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A theoretical concept analyses of economic policy reforms

Najeb Masoud[1, 2]

[1]Department of Banking and Finance, Al-zaytoonah University Business School
[2]Al-zaytoonah University of Jordan, Box 130, Amman 11733, Jordan

Email address:
najeb2000@gmail.com

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Abstract: The purpose of this paper is explained the concept of economic reform programmes and macro-economic performances were generally seeking the combativeness of the economic system, the satisfaction of demands, solvency of state and the welfare of citizens. An overview of the economic reform programme has become a global phenomenon in the world adopted by many developing countries in a trisection economy in the last two decades. Most of the previous socialist and even communist, economies, began the trend towards partial, or complete economic reform. Indeed, with the collapse of the Soviet Union, the newly-independent countries in Africa, the Middle East and Latin America, all came to realise the importance of economic reform programmes. Accordingly, within the last fifteen years most developing countries have implemented similar programmes, in line with recommendations and support from global organisations such as the International Monetary Fund (IMF) and the World Bank. It was argued that the key target of any economic reform programme represents the rate of economic growth and increase per-capita income in order to enhance the welfare of the economic society as a whole. This paper's result will be useful in reaching policy decisions to develop financial markets to increase economic growth in developing countries or/ emerging economies, in general, and within Libya, in particular. Furthermore, providing empirical evidence regarding this critical issue within specific emerging economies will add to the literature on economic reform related to the macro-economic indicators and its influence on economic growth and, thus, initiate an exciting topic for the paper.

Keywords: Economic Reform, Macro-Economic Reform, Regulation, Privatisation, Corporatisation, Liberalisation, Transformation, Emerging Economy

1. Introduction

In the last two decades economic theory has undoubtedly affected the way reforms were designed to make economies more competitive and to increase economic growth rates. In the comparative economic system of the literature, difference is made between ownership of production which predominantly characterises capitalist in socialist economies, and economic mechanism and planning economic behaviour, which are market mechanism and planning mechanism. Planning, in turn, can either be centralised or decentralised where the most effective decision-making mechanism concerns reforms [1]. Both developed and developing countries have witnessed major changes in economic thinking and development strategies within the period in question. Private ownership has played a pivotal role in changing strategies in principle and virtually diminished government control in directing economies and encouraging market forces to boost economic growth. It is universally accepted that policies of state control over economy, suppression of market forces and discouragement of the private sector have failed.

Following this process, the most dramatic and significant failure, of course, has happened in transition economies (Eastern Europe) and the former Soviet Union economies in which state control over economic activity has been the most rigorous. In fact, in several other developing nations the economy has suffered, which also illustrated a significant correlation between the degree of state control and the political situation in each country [2]. Wolff [3] investigated the early stages of reform progress in transition economies dividing transition countries into three groups:

- Radical reforms.
- Gradual reforms.

- Lagging reforms.

According to [4], economic reforms have offered a global comment on the world economy, namely the social insinuations and political dimensions of transformation policy. The majority of developed and developing countries regardless of geographic entities, income levels, and ideologies have joined mainstream economic developments. As [5: 56] remarked:

"It is necessary to distinguish between nominal reform, meaning official policy initiatives, and real reform, meaning changes in how the economy actually works. Nominal reform can contribute to real reform (price decontrol being an example), but does not do so if it outstrips microeconomic learning capacity. In other words, the real pace of reform may be limited by how rapidly people and institutions can learn to play new economic roles."

Indeed there are certain factors which convince/ attract governments to adopt programmes of economic reform. These factors are political, social and economic in nature.

The paper is divided into six main sections. In Section 2, deals with the various definitions of the economic reform programme. In section 3, it draws attention to the economic reform programmes importance, aims and objectives are identified. In Section 4, the assessing the economic reform programme and macro-economic performance approaches are described its indicators are identified. Section 5, concerns the process of the economic reform programme is discussed. Finally, in Section 6, a summary and conclusion of this paper is provided.

2. Definitions of Economic Reform

At the end of the Second World War it was not by accident that, in referring to the process of post-communist transformation, the word "revolution" as formed by the combination of the words "reform" and "revolution", was utilised [6] and [7]. There are numerous identical words, which possess the same meaning as "economic reform programme", and many authors use the same phrases of "economic reform programme" [e.g. see 8,9,10,11]. However, others use other expressions like "economy and transition" or "transitional economy" [12,13,14,15,16]. Even so, other authors adopt a different expression, "transformation", for the same meaning as economic reform programme and transition [17,18,19,20,21,22,23,24]. In the same manner, some authors determine this process as "economic adjustment, stabilisation, and regime" [25, 26,27,28,29,30,31].

