshall Plan is commonly believed to have led to strong recovery by providing funds for investment in rebuilding a destroyed Europe[vi], the prevalent view by more critical economists is that its role was primarily in helping to create a consensus for economic reform which then led to economic prosperity.

The timing of the events after 1945 and the information on the content of the aid package, as persuasively argued by De Long and Eichengreen (1991) and Eichengreen and Uzan (1992), simply do not support the folk wisdom on the Marshall Plan. First, although the magnitude of the Marshall Plan was significant, it was much humbler than believed. It accounted to 13.3 billion dollars (Marshall Foundation, 2018), less than three percent of the recipients' combined GDP over the period of the program. Secondly, by the time Marshall Plan came into force, the reconstruction of the damaged infrastructure was mostly over. Thirdly, even investment in production, rather than infrastructure, was not a major component of the Marshall Plan; not more than one sixth of the total funds were spent on machinery and vehicles (that could be used in production). One could, however, argue that the Marshall Plan relaxed the budget constraints of the recipient countries. A part of the money that would otherwise be spent on consumer goods and production inputs could be redirected towards private investment. However, Eichengreen and Uzan (1992) estimate that this channel could not have added more than two percent to the recipients' national products in 1951. In a similar vain, De Long and Eichengreen (1991) estimate that the Plan's contribution to making the scarce production inputs available, by direct provision or by rebuilding the intra-European trade, was also limited. While these contributions are not negligible, they are simply insufficient to explain the large economic growth in the years of the Plan and later.

Did the Marshall Plan help set the post-WWII West European economies on a dynamic growth path? According to De Long and Eichengreen (1991) and Eichengreen and Uzan (1992), it did so by resolving several aspects of uncertainty that surrounded both the immediate and longer-term future. Although the Marshall Plan was not much larger in size than the United Nations Relief and Rehabilitation Administration (UNRRA) aid and similar programs that had preceded it in the period until 1948, it was a three-year commitment, while the UNRRA aid could be abolished at any quarter. Committed to providing aid for several years to societies that were deeply divided about the preferred role of government in the economy, the Marshall Plan removed much uncertainty about the direction of future economic changes in the recipient societies. The recipients namely had to match each dollar of aid with one dollar of their own funds, and had to accept that all these funds are spent in agreement with the US government. The US government used their power over all these funds to direct the European economies away from command elements: trade barriers, price controls, and allocation mechanisms (for food, coal, and industrial inputs such fuel) were gradually abolished or reduced. The changes allowed the comparative advantages of each economy to be reaffirmed through mutual trade. It also ended the shortages by giving an incentive to producers to bring their goods to the market, allowing them to charge a market price (higher than the previous, regulated one) for their goods. Resolving the uncertainty about the future economic policy increased the overall participation in the economy. This means that, instead of hoarding wealth, investors and creditors were willing to invest and lend because the uncertainty about inflation and tax rates was reduced. In a similar vein, instead of being unwilling to learn and invest effort at work, workers were willing to acquire new skills and work hard because the job prospects and the expected compensation became more certain (Eichengreen and Uzan, 1992).

For the proponents of a market economy to achieve such a political victory, a political compromise was needed. The Marshall Plan provided the means to pay for the initial compromise; it increased the overall size of the pie to be divided by the social groups competing for scarce resources. Importantly, the budgets expanded by the Marshall Plan facilitated the provision of help for the poorest, who were affected the most by liberalization of markets for food and coal. Immediate care for the most vulnerable, and positive effects of the reforms on economic growth in the years of the Plan,[vii] weakened the critique of the economic left, and enabled the transition.

Despite the above, a mere transition to a market economy is not enough to explain the stellar economic performance of Western Europe following WWII. De Long and Eichengreen (1991) argue that the Marshall Plan helped establish a new cooperative social contract, enabling crucial social compromises which made the high Western European growth rates politically and socially sustainable over two and a half decades. The new social agreement encouraged the workers to supply more labour when demanded, instead of responding by asking for higher wages. Similarly, it encouraged the management to reinvest the profits in pursuit of a further output and productivity growth, instead of spending them on personal luxury goods, accepting that some of the resulting profits would go to the workers. To the extent that the care for the less well-off in the initial phases of transition helped establish a mutually accommodating approach of the different social groups to the economy, it helped raise economic efficiency: sacrificing immediate partisan gains enabled faster growth and larger medium and long-term gains for one's own group, as well as for everyone else.

