Fiscal Policy in Postsocialist Transition

The collapse of socialist economies in Eastern Europe and former Soviet Union, as well as their subsequent transition towards market economies, was arguably one of the most far-reaching economic events of the 20th century. Pain accompanied the economic transition process; all countries experienced a major fall in output after the start of reforms. The growth performance in transition economies was widely different by countries. The fall finished in 1992 in Poland, but was still present until 2000 in Ukraine. In 2003, only six countries have outrun their 1989 level of GDP: Poland, Slovenia, Albania, Hungary, Slovakia and the Czech Republic.

In this paper, the focus is on the fiscal policy of 18 transition economies (Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Serbia and Montenegro, Slovakia, Slovenia and Ukraine), during the period of 1990-2003.

The usual papers examine the fiscal policy issues by fore-judgement, the initial conditions or the analytical tools determine the main results (for example in regression analysis the right-hand side variables are declared to be endogenous, the expected value of the residuum equal to zero enforce the existence of some equilibrium, etc., see [Kotosz, 2002] and [Kotosz, 2004c]). To avoid this obvious fault, in my analysis I used simple methods in my work (calculations of means and standard deviations). In the literature of the detailed budget analysis, the definition of fiscal restrictions and expansions is always problematic. Different authors (Alesina, Perotti, Giavazzi, Pagano, Purfield, and Blanchard) use different definitions generally based on fix change of cyclically adjusted primary budget deficit. As in transition economies, the stability of fiscal policy was widely disparate by countries, I prefer to use relative measures.

In the first part, I summarize earlier methods and results, in the second part I show my database and the methods used in the paper, and in the third part can be found the results of the analysis. Finally, I summarize the main findings of the paper.
Part I – Literature review

The investigation of the structure and the circumstances of fiscal policy actions is not a new idea. In the 1990’s several scientific papers analyzed the fiscal policy influence on growth performance, mainly in advanced / OECD countries. Giavazzi and Pagano [1990] found (based on data from 11 countries and 10 years) that there is a significant negative correlation between taxes and private consumption, which fit well to Keynesian macroeconomics. On the other side the state sector’s consumption is negatively correlated with aggregate demand, indicating that the crowding-out effect overshoots.

In 1995, the same authors found that the (either positive or negative) change of cyclically adjusted primary budget deficit bring forth change in private consumption in the same direction as long as the change is less than 5 %; over this value the relation is negative. The results are the same for aggregated private demand and for government consumption as well. [Giavazzi and Pagano, 1995]

Alesina and Perotti [1995] analyze the structure of government activity. Their main findings can be summarized as follows:

- Budget expansions are generally equivalent with increasing expenditures (especially transfers and government wages), while restrictions with tax rising (especially household’s tax); so any move of fiscal policy enlarge the state reallocation,
- Successful restrictions (when government debt/GDP ratio decreased by at least 5 % within 3 years) are characterized by cuts in transfers and government wages and increase of direct taxes of enterprises.

All this denotes that for success, politicians have to make the contrary of usual, only quick and great actions can conduce to a result.

In lack of data and courage, this type of paper for Eastern Europe / transition economies was missing for a long time. In 2003, Purfield made her study for a group of transition countries (includes all members of ex Soviet Union, but excludes the Balkan) to the period 1992-2000. By her opinion, the continual decline of deficit is owing to the decrease of expenditures, because revenue sources rest darkling in those countries. Her main results:

- successful restrictions are more extended (in time and size) than unsuccessful ones (it is an obvious fault, the statement is true by definition),
• successful expansions result the decrease (!) of expenditures, increase of external
debt, the decay of current balance of payment and the increase of GDP growth.
We can state the question if these factors are really the signs of successful fiscal policy.

Pirttilä [2001] is looking for the factors determining the budget deficits in transition
economies. He uses the overall, not the primary deficit in lack of acceptable data. His
main results:
• internal liberalization has a strong positive influence on fiscal adjustment (by the
decreasing of subsidies),
• the coefficients of the lagged private sector entry and lagged change in unemploy-
ment has negative signs,
• the GDP growth rate and its lagged value are important factors (mostly its change
would be useful, as they have almost the same coefficients with opposite sign),
• the regression fit on the early years of transition better than in the late transition (it
can be explained by the less extensive scatter of data).