However, most economists are accustomed to using the first two expressions "economic reform programme" and "transition" [32,33]. Accordingly, it was found in the literature review that most articles and books, which deal with the developing nations such as China and Eastern European regions, used the expression sometimes called "transition economies", which measures this programme as the transition from capitalism to socialist model and then to capitalist market economy [34,35,36] and transition from capitalism to post-industrial, post-economic society [37,38] transition from Stalinism to the socialist market economy [39] and transition to drastic growth of production function in the US [7].

Similarly, Middle Eastern countries such as (Egypt, Israel and Jordan) generally applied the expression of "economic reform programme". This kind of difference can be due to significant justification, specifically political aspects. On the other hand, in China and Eastern European countries, the "process of transition" involved, besides economic changes, is most notably the political system. In this situation political aspects led to economic changes in these countries. One further example in the general approach of "process of transition" is based on "institutional analysis of the evolution of transition to development" applied to disparate countries [40]. Since this paper will concentrate through to the emerging economic situation, the expression "economic reform programme and transition" will be used in this paper as the result of other kinds of changes involving economic and political aspects.

In addition, there are many definitions of the economic reform programme and transition. According to the Oxford American English Dictionary and Thesauruses, 2006, the meaning of reform is "make changes" in something, (typically a social, political, or economic institution or practice) in order to improve it; an opportunity to reform and restructure an antiquated schooling model. In the same manner, the OECD [41] defined the economic reform programme as "an attempt to eliminate a number of market rigidities". Oxford English Dictionary [42] use the same way of the meaning of transition expression "the process or a period of changing from one state or condition to another". Finally, [43] defined the market reform as the implementation of changes in the rules of the economic game by a legal authority policy to widen the role of markets and the private sector ownership to deliver the entire economy more open door policy.

Balcerowicz [44] provided the classification of historical "transitions" in the following sudsy:

1. In 1860-1920 classical transition implies the process of expanding democracy in leading capitalist nations.
2. After the Second World War the neoclassical transition was reflected by democratic developments in West Germany in the 1940s Italy and Japan, in the1970s Spain and Portugal, and between the 1970s and 1980s South Korea and Taiwan.
3. Furthermore, after the Second World War the market-oriented reforms in non-Communist countries, for example, West Germany and other Western nations, in the early 1960s South Korea and Taiwan, in the1970s Chile, in the1980s Turkey and Mexico and in the1990s Argentina.
4. Asian regime of post-communist transition countries i.e. China in the late 1970s and Vietnam

in the late 1980s.

In the meantime, [45] explained the economic reform programme as a corrective action to macro-economic policies, which seeks to correct weaknesses in the economic structure. [46], however, reported decades ago that a broader perspective regarding economic reform programme was necessary by stating a fundamental shift in the way that directs all aspects of economic sectors from a social-oriented economy to an open-market economy. Nevertheless, [47] explained transition as meaning analysis of the relationships between financial institutions and structural change. However, transient economies realise the fundamental transformation which involves social norms and informal institutions, as described by Kuznets [48:30]:

"The transformation of an underdeveloped into a developed country is not merely the mechanical addition of a stock physical capital: it is a thoroughgoing revolution in the patterns of life and a cardinal change in the relative powers and position of various groups in the population [...] the growth [...] must overcome the resistance of a whole complex of established interest and values".

Hence the economic reform programme and transition economy can be defined simply as: the economic programme which is applied/ adopted to achieve a significant improvement in the economic development of any society by addressing all issues of the economic system and political situation policy, aiming to accelerate the rate of growth and to improve the welfare of society as a whole.

3. Economic Reform Programmes: Importance, Aims and Objectives

At the end of the 1980s, the social revolutions in Central and Eastern Europe (CEE) initiated a political and economic situation, and a cultural process of restructuring which is without precedent in history. It became evident that those nations which had based their development on centrally planned directives and inward-looking programmes were not only failing to provide their people with rising living standards but, in some cases, were actually retrogressing [49]. In many developing countries this has been the decade of debt crisis and high inflation. Rich nations and those with natural resources like Libya, as a case of a developing country, found themselves, in effect, unable to earn sufficient foreign exchange to satisfy their people's needs, in particular, and the economic system, in general. The difference between the riches of these nations and most of the developing countries of Africa, Asia and Latin America as well as the centrally planned transition economies of Eastern Europe and those that followed more market oriented strategies the recently industrialising countries (NICs) of southeast Asia became painfully voiced, as the latter caught up with and surpassed the former in virtually every measure of economic and social welfare [50].