From the above suggestions it appears that the post-WWII transition was tied to a serious concern by policy elites about securing economic justice within the transitional societies. The future prosperity was not built by risking the lives of less fortunate countrymates. An effort

was put into avoiding a situation where most of those who had survived the terrors of war might paradoxically die of cold and hunger in peacetime. Those for whose better future the war itself had been fought did get a chance to have one, and those cared for just after the war responded by carrying their part of the burden of economic compromise for a better future of all. In this way, the concern for economic justice itself also resulted in an economic system and a social agreement that improved economic efficiency in the decades to come. It is however unclear how much the care for the 'losers of transition' resulted from a genuine concern for economic justice, and to what extent it was an emotionally cold political compromise. Namely, even if there was no concern for economic justice, workers, managers, and the state could realize that forging an agreement would help avoid an internal conflict such as that which characterized the European societies between the world wars, as well as escape economic decline and help create growth. Such a compromise would also save the reforms that could cause some harm in the short run, but are beneficial in the long run, from being politically challenged and reversed.

While it may be hard to differentiate a genuine concern for economic justice from a dry compromise in the post-WWII transition, we can at least try to reason about how a difference could be recognized. The fact that a transition was not made possible before the Marshall Plan may suggest that solidarity was not strong enough to enable the transition in the absence of external aid. It could, however, also simply mean that there was no internal agreement on the direction of economic changes before the US involvement. The fact that, once the changes started, the participants in the transition process were able to realize that a cooperative social contract could make everyone better off, suggests that at least some positive predisposition by the various social groups towards one another — a precondition for solidarity — was present. Another piece of evidence to infer about the genuineness of the post-WWII concern for economic justice could be the durability of the cooperative equilibrium that was reached at the time. If it resulted from interest, then it would last only until each of the groups is strong enough vis-à-vis the others. A change in the balance of power would break the agreement and some groups would pursue their own interest against the wellbeing of the others. Interestingly, once the political competition of western social market economies and Soviet Union disappeared, following the latter's demise, these economies became less 'social' and more 'market', with a pronounced rise in inequality within high-income countries (Milanović, 2016). While this may suggest that the initial cooperation was motivated purely by interest, it could also mean that solidarity was gradually lost. If solidarity were indeed lost, one could try to comprehend it by keeping in mind that the living standards rose well above subsistence as Western European GDP increased around four times during the 1945–1990 period (Maddison, 2003), and that one is more prone to feel compassion for someone in severe need.

I do not necessarily claim that a weakening of inter-group cooperation in Western European societies had resulted in rising inequality, a feebler economic growth, and a major economic crisis, although the events are suggestive of such a conclusion. I would rather limit myself here to expressing a belief that a cooperative economic equilibrium, one that also allows the less well-off to reach their full professional and overall human potential, ought to be able to lead to greater wellbeing for everyone.

Market failures of the Eastern European post-Communist transition in the mirror of the post-WWII transition

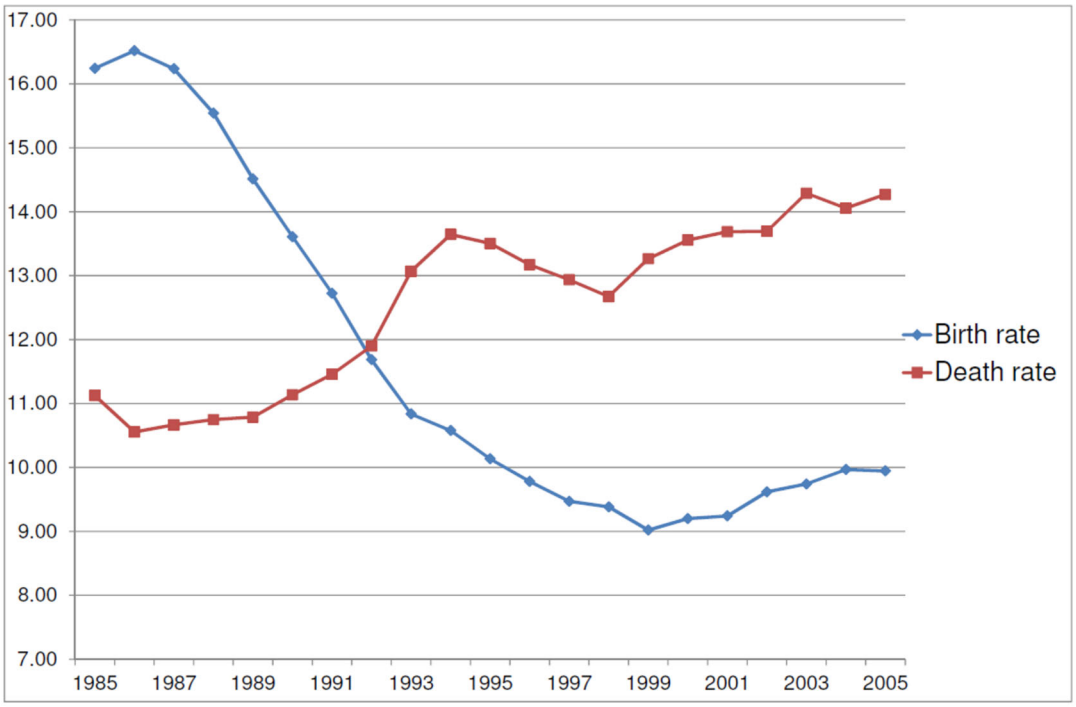
Given that its similarity with post-WWII Western Europe was obvious even at the beginning of the post-communist transition, historical lessons could have been drawn to make the recent transition successful. Judging from the comparison between Western Europe and Argentina