Brender and Drazen [2003] are analyzing political business cycles in advanced
economies and in “new democracies”, as well. In advanced economies, according to a
wide-ranging literature, the existence of cycles related to elections is doubtful, but in new
democracies during the first four elections, they are present in budget balance. Only in
transition economies were detectable expenditure cycles.

In summary, three main conclusions about the literature can be set. First, not the
state of an indicator matters, but its change, accordingly the dynamics of the economy
forms the budget and vice versa. Second, the changes (in a very general sense) have a
decreasing effect in time, the economy moves to some (not identified) equilibrium, but
slowly. These results fit the idea of adaptive expectations. Third, not only the sign of the
change matter, but the volume, too. Larger steps can have inverse effects, than small ones
of the same sign. It is a matter of expectation about the government’s intentions.
Part II – Database and methods

The unification of macroeconomic statistic measures is an old goal of different authorities and a dream of researchers, but until now, never reached. The 1993 SNA system of national accounts and its European adaptation ESA 95 have some measures of budget revenues and expenditures, and there is a relatively detailed system, created by the International Monetary Fund (IMF), the so-called Government Finance Statistics (GFS) system. Its first version was created in 1986; the new one was published in 2001.

The GFS 1986 calculated the fiscal operations on cash basis, while in SNA 1993 flows have been recorded on an accrual basis, so the data of the systems were not comparable. By the new GFS, data are compiled on accrual basis, what makes SNA and GFS data comparable. It is a pity that the data of GFS become incomparable because of the methodological changes, thereby longer time series will be analyzable after numerous adjustments. Otherwise, GFS is fully consolidated, but SNA is not, ergo some the calculation of some relative measures (e.g. deficit/GDP) becomes inconsistent.

Even if there are certain standards, only a part of the countries uses them, and just a few transition economies. It is clear now, that in the early transition period more important politico-economic tasks were actual than producing methodologically comparable government finance statistics, and for this period a set of data is no more reconstruable. In many cases, the analyst has to rest on estimations based on available data. These estimations can be better or worse, but the real numbers remain incognizable, and I call this phenomenon “fiscal data illusion”.

What type of data would be optimal for a detailed analysis of fiscal policy during the transition? To answer the question, first look at the functional decomposition of economy by international standards. The GFS (according to SNA) divide the total economy of a country into five sectors:

- nonfinancial corporations sector,
- financial corporations sector,
- general government sector,
- non-profit institutions serving households sector, and
- households sector.
For analytical purposes, each of these sectors may be divided into subsectors. The general government sector usually is divided into central, state and local government sector, but in non-federal countries where regional governments do not exist or do not have weight, the state government level is skippable. Social security system appears on the competent level, this element is widely different in countries. As in Eastern Europe, the structure of the general government is diverse, the central government data less represent the role of the state, so general government consolidated data would be better to use. The new GFS Manual [2001] propose the compilation of data for the whole public sector (see Figure 1), which has an additional information function, but in my opinion is less expressive for fiscal policy analysis.

Figure 1: The Public Sector

A uniform database for general government fiscal operations does not exist. Even the IMF, publisher of GFS rules, does not have methodologically consistent data. The researcher must scout national sources (as Ministry of Finance, Statistical Office, National Bank), rarely prepared by the same principles, convert and estimate comparable data. In the case of the members of ex-Soviet Union during the secession period (1990-1992), in the ex-Federal Republic of Yugoslavia during the civil war, in Czechoslovakia before the disunion even the national authorities have no acceptable data. Further problematic point is the confliction of sources; in several cases for the same data (and theoretically computed by the same methodology); the IMF and the World Bank publish two numbers, with
sevenfold difference. Which one is more faithful? The necessary exploratory work is the subject of a separated paper. [Kotosz, 2004b]

In this paper, a database compiled and estimated by the author from different sources will be used. For some simple calculation, and particularly to check the robustness of the results, I took the EBRD database of transition (published in EBRD’s Transition Report series), but it contains only the total revenues, expenditures and the balance. For general macroeconomic data, I looked for the IMF’s World Economic Outlook Database, published in April 2004, and IMF’s Financial Statistics Yearbook series.

