

## **Transition from Centrally Planned Economy to Market Economy, economic reforms**

In the process of transition from centrally planned economy (CPE) to market economy, the most essential changes to be done are **changing the form of ownership** from the public to private one, **changing the form of planning, establishing free enterprise and competition.**

### **Negative effects:**

**Fall in GDP** - suppliers and buyers are not longer guaranteed, which leads to economic uncertainty, stagnation and decrease in productivity. State companies are not used to varying market, are not flexible.

**Unemployment** - it used to be kept on artificially low level, did not reflect reality. Workers were inefficient, they had jobs, but often no work to do. To be competitive with the west, this had to change. The decrease in productivity also resulted in laying-off workers.

**Rise in inflation** - In CPE resources are handled with respect to other factors than price: need, availability, place on waiting list etc. In market economy, resources are handled according to the price, which is therefore inevitably higher. By transition, the prices rise until supply equals demand. Higher prices require higher wages which can trigger out wage - price spiral. Inflation used to be low before, because prices were planned to, thus did not reflect reality.

### **Transformation process includes more processes:**

1. transformation of state plants into share - holding companies and other forms of entrepreneurship - all forms of ownership were created ( state, municipal, private, foreign, mixed)
  2. laws had to be changed and new laws had to be passed ( Law No. 105/90 about private ownership)
  3. the "old" institutions were abolished e.g. State Planning Committee, The Federal Institution of Prices, the new ones were established, e.g. Ministry of Economy, Ministry of Privatisation, Fund of National Property...
  4. main forms of transformation of state owned companies were:
    - a/ restitution - giving back the property to original owners from whom it was taken away after 1948
    - b/ small privatization - only those things were included which could be easily privatized -size, subject of business activity, number of workers...) - services, agriculture, shops, restaurants. Small privatisation was done by higher bidder sale at the auctions - first round - only Slovak citizens could take part, in the second round, when the price was reduced by 50% also foreigners could take part
    - c/ big privatization - organized by "voucher" method - every citizen 18 years old and older after paying 1000 crowns received vouchers in nominal value of 1000 points which he could use for buying shares of beforehand chosen companies.
- Big privatization has continued by direct sales by now.

Privatization has other aspects as well:

- increase in exports
- higher qualities of goods
- formation of marketing and trading companies reformation
- entering foreign capital

Condition for coming of foreign capital:

- political stability
- rapid development of privatization
- tax reform
- functioning infrastructure
- functioning system of banks / financial institutions
- convertibility of currency within the state
- expertise in leading positions

**Tax reform** - its main step was done in 1993 - some taxes were abolished and new ones were established - corporation tax, value added tax. There was also change in charging taxes . it became voluntary - by tax declaration.

Since 1993 there were many small changes in taxes - some were abolished - donation tax, tax on endorsement of immovables.... The most important change is so called equal tax - the tax rate of 19% for most taxes - income tax, corporation tax, VAT, capital gains tax

**Reform of pensions** - new pension system has 3 pillars:

1st pillar - classical old system - working people pay through social fund pensions of current pensioners , but this brings the problems because of decreasing number of working people and increasing number of pensioners

2nd pillar - half of money (9%) goes to 1st pillar, 2nd half (9%) goes on the account of future pensioner - it is his own money

3rd pillar - voluntary saving for pension - partly paid by the employee, partly by the employer

**Health care reform** - the aim is to increase the quality and reduce the costs of health care.

1. Number of health care insurance companies increased, patients can choose them
2. patients can choose the doctors
3. privatization of health services

**School system reform** - the aim is to increase quality and reduce costs of this system

1. there were established private schools, church schools.
2. universities became more independent
3. changes in the content, goals of school system are only being prepared