following WWII, one such lesson would have suggested pursuing a transition towards a market economy, just as it was done. Another lesson would have supported making any aid or loans to Eastern Europe conditional on reforms towards a market economy, a principle which was in fact widely practiced.[viii] However, perhaps the most important recommendation would have been to provide substantial aid, through a mechanism similar to the Marshall Plan, in order to protect the losers of the initial recession phase of the transition. Such aid would have been an expression of solidarity and concern for economic justice in at least two ways. First, it would have made sure that no member of the nation is left behind in a moment when national identity is revived and rebuilt, following the decades of communism, during which time national identity had frequently been suppressed. Secondly, it would have been the least that transitional political elites could have done for the workers who were likely to lose their jobs in transition, but whose support was crucial in initiating the transition and bringing the same transitional elites to power (for example, a decisive driver for the post-communist transition in Poland was an independent labour union called 'Solidarity'). A major plan to support the vulnerable would have both bought time for the effects of reform to bear fruit, ensuring that reforms are not later reversed by their discontents, and helped forge a social contract similar to that which had enabled dynamic growth in post-WWII Western Europe.

In spite of the well-acknowledged importance of the Marshall Plan, there was no single major program dedicated to aid provision during the post-communist transition, either externally or internally financed, that could parallel it. Admittedly, there were many smaller initiatives that provided aid to support the post-communist transition process. The aid arrived from multilateral institutions (such the EU, World Bank, International Monetary Fund, European Investment Bank, and the European Bank for Reconstruction and Development), but also from nation states and private donors. Slim (2001) estimates that the aid received by Central and East European countries (CEECs) in the period 1990–95 amounted to 86.24 billion euros — around four percent of GDP of these countries — a greater percentage compared to that of the Marshall Plan. However, it mostly consisted of loans rather than grants: while about 90 percent of the Marshall Plan aid were grants, they amounted to only about a third of the overall international aid to CEECs.

It is of course possible that care for the vulnerable was taken through the usual social care programs of the states, potentially helped by this external aid. While this could in principle be so, the data on death rates and birth rates during transition, presented in Graph 1, suggest that any such care was far from sufficient. Graph 1 shows the average (population-weighted) birth rate and death rate in the European countries in transition. While the birth rate started to decline sharply even before the end of communism, potentially suggesting some deep dissatisfaction by the population, the death rates exploded with the start of the transition and remained high. The two crossed as early as 1992, with more people dying than being born. How is it possible that the post-communist transitional elites, brought up on ideas of social justice and presumably inspired by ideals of national revival, had allowed such suffering of so many members of their nations? Was a broader social contract of the type enabled by the Marshall Plan missing in Eastern Europe during the recent transition? If so, what could explain this? To answer these questions, one should attempt to better understand the ideas and the atmosphere that dominated Eastern European elites, and their relations to the rest of the society, at the time.

GRAPH 1: BIRTH RATE AND DEATH RATE DURING THE POST-COMMUNIST TRANSITION



Note: The graph shows average crude birth rate and death rate (equal to number of live births and of deaths per 1'000 people) as the average of the Russian Federation, Ukraine, Belarus, Moldova, Poland, Czech Republic, Slovakia, Hungary, Romania, former Yugoslav republics, Bulgaria, and Albania. The average is weighted by the 1990 population.

Source: World Development Indicators (World Bank, 2018), Maddison (2003), and author's calculations.

While the atmosphere varied from country to country, it is fair to say that the political and intellectual elites were divided, and that their substantial parts were not in favour of a change towards a market economy, especially in the former Soviet Union. But the historical dynamics of 1990 were very different from those of 1945. Market economy was discredited during the pre-1945 period, and the Marshall Plan was needed to change the historical dynamics of the moment. The opposite is true of the early 1990s, when the command economies were discredited, having failed to satisfy the expectations of their citizens. Those that did not want changes, especially those members of the elites with vested interests in the current system, were on the defensive. Those who wanted changes had more élan and a strong argument in the form of the economic successes of the post-WWII West European market economies. The contemporary international environment further raised the popularity of transition: the role of government in the economy had recently been reduced in the Western economies which served as role models (such as through privatizations carried out in the United Kingdom in the 1980s during Margaret Thatcher's premiership and the contemporaneous policies in the United States during Ronald Reagan's presidency). In such an atmosphere, no Marshall Plan equivalent was needed for a transition towards a market economy; there was no need for persuasion or containment of a defeated ideological enemy. When support from abroad did arrive, it typically added both speed and depth to the transition process, which, however, on average, made the initial recession deeper (Popov, 2007).