The definition of budget balance is not evident in research papers. Generally, the difference of government revenues and expenditures is called budget balance. Nevertheless, which revenues and expenditures exactly matter? In the case of transition economies, the revenues of privatisation and some special capital transfers should be included or excluded? What about the interest payment?

In the database, budget data is on cash basis, while almost all indicators are in percent of the GDP. The latter is strictly on accrual basis, so the ratio is a mixture of the two methodologies. It is obviously a second best solution, but budget data on accrual basis is accessible only in a very small part of the investigated countries.

The privatisation revenues – on cash basis – are included in revenues, but as privatisation is only a change in asset structure, they are excluded on accrual basis. The question is double, because in some countries privatisation revenues are important, in others are negligible, so they are a source of distortion. In the database, privatisation revenues are excluded whenever it was possible. In fast reformer economies, where privatisation is over and revenues have been important, the relevant data is reachable. I was encumbered in filtering only in the case of countries, where these sources from growing private sector are dubious (for example Belarus, Ukraine, Albania). I think that some small items rest in the calculation is not disturbing and does not distort the results of the analysis.

The other critical point is the net lending item of the budgets. In most budgets this item is very small (less than 0.1 % of the GDP), but during short periods in advanced reformers, we find significant (around 5 % of the GDP) amplitude of amelioration of the budget. I cannot believe that these returns are part of normal budgeting, but instead the result of special financing actions or tricks to clear away huge deficits.
The use of overall or primary balance is the last crucial question. Certain authors believe in primary balance, because the interest payment is the result of the government debt, accumulated during a longer period. I do not think that it is the right way in the case of transition economies. There are enormous differences among countries and years during the last 15 years, certain countries started the transition without any government debt (f.i. ex-members of the Soviet Union), others accumulated a debt around 60% of GDP. Certain countries experienced hyperinflation over 1000%, while in others the change of price level remained moderated. Even the interest burden of a smaller inland debt becomes very huge at a nominal interest rate of 1000%. Bulgaria at the end of the nineties can be a good example. As the different economic and historical circumstances touched the living space of fiscal policy differently through the interest payment, the results are clearer when we use overall balance. The primary balance expresses more the intentions of the government.

If it is not signed otherwise, for simplicity, the term “budget balance” will be used for general government consolidated overall balance corrected by net lending.

The definition of fiscal actions was always a problematic point in the literature. Even the cited authors used different ideas how to define fiscal policy actions. Alesina and Perotti [1995] use a type of cyclically adjusted primary balance created by Blanchard.

Nevertheless, how can we cyclically adjust the budget balance? Alesina and Perotti [1996] cite four methods:

- The use of the difference in primary balance, which is clear and simple, but does not care about cyclical changes.
- The OECD measure is the difference of current primary balance and the balance based on the increase of expenditures by the increase of potential GDP and on the increase of revenues by the current GDP.
- The IMF measure is just like the OECD measure, but the base of the comparison is not the previous year but a year when the output was on the potential level.
- The Blanchard measure is based on the change of the budget, if the situation of unemployment did not change. This method demands the adjustment of transfers and the tax revenues.

The cyclical adjustment is very useful in the case of “normal” economies, where real business cycles can be found. During the transition, the fall of the output and the recovery
after cannot be interpreted as simple cycle. From the other side, the measurement of potential GDP would be quite difficult. The Blanchard measure is a great idea for all the countries where reliable unemployment statistics exists, but it is not the case in the Eastern European countries. If some time series are consistent, the countries are usually not comparable. After all these problems, and in the lack of statistically traceable significant cycles, I have to neglect the cyclical adjustment. So did Purfield [2003], she used the difference of the primary balance in her analysis of a group of transition economies. In lack of suitable data, Pirttilä [2001] used the overall balance in his analysis.