The feeling of riding the victorious wave of history must have added to the reformers zeal. Carrying a passionate belief that market economy would solve all economic problems, dampening the impact of transition on their more vulnerable countrymates was not their first priority. Instead of a concern for economic justice, the object of fascination of Eastern European reformers was the achievement of economic efficiency. In part, this was the case

because the reforms were expected to quickly compensate for any temporary losses. However, not all motives and attitudes by the transitional elites could be characterized as benevolent or naïve. The idea of being special, unique, chosen by history to do something great[ix], may have inhibited reformers from checking their beliefs against reality more frequently. The widespread human hardship, presented as a necessary short-run sacrifice, may have attracted less attention by the reformers because the suffering was seen as in part 'deserved', limited to the 'insufficiently educated', those not 'enlightened' or those not 'appropriately skilful', or 'adaptable'. Many members of the elites actually believed that the suffering of those who were deemed not suitable for a new age of market economy was somehow excusable. A part of the elite may have been driven by a desire to be seen by foreign elites as modern and culturally advanced, a fashionable manner of the time being to look down on one's own nation. In addition, for some members of the national elites, concern for economic justice would have taken time away from maximizing their own illicit gains through the privatization process.

Ironically, the great zeal of Eastern European reformers compared to their Western European predecessors was in contrast to their limited knowledge of the workings of a successful market economy and the preconditions required to establish one. This resulted from a lack of experience: decades of heavy governments' involvement in the economy and only very limited private property in the communist societies. While privatization was seen as the magical solution to most economic problems, it was overlooked that even in a market economy there are instances when government intervention may be both justifiable and desirable, so as to prevent market failures and the associated loss of economic efficiency. The pursuit of economic efficiency without concern for economic justice thus prevented the achievement of economic efficiency itself. It did not only deprive many Eastern European societies of a type of a cooperative social arrangement which made possible the high output growth rates in Western Europe for several decades after WWII. In addition, it resulted in many instances of market failure that further degraded economic efficiency and social wellbeing.

Market failures characteristic of post-communist transitional economies

What the Eastern European reformers may have overlooked is that a market economy leads to efficient outcomes only when markets are competitive. When the requirements for competition do not hold, this gives rise to market failures[x] associated with economic inefficiency. Any inefficiency is necessarily suboptimal for an economy because it means that, by reallocating final goods or inputs to production, it would be possible to increase the utility (a measure of wellbeing) of at least someone without decreasing the utility of anyone else. Given that solutions to market failures do exist, typically involving some form of government intervention, the challenge is to identify the failures.

Several market failures, caused by fast privatization and a deregulation that was intended to increase economic efficiency, have endangered both efficiency and justice in the post-communist transitions (Mladjan and Marković, 2016). One such failure was that of corporate markets. A rushed privatization overlooked that time was needed for competitive corporate markets to form. A simultaneous offering of many valuable companies for privatization was problematic in countries of great income equality, where few people could legally have the necessary funds to acquire such companies. Both economic efficiency and justice suffered whenever incompetent individuals with suspicious funds got hold of valuable firms at low prices. They often re-sold them, rather than using them productively. During this process, markets were lost and technology made more obsolete, leading to a reduced capacity of the economy. Having increased their power through privatization, such individuals spread corrupt

practices into other spheres of the society, making life even harder for the rest of their countrymates. This happened in spite of the fact that the same companies were frequently built during communism through the tax contributions by those same countrymates and their parents.

Another group of frequent market failures were those of market power (in the form of monopolies or cartels). Complete or near complete privatization of previously government-owned sectors with few companies allowed the producers to agree on higher prices than would have been the case in a competitive market. While this could have in principle been avoided through regulation, transition countries did not have sufficient experience to do so, or may have had too easily corruptible institutions in order to prevent the formation of monopolies and cartels. The well-being of consumers was thus reduced, because they were able to consume fewer goods at higher prices.

Several other market failures related to culture. For instance, the positive externality of the birth of children and the negative externality of 'reality programs' (Mladjan and Marković, 2016). In countries that experience demographic decline, parents benefit the whole society by bringing up the labour force that would pay for the pensions of the retired generation, without the political tension that immigrants of a different culture may bring. For this, they should be compensated in some way, which would likely lead them to having more children (as evidenced in Russia after the introduction of maternity capital in 2007, a form of material support for families with two or more children; Slonimczyk and Yurkoc, 2014). On the other hand, reality media programs that have become popular in many transition countries present violence, promiscuity, criminality and other forms of deviant behaviour in a positive and socially desirable way. They should thus be hugely taxed, which would make them less prevalent in media programming. The other market failures related to cultural change in transition economies could include the uncritical adoption of problematic aspects of foreign business culture (such as aggressive marketing strategies that breach the norms of decent behaviour) and language (such as bad translations from English that preserve a foreign syntax and massively resort to Anglicisms; Mladjan and Fatić, 2018). By spreading outside of the corporate world, these changes endanger not merely the business culture, but culture in general.

While the above list of market failures is far from exhaustive, it indicates a pattern. A hurry to achieve economic efficiency through privatization, moving to an economic system with which the societies still had to gain experience, led the Eastern European transitional economies to many market failures that endangered not merely their economic justice, but also their economic efficiency. Whenever they permanently reduced the productive capacity of the economy, or misallocated the factors of production, market failures led to losses which made it impossible to achieve that level of aggregate social welfare which could have been achieved in the absence of market failures.

Economic efficiency and economic justice in Eastern European post-conflict societies

I also argue here that any transitional society is a post-conflict society. This is because any transition should lead to a change in the extent to which different social groups are privileged. Any change should be associated with a resistance offered by the previously privileged groups, and the push for transition by those whose standing would improve in the new system. For the system to change, the upcoming groups must become powerful enough to overcome both the power of the incumbent groups by themselves, and the additional power that the entrenched system of privilege gives to the incumbents. Once the changes to the

system, the transition itself, start to occur, it appears that the decisive phase of the conflict has already been ended with a defeat of the incumbents. Having been overpowered even while they had the system on their side, the incumbents are weakened. This does not exclude the possibility of further struggles before the new distribution of power stabilizes. Of course, such conflicts need not be violent, and need not be associated with war.

Despite the above, I argue that all East European post-communist transitions were also post-war transitions. This is so at least because communist parties came to power after civil wars and conflicts contemporaneous with WWI in Imperial Russia and WWII in the rest of Eastern Europe. The wars in former Yugoslavia and in different parts of the Soviet Union in the 1990s only added another layer of armed conflict to societies that had already experienced at least one violent political transition in the twentieth century. The armed conflicts in the two periods were, however, different, as were the ideas for which they were fought. While those during the transition to communism were fought for the communist ideology, although frequently concurring with inter-ethnic or inter-religious conflicts, those during the post-communist transition were inter-ethnic and inter-religious. It is true that the confronted ethnic and religious groups during the 1990s may have differed in their level of preference for market economy, not in the least because the upcoming economic transition was bound to a political one that could potentially change their relative power in society. However, an individual's allegiance was primarily determined by one's ethnic or religious group. The key question here is whether transitions from a system that was originally installed by war, and transitions that occur simultaneously with war, yield different outcomes with regard to economic justice and economic efficiency from those of peaceful transitions.

I argue that outcomes related to both efficiency and justice should be different in post-war societies, but whether they would be associated to better or worse outcomes should depend on the context. Two sets of factors appear decisive, one related to wars during the transition to communism, the other related to wars concurrent with the post-communist transition. In regard to the effect of wars that happened during the transition to communism, the external involvement and the intensity of the conflict are most likely to affect both efficiency and equity. In particular, where communism was imposed by an external force (such as the Red Army in Poland, unlike a strong communist partisan movement in large parts of Yugoslavia) and where there were fewer killings of the ideological opponents to communism, there was subsequently more willingness and skill for a successful transition to an economically more efficient system: a market economy with few market failures. In such cases there was also more willingness by the state to restitute to its former owners the property confiscated by the communists, and more living descendants of the original owners to receive the property. When communism is perceived by large parts of a nation as imposed from abroad, then the push to replace it is driven by an additional reservoir of energies to attain a national liberation. On the other hand, those countries where killings, expulsions, and emigration of opponents to communism were common, with a civil war unfolding alongside the communist 'revolution', were left deprived of many politically and economically productive people. The more intense was the conflict, the less human capital and knowledge how to successfully implement a transition to a market economy remained in the country. To illustrate the importance of the characteristics of the wars during the transition to communism, let us consider the examples of Russia, Poland, and Serbia.

The Russian post-communist transition was characterized by a very deep transitional recession, associated with many market failures in the form of corruption and cartelization. The system change was in many aspects incomplete, and the economy's eventual recovery could in part be attributed to income from natural resources. One feasible explanation for

Russia's incomplete system change was that she did not have enough people with a strong desire and skill to conduct a successful transition. During the Russian Revolution, the annihilation of the anti-communist forces was very thorough and complete. The communist revolution took place concurrently with WWI, thus a generation earlier than the transitions to communism in other parts of Eastern Europe, leaving in Russian families less memory of anything other than communism. Thus there was both a lack of skilled people and of knowledge of capitalism in Russia, and this accounted for difficulties in pursuing the post-communist transition.