The final question before the numerical analysis is: what do we mean by great or successful fiscal policy actions?

Alesina and Perotti [1995] made five categories based on fiscal impulse (FI) of Blanchard measure. By them the fiscal policy is

neutral, if \( FI \in (-0.5\% ; 0.5\%) \)
restrictive, if \( FI \in (-1.5\% ; -0.5\%) \)
very restrictive, if \( FI \leq -1.5\% \)
expansive, if \( FI \in (0.5\% ; 1.5\%) \)
very expansive, if \( FI \geq 1.5\% \)

It is very important to see that the higher is the state’s reallocation, the easier are the large changes in fiscal policy. In relative terms, the absolute change of 1.5 % is the half in an economy of 60 % of state reallocation, than in one of 30 %. The absolute measure neglects the country specific characteristics of fiscal policy, as the authors admit it. This nature is not a problematic point in Keynesian view, but for the new classical school (which count with the different and dynamic proper of the expectations) is not negligible. Namely, the effect of policy actions depends on the feeling of participants about the magnitude of changes. One percentage point of change is more important in a country where a still and stiff policy is usual, than in a country with very hectic policy. In the latter, participants do not think it out of normal.

By the definition of the authors, a restriction is successful if the \( \frac{\text{debt}}{GDP} \) ratio decrease at least by 5 percentage point in 3 years. Because of the definition by absolute change, the higher is the debt/GDP ratio, the easier is the success. Through the two definitions, Alesina and Perotti turn especially to the countries that accumulated high debt and pursuing hectic fiscal policy. The most prominent example among OECD countries is Italy.
Purfield [2003] uses another logic in her article. By her definition, the fiscal restriction is 2 percentage point change of primary general government deficit in one year or at least 1.5% point change in two consecutive years. A restriction is successful, if the general government primary balance is at least 2 percentage point better two years after the restriction than it was two years before the restriction. Fiscal expansions are defined the same way.

These definitions raise a series of problems, rooting in the transition process. The success and the durability are diverse. A fiscal policy is not successful when static, especially in the case of rapidly changing macroeconomic environment of transition economies. I guess the 5 years horizon of the definition is too long in an analysis extended only to 9 years, and is unacceptable in Eastern Europe during the transition, where and when the macroeconomic policy should have been adapted to the changing challenges. On this issue, see Magnin [1999].

As in transition economies, the stability of fiscal policy was widely disparate by countries, I prefer to use relative measures. To scale the instability of fiscal policy, the standard deviation of the budget balance can be a simple but expressive measure. For any meaningful analysis, the intervals of different policies have to be well defined to have enough observations for each type of policy. Let:

- large restriction is the action, when \( \text{adj}_{i,j} > \sigma_i(\text{fiscal}) \),
- small restriction is the action, when \( \sigma_i(\text{fiscal}) \geq \text{adj}_{i,j} > \sigma_i(\text{fiscal})^2 \),
- small expansion is the action, when \( -\sigma_i(\text{fiscal})^2 > \text{adj}_{i,j} \geq -\sigma_i(\text{fiscal}) \),
- large expansion is the action, when \( -\sigma_i(\text{fiscal}) > \text{adj}_{i,j} \),

where \( \text{adj}_{i,j} \) is the net-lending corrected general government budget balance change in the \( i \)th country in the \( j \)th year (measured as percent of GDP), and \( \sigma_i(\text{fiscal}) \) is the standard deviation the net-lending corrected general government budget balance change (measured as percent of GDP) in the \( i \)th country (\( i=\text{Albania}, ..., \text{Ukraine}; j=1990, 1991, ..., 2003 \)). By this definition, a relative measure is created, which can filter the differences between countries. Otherwise, the rate of restrictions and expansions agrees the usual quantity in this type of literature.

Furthermore, let:

- durable restriction is the large restriction, which is not followed neither by small, nor by large expansion,
• durable expansion is the large expansion, which is not followed neither by small, nor by large restriction.

These two definitions allow us to take enough short period to find all type of action, and the name of these types are consistent (we do not declare that any sustainable policy is successful). The categories are symmetric, and do not need additional information, so the classification is simple.