The situation in Poland was very different. Poland had a numerous anti-communist resistance movement during WWII, and communism was imposed on the country by the advancing Red Army. Communist rule in Poland lasted for a generation less than in Russia. There was more desire and skill in the Polish population to facilitate a transition to a market economy, making the change faster and more successful. The attainment of a market economy was however seen as a national goal for which even economic justice, at least in the short run, was worth sacrificing. This was evidenced by the fact that the workers from labour intensive industries, participating in crucial protests in the initial phases of the political transition, were those whose jobs were among the most endangered in the initial phases of the transition.

The Serbian case is complex and controversial. The Serbs had two very large anti-German occupation resistance movements during WWII, one monarchist and one communist. Their mutual fighting was intense, with many victims, and so were the killings of the anti-communists after WWII. But they were perhaps not as intense as in Russia, where communism also lasted for a generation longer. Serbian communists, although stronger than in Poland, needed the help of the Red Army to assume power. Nevertheless, the major post-communist transitional changes in Serbia started a decade later than in most other East European countries. One reason was that Serbs associated communism with Russia, and they had a strong cultural affinity to Russia. Another important factor that delayed the Serbian transition involved the civil wars in the former Yugoslavia during the 1990s. The communist political elite adopted a nationalist rhetoric in the 1990s and thus prolonged its hold on power.

With regard to the wars concurrent with the post-communist transition, I argue that the historical context in which they were fought made their effects on economic efficiency and economic justice predominantly negative. With the exception of Romania, where the communist regime was removed following a brief but violent civil unrest with hundreds of casualties, and the somewhat less bloody 1993 Russian constitutional crisis, all other conflicts during the post-communist transition, with a comparable or larger number of deaths, contained a strong ethnic or religious component. They occurred in the ethnically and religiously mixed areas of former Yugoslavia (in all of its republics) and the Soviet Union (in parts of Moldavia, Russia, and recently Ukraine in Eastern Europe; Georgia, Armenia and Azerbaijan in the Caucasus; and Tajikistan and recently Kyrgyzstan in Central Asia). The warring groups had a history of conflict: from the period of WWII, the time communism was imposed, or even earlier. Common to all affected regions was that the communist-era governments had previously maintained mostly peaceful coexistence and some balance of power between those groups. But discussion about the past and current problems in inter-group relations, just like any other public discourse in these countries, was constrained to the communist ideological framework. For this reason, it was harder for the wounds to heal. The suppressed frustration, fears, and group ambitions of at least a part of the population contributed to an escalation of these conflicts once the communist era ended.

The pursuit of national independence or unification, deep-rooted and emotionally laden by each group's perception of history, was a set of goals that strongly dominated the pursuit of an economic transition; it was more important than economic efficiency or justice.[xi] This may not be surprising, since a struggle for national independence typically involves a loss of lives, while systemic transitions need not. In environments where populations are intrinsically motivated for achieving national independence, the elites have less reason to seek to create a cooperative social contract similar to that facilitated by the Marshall Plan. In such societies reforms could be delayed or conducted corruptly as long as this could be justified as 'national interest' related to war. The elites and power centres formed during the war, thus not arising from a primary concern for economic efficiency and justice, tend to remain influential long after the wars are over.

Without underestimating the successes of the post-communist transitions in winning political and economic freedoms, which in some countries have been achieved to a greater extent than in others, many of their aspects have been damaging both to economic efficiency and to economic justice. If the political elites in the transitional states had adopted the psychology of action behind the Marshall Plan, which had been to help win support for the transition by cushioning the losers of its initial phases, rather than providing funds for massive investment, such a strategy might have contributed to the formation of a cooperative social contract. In turn, an effective collaborative social contract might have led to several decades of faster economic growth than was experienced by the post-communist countries in transition, especially by those that experienced conflict.

Several important questions remain open here. Can the attainment of cooperative equilibria, like the one in Western Europe after WWII, ever be the result of concern for economic justice or just a cold self-interested strategy adopted by each of the relevant social groups? Can a collaborative equilibrium, achieved through a type of thinking behind the Marshall Plan, survive beyond mid-term? Based on the considerations presented in this chapter, it seems reasonable to suggest that both the achievement and sustainability of favourable equilibria primarily depend on the elites, the values that inspire them, and the values with which they inspire the rest of the society.

Mrdjan M. Mladjan
Assistant Professor of Financial Economics
EBS Business School

EBS University
Gustav-Stresemann-Ring 3
65189 Wiesbaden, Germany
Email: mrdjan.mladjan@ebs.edu

Bibliography

Blanchard, Olivier. (1997). *The Economics of Post-Communist Transition*. Oxford: Clarendon Press.