By our definitions, we find 25 large restrictions, from which 15 is durable, 22 small restrictions, the same small expansion, and 29 large expansions, from which 17 is durable. During the analysis, I calculated the simple average of the observations; thereby the results can be interpreted in percentage points (the change in percentage points is the change of the given category measured in the percent of GDP).

Part III – The empirical evidence

In the third part of the paper, I analyze the changes of the detailed budget in different situations defined in the previous section. Some items do not say anything special; they are not mentioned in the text.

First about restrictions. The large restrictions differ from small ones in the cut of expenditures. While during a small restriction, expenditures are cut by 1.3 % point, during a large by 3.6 % point. The rise of revenues is the same, around .5 % point. The greatest increase is in taxes on goods and services, but in large restrictions the proportion of direct taxes decline (especially corporate income taxes). Nontax revenues change only in large restrictions, by a cut of .2 % point. The decrease of expenditures means the cut of transfers. In small restrictions, the transfers to enterprises diminish, without the change of households’ transfers, but in large restrictions, the transfers to households increase a little. This type of small restriction is a specialty of transition, and is not anymore sustainable because of the low actual level of transfers. The government’s bill is always decreasing, and the cut of expenditures on goods and services is dominant.

The main aim of budgetary restrictions is the cut of deficit, and through it, the decrease of the state debt. These goals can be achieved only if restrictions are durable. What are the differences of durable and non-durable restrictions? First of all, the magnitude.
Durable restrictions are much larger (the overall deficit declines by 4.8 % point, or 2.9 % point, the primary deficit declines by 4.6 % point, or 2.8 % point, in durable and non-durable cases, respectively). This result fit well the conclusion of Purfield [2003]. During durable restrictions, the indirect taxes rise by 1 % point, while direct taxes (mainly corporate taxes) decrease by more than half percentage point. The large, non-durable restrictions are characterized by the increase of all tax revenues, and a cut of nontax revenues. The changes of expenditures are sharply different, too. The half of the cuts of temporary restrictions comes from decline of capital expenditures. It is evident that this way is not passable, the procrastination of basic reconstructions, modernizations means the postponement of expenditures, it never can be durable, as Alesina and Perotti [1996] mentioned. The expectations effect starts to work, people do not believe in the durability of restriction. The structure of current expenditure changes is different: in durable restrictions, 85 % of cuts are transfer cuts, while in temporary ones only 60 %. The expenditures on goods and services are declining in durable, but increasing in non-durable restrictions. The credibility of a restriction, when the government’s consumption rises, is obviously zero. At the same time, non-durable restrictions increase the transfers to households by 1 % point. Together, durable actions touch the disposable income of households, but temporary ones worsen the position of enterprises and cut capital expenditures. This direct intervention (masked by welfare effects) cannot be durable.

During expansions the revenues fall and the expenditures rise. It is not surprising, but the fall of revenues is only the third of the increase of expenditures. The structure of small and large expansions is different. The large expansions can be featured by the cut of non-tax revenues (1.2 % point) and the increase of tax revenues (.4 % point) which means the growth of other taxes; altogether do not touch the representative items. Small expansions are more characteristic, the revenue cut is the decrease of corporate income tax (almost 1 % point). On the expenditure side, the small expansions are determined by the change of transfers (and particularly transfers to enterprises), the increase of interest payments are compensated by decrease of capital expenditures. The large expansions are slurred, all the main expenditure categories rise by the same rate, but the government sector wages decrease a little. The magnitude of the expansion governs the structure. Small expansions are well pointed; large ones are the result of impotence of the government to restrain the demand for the money of the state.
What are the differences between durable and temporary expansions? First of all, their magnitude, similarly to restrictions, but contrary in the direction, because durable expansions are smaller than temporary ones. (Any government does not have the possibility to do large and extended expansions.) Durable expansions mean the decrease of revenues by 1.3% point and the increase of expenditures by 2% point. The non-durable ones result the increase of expenditures by 4.3% point, without any change in the level of revenues. The yield of durable expansions was the uniform decrease of main revenue categories, mainly corporate income taxes and excises. In non-durable ones, the decrease of corporate income taxes was accompanied by the large increase of indirect taxes (more than 2% point). The main cut was in nontax revenues. On the expenditure side, the question was “Government consumption or transfers?” During durable expansions, transfers were cut, while during temporary ones, they increased by 2% point. (It is easy and popular to give more transfers, but it is not sustainable during the general recession of the economy.) The government’s general bill increased in durable expansions, based on increase of wages and salaries. (Thus, any large expansions – durable or temporary – increase the welfare of households, by the increase of wages or by the increase of transfers.) Summarized, durable expansions touched the direct tools of the government in smaller volume, while non-durable ones invest in indirect tools.

The fiscal restrictions and the expansions are different in volume and structure, as well. Durable restrictions are larger than non-durable ones, while durable expansions are smaller. During restrictions, indirect tools are efficient, while in expansions direct ones. The composition, the structure matter, and the volume, too. A larger change of the same direction can result diametrically different effects. The concrete details are not analogous to earlier results of Alesina and his co-authors, because of the particularities of the transition process, but the way, how to think about fiscal policy is the same.

Table 1 resumes the macroeconomic effects of different fiscal policies during transition. The base of comparison is the year before the action; the referent year is the year after the action. Two years difference is not too long to misjudge quick changes, but enough long to realize the changes by the participants. The values in the table show the average effect, economic growth (i.e. GDP change) and refinancing rate is in percent, other variables (rates) are in percent of GDP, thus changes are in percentage points.
Table 1: The macroeconomic effects of fiscal policy actions

<table>
<thead>
<tr>
<th>Action</th>
<th>growth</th>
<th>rate of consumption</th>
<th>rate of investment</th>
<th>refinancing rate</th>
<th>export rate</th>
<th>import rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small restriction</td>
<td>-3.42</td>
<td>-3.38</td>
<td>4.04</td>
<td>34.1</td>
<td>-1.59</td>
<td>-2.04</td>
</tr>
<tr>
<td></td>
<td>(1.48)</td>
<td>(2.51)</td>
<td>(3.68)</td>
<td>(22.0)</td>
<td>(1.92)</td>
<td>(1.57)</td>
</tr>
<tr>
<td>Large restriction</td>
<td>-0.60</td>
<td>1.72</td>
<td>-1.06</td>
<td>15.0</td>
<td>-2.85</td>
<td>-0.87</td>
</tr>
<tr>
<td></td>
<td>(2.33)</td>
<td>(1.81)</td>
<td>(1.03)</td>
<td>(13.7)</td>
<td>(2.04)</td>
<td>(1.58)</td>
</tr>
<tr>
<td>Temporary restriction</td>
<td>4.59</td>
<td>1.36</td>
<td>0.78</td>
<td>-8.40</td>
<td>-6.47</td>
<td>-2.87</td>
</tr>
<tr>
<td></td>
<td>(4.63)</td>
<td>(1.28)</td>
<td>(1.87)</td>
<td>(7.03)</td>
<td>(3.46)</td>
<td>(4.67)</td>
</tr>
<tr>
<td>Durable restriction</td>
<td>-3.71</td>
<td>1.94</td>
<td>-2.21</td>
<td>25.4</td>
<td>-1.18</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>(2.26)</td>
<td>(2.92)</td>
<td>(1.11)</td>
<td>(18.8)</td>
<td>(2.47)</td>
<td>(2.33)</td>
</tr>
<tr>
<td>Small expansion</td>
<td>2.77</td>
<td>-3.35</td>
<td>2.43</td>
<td>-3.18</td>
<td>0.37</td>
<td>-2.23</td>
</tr>
<tr>
<td></td>
<td>(2.17)</td>
<td>(1.85)</td>
<td>(2.83)</td>
<td>(2.56)</td>
<td>(2.55)</td>
<td>(2.08)</td>
</tr>
<tr>
<td>Large expansion</td>
<td>-1.62</td>
<td>-2.39</td>
<td>-0.78</td>
<td>-20.5</td>
<td>2.08</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td>(1.48)</td>
<td>(1.67)</td>
<td>(1.92)</td>
<td>(25.9)</td>
<td>(2.89)</td>
<td>(2.37)</td>
</tr>
<tr>
<td>Temporary expansion</td>
<td>-3.39</td>
<td>-3.34</td>
<td>1.28</td>
<td>-47.7</td>
<td>0.74</td>
<td>0.11</td>
</tr>
<tr>
<td></td>
<td>(2.77)</td>
<td>(2.73)</td>
<td>(1.06)</td>
<td>(51.5)</td>
<td>(5.49)</td>
<td>(4.30)</td>
</tr>
<tr>
<td>Durable expansion</td>
<td>-0.38</td>
<td>-1.78</td>
<td>-2.01</td>
<td>6.61</td>
<td>3.32</td>
<td>0.61</td>
</tr>
<tr>
<td></td>
<td>(1.60)</td>
<td>(2.20)</td>
<td>(3.00)</td>
<td>(4.59)</td>
<td>(2.58)</td>
<td>(2.48)</td>
</tr>
</tbody>
</table>