Crafts, Nicholas F. R. (1995). The Golden Age of Economic Growth in Western Europe, 1950-1973. *Economic History Review,* 48(3), 429–447.

De Long, Bradford, & Eichengreen, Barry. (1991). The Marshall Plan: History's Most Successful Structural Adjustment Program. *NBER,* working paper no. 3899.

EBRD. (2017). *Transition Impact.* Retrieved from http://www.ebrd.com/what-we-do/economic-research-and-data/transition-impact.html

EBRD. (2018). *Life in Transition Survey (LITS)*. Retrieved from http://www.ebrd.com/cs/Satellite?c=Content&cid=1395236498263&d=Mobile&pagename=EBRD%2FContent%2FContentLayout

Eichengreen, Barry & Uzan, Marc. (1992). The Marshall Plan: Economic Effects and Implications for Eastern Europe and the Former USSR. *Economic Policy*, 7(14), 13–75.

Fatić, Aleksandar. (2004). Anti-Corruption and Anti-Organized Crime Policy in Serbia: Regional Implications. *Southeast European and Black Sea Studies*, 4(2), 315–324.

Fischer, Stanley, Sahay, Ratna, & Vegh, Carlos A. (1996). Stabilization and Growth in Transition Economies: the Early Experience. *Journal of Economic Perspectives*, 10(2), 45–66.

Harvard Gazette. (2002). *Serbian Prime Minister Speaks*. Retrieved from https://news.harvard.edu/gazette/story/2002/09/serbian-prime-minister-speaks/

Izyumov, Alexei. (2009). Human Costs of Post-Communist Transition: Public Policies and Private Response. *Review of Social Economy*, 68(1), 93–125.

Kaličanin, Đorđe. (2001). *Ekonomski rečnik*. Beograd: CID Ekonomski fakultet.

Kluegel, James R., Mason, David S., & Wegener, Bernd. (1995). *Social Justice and Political Change: Public Opinion in Capitalist and Post-Communist States*. Berlin: de Gruyter.

Kupets, Olga. (2015). Skill Mismatch and Overeducation in Transition Economies. *IZA World of Labour*, article number 224.

Maddison, Angus. (2003). *The World Economy: A Millennial Perspective.* Paris: OECD Development Center.

Marshall Foundation. (2018). *Marshall Plan Payments in Millions to European Economic Cooperation Countries.* Retrieved from https://marshallfoundation.org/library/documents/marshall-plan-payments-millions-european-economic-cooperation-countries/

Milanović, Branko. (1998). *Income, Inequality, and Poverty During the Transition from Planned to Market Economy*. Washington: The International Bank for Reconstruction and Development/The World Bank.

Milanović, Branko. (2016). *Globalna nejednakost: Novi pristup za doba globalizacije*. Beograd: Akademska knjiga.

Mladjan, Mrdjan, & Fatić, Aleksandar. (2018). Economics and Morality: How to Reconcile Economic Thinking with Broader Social Thinking. In *Sustainable growth and development in small open economies*. Budapest: Institute of World Economics of the Hungarian Academy of Sciences. (forthcoming)

Mladjan, Mrdjan, & Marković, Dušan. (2016). Problem neuspeha tržišta u Srbiji prilikom tranzicije na tržišnu privredu. In Jelena Minović, Duško Bodroža, Ivan Stošić, & Božo Drašković (Eds.), *Pravci strukturnih promena u procesu pristupanja Evropskoj Uniji* (pp. 130–147). Beograd: Institut ekonomskih nauka.

Pindyck, Robert S., & Rubinfeld, Daniel L. (2001). *Microeconomics* (5th ed.). Upper Saddle River: Prentice Hall.

Popov, Vladimir. (2007). Shock Therapy Versus Gradualism Reconsidered: Lessons from Transition Economies After 15 Years of Reforms. *Comparative Economic Studies*, 49(1), 1–31.

Rakita, Branko, & Marković, Dušan. (2013). Praksa antikoruptivnog i društveno odgovornog ponašanja međunarodno preuzetih kompanija. In Nebojša Janićijević, & Stipe Lovreta (Eds.), *Konkurentnost preduzeća u Srbiji* (pp. 243–259). Beograd: Ekonomski fakultet.

Slim, Assen. (2001). Ten Years of Western Aid for the CEECs: a Mixed Outcome. *Revue d'économie financière* (English edition). *Hors-série: Ten Years of Transition in Eastern European Countries,* 251–262.

Slonimczyk, Fabián, & Yurkoc, Anna. (2014). Assessing the Impact of the Maternity Capital Policy in Russia. *Labour Economics*, 30, 265–281.

Wicker, Elmus. (1996). *The Banking Panics of the Great Depression.* New York: Cambridge University Press.

Williamson, John. (1990). What Washington Means by Policy Reform. In J. Williamson (Ed.), *Latin American Adjustment: How Much Has Happened?*(pp. 7–20). Washington, DC: Peterson Institute for International Economics.

Woodruff, David M. (2000). *Money Unmade: Barter and the Fate of Russian Capitalism*. Ithaca: Cornell University Press.

World Bank. (2018). *World Development Indicators*. Retrieved from http://databank.worldbank.org

[i] Milanović (1998: 41–42) analyses the change in inequality, as measured by the Gini coefficient based on income per capita, in a sample of 18 transition economies. Inequality slightly decreased only in Slovakia (Gini coefficient moving down from 20 in 1987–88 to 19 in 1993–95), while it increased in all other countries, in many of which very significantly (for instance, moving from 24 to 48 in Russia and from 23 to 47 in Ukraine).

[ii] Mortality rate for adult males in transition countries (defined as the probability of a 15-year-old male dying before reaching age 60, if subject to age-specific mortality rates of the specified year between those ages) rose from 26 percent in 1986 to a maximum of 37 percent in 1994, a 42 percent increase. The mortality rate for adult females also rose, but less: from 11 percent in 1986 to 14 percent in 1994, a 27 percent increase. Unfortunately, during the years that followed the mortality rates only marginally decreased. These numbers are the averages for the Russian Federation, Ukraine, Belarus, Moldova, Poland, Czech Republic, Slovakia, Hungary, Romania, former Yugoslav republics, Bulgaria, and Albania, weighted by their population in 1990 (which results in obtaining the average rates for the whole region as a single country). They are based on World Development Indicators dataset of the World Bank (2018) and my calculations.

[iii] Both economic (e.g. Blanchard, 1997) and human (e.g. Izyumov, 2009) aspects of transition are a very well studied topic. Moreover, a number of specialized scientific journals are dedicated to it, for instance *The Economics of Transition, International Journal of Emerging and Transition Economies*, *Transition Studies Review*, *Economic Policy in Transitional Economies*, etc., while the European Bank for Reconstruction and Development, in collaboration with the World Bank, periodically conducts a *Life in Transition Survey* (EBRD, 2018).

[iv] The uniqueness of the West European growth rates in the quarter of century following WWII is obvious both when compared to the preceding and the following period. In 1938, 20 years after the end of WWI, the GDP per capita of Britain, France and Germany was around 30 percent higher than at the end of WWI. In 1965, 20 years after the end of WWII, their GDP was around 90 percent higher than at the end of WWII (De Long and Eichengreen, 1991: 22). Similarly, the average growth rate of the West European economies aggregate real GDP per capita — using data for Austria, Belgium, Denmark, Finland, France, West Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and the United Kingdom — was 3.8 percent in the 1950–73 period, while it declined to 1.7 percent in the 1973–93 period (Crafts, 1995: 429).

[v] Named so after General George C. Marshall, U.S. Secretary of State at the time that the Plan came into force.

[vi] The recipients of the Plan's aid, which took the form of a mixture of grants and loans, were the following European countries: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, the United Kingdom, and West Germany (Marshall Foundation, 2018). Notice that none of these were allies of the Soviet Union, which rejected the plan for ideological reasons. The predictability of its rejection must have also made the offer cheaper to make.

[vii] Although the structural changes of an economy can be bound to transitional recessions, just as those that marked the post-communist transitions, the GDP growth rates during the reforms of the Marshall Plan even slightly rose (from six percent in the 1946–48 period to 7.5 percent in the 1948–51 period for the sum of GDPs of Germany, France, and the United Kingdom, based on my calculations using data from Maddison, 2003).

[viii] For instance, in deciding whether to finance a project, the European Bank for Reconstruction and Development (EBRD) evaluated its potential transition impact vis-à-vis a list of its predefined goals: to increase private ownership, to increase competition, to transfer skills, to set a standard of corporate governance, etc. (EBRD, 2017).

[ix] In 2002, the author of this chapter attended a talk given at Harvard University by several ministers of the Serbian transitional government of the late Prime Minister Zoran Djindjić. The talk took place on the same day, but prior to the presentation by the prime minister himself at the JFK School of Government (Harvard Gazette, 2002). The ministers were energetic and excited, and one could feel that they believed they could do something good for their nation. The Minister of Privatization and Economic Reconstruction, Aleksandar Vlahović, went a step further. He stated that his people were accusing him for the hardship caused by the economic changes, but that they would later erect him a monument for the good that his work would bring. This was a potent illustration of the almost messianic vision that many reformist leaders tend to harbour.

[x] These market failures traditionally take the following forms: market power of buyers or sellers (e.g. markets with a monopolist supplier), externalities, public goods, and incomplete information (Pindyck and Rubinfeld, 2001: 591–92).

[xi] In some cases, the push for the economic transition itself could in part be interpreted as one of nation-building goals, a way to re-affirm national identity.