Source: The author’s calculation. The database of macroeconomic indicators is IMF’s International Financial Statistics Yearbook. The standard errors of averages are in parentheses.

Finally, I have found a very interesting idea during the analysis of Table 1. Economic growth is positive in the case of two actions: the temporary (large) restriction and the small expansion. Regarding other variables, this optimal fiscal policy is constructed from one-year temporary restriction followed by two years of small expansion. The “average” economy is growing in increasing pace (the increase of the growth rate is 1.69 % point on the yearly average), the consumption (by some fluctuation) is growing, and the investment is growing with declining interest rate. The saving rate is rising and the balance of commerce is sustainable (while the economy becomes closer). For that optimal policy, the price is the average increase of primary budget deficit by .85 % point on the yearly average. From Keynesian point of view, this is a great result: by some special fiscal policy mix, the economy can be stimulated. The new classical approach would disclaim the long-term effectivity of any expansionary fiscal policy.

This great finding is unfortunately ex post, we cannot check if this policy mix is well based. It is another question that a known strategy is self-fulfilling or self-destroying. I think that a never declared, but used strategy (optimal cycle) would had the success during the transition. We have very little empirical evidence. The country nearest to this optimum was Estonia. Estonia, the forerunner of the Baltic States exhibited the quickest growth after
the transformational recession. This apprehension is, even not warranty, but a proof for the appositeness of the previous calculations.

The political cycle theory cannot be neither held, nor rejected. It is sure that in the election years the disposable real income is made to be significantly larger, by three components of fiscal policy. First, the transfers to households increase by 5 % on the average, second, the government wages augment by 3 %, and third, the excises decline by 12 %. All this helps the growing of consumption of the households sector, but the changes of the details are not significant in statistical terms. For more evidence on the election year's deficit change country by country, see [Kotosz, 2004a].

**Conclusion**

In the paper, I constructed a measure to classify different fiscal policies based on earlier research papers. In my opinion, a relative measure is more sufficient to feature the fiscal policy of transition from planned economy towards market economy. My relative measure is able to eliminate the differences between countries and generally, the country specific policy fashions, thereby the categories are internationally comparable.

The application of the theoretical method gives clear results. The fiscal restrictions and the expansions are different in volume and structure, as well. Durable restrictions are larger than non-durable ones, while durable expansions are smaller. During restrictions, indirect tools are efficient, while in expansions direct ones. The composition, the structure matter, and the volume, too. A larger change of the same direction can result diametrically different effects. Because of the particularities of the transition process, concrete details are not analogous to earlier results of advanced economies.

The research has many possibilities for extension. The relative measure can be applied to other countries and the results can be compared with earlier researches. By the use of additional information, other balance indicators can be calculated (for example the famous Blanchard measure of cyclical adjustment), or other macroeconomic effects of different policies can be investigated. In the future, in European context, the fiscal policy before the EU, or rather before the monetary union membership can be a very interesting research field.