In addition, [51] indicate that, whether or not the economic reform programme is important, countries that suffered a high inflation crisis, which means more than a 40 *per cent* rate of inflation over the last 2-4 years, virtually suffered from a sharp fall in growth during the inflation crisis period. However, the growth following the end of a higher inflation crisis was higher than prior to this crisis. For instance, GDP growth was positive after the inflation rate tended to decline. At the same time, it was noticeable that GDP growth became increasingly positive from year to year, up to 3 *per cent* after 7 years, following the reform in many countries. The growth rate is directly proportionate to inflation. Therefore, various governments should work in accordance. Inflation rates become negative due to misappropriation and mishandling of the issues. In short, governments in third world countries are not decentralising power to the public end, which is the gross route mistake and is the only obstacle to economic reforms.

Bgcolor [52] reported that the majority of developing nations were attempting to transform their societies by adopting a new model of market-oriented mechanisms, which attempted to compensate for lost period of transition. This occurred especially among the countries of East and South Asia, Central and Eastern Europe and the former Soviet Union, and the Latin American nations which have undertaken broad economic reform programmes. In the same way, these countries transformed their economies and societies from public sector domination to ones where they can burgeon in response to market signals. While discussing the East European Economies, [53] found economic problems, such as shortages and general weaknesses on the supply side of economic growth, soft budget limitation (at the level of both individual enterprises and the economy as a whole), repressed inflation (which resulted in other manifestations of excess aggregate demand), hidden unemployment (which was reflected in low labour productivity) and a substantial level of unproductivity. Besides this problem, these variables led (such countries to adopt a programme of economic reform to treat deficiencies in economic activities and transition.

Alternatively, [54] discovered some negative factors in the aggregate economies which make the economic reform programme a very significant factor which pushes the economy to the level of macro-economic reform. They further summarised shortcomings/ deficiencies in the economy, such as an imbalance in an economy which is usually reflected in the prevalence of high inflation and balance of payments deficits, on the one hand, and low rates of employment and growth, on the other. Such imbalances can be due to a variety of factors, but one common element that generally characterises them is an excess of unsustainable expansion in aggregate demand. Similarly, Gold [55], Goreux [56] and Killick [57] noticed variations in aggregate demand and expenditure- associated economic reform. Fiscal imbalances stemming from levels of expenditure, that exceed the public sector's revenue raising capacity often lie behind unsustainable expenditure or rising revenues, or both together. In fact, Gold, Goreux and Killick indicated the non-existence of sustainability in demands hence; this gives rise to unforeseen issues and problems. Mater [58] identified the fundamental features of a market economy to improve the economic performance of central and eastern European countries and successfully transform into market economies.

1. Basic constitutional rights, such as political rights, combined with economic freedom: these include private property rights, appropriate business laws and market institutional setting.
2. Competition: the key characteristic of the working market economy requires a comprehensive and stable framework of regulations and rules in all the fields of economic activity.
3. A sound currency: the most important precondition for competition such as low rates of inflation and convertibility for avoiding microeconomic distortions for efficient allocation of goods, services and factors of production, and for providing appropriate incentives to economic agents.
4. Tax system: adequate to the high level of savings.
5. A well-functioning infrastructure necessary for efficient economic activities: this serves like the protection of the environment as a basis of economic growth and improvements for the standard of living.
6. Stable political policy system: based on pluralism and individual freedom in order to provide comprehensive opportunities for the individual activities and personal fulfillment of producers, consumers, investors and employees.

[59,60] reported that the growth rate of any economy is directly proportional to the economic reform programme. This then reflects in an increased per-capita income in order to enhance welfare to the society as a whole economic system. Similarly, [61] indicated that the most significant objective of any programme of economic reform is to provide an appropriate economic climate, rendering it possible to achieve a new quality of growth. It is simple to comprehend that the circumstances of any economic reform are the basis of future developments. It means that growing economic efficiency should become the most important parameter for the growth rate in days to come. Notwithstanding, [53] considered the challenge of reforms, stated briefly, are: to rise aggregate supply and more effectively manage aggregate demand. Supply and demand is a simple means to understand the reforms in any economic situation. [62,63,64] discussed the main points in providing subsidies for making an economy very successful. Of course various governments have to provide subsidies so that economic reforms may succeed. To achieve the primary target of an economic reform programme, there are various subsidiary aims.

1. To raise aggregate supply and control aggregate demand. At the most general level, these will cover fiscal policy, monetary policy, industrial structure and competition policy, social policy and trading and currency policies. However, it is again emphasised that this type of effort must be based upon some clear evidence, otherwise this effort will prove fruitless.
2. Fiscal policy reform has effects for both the supply and demand side of the economy and for both the micro and macro dimensions, which includes measures to changing individual prices, as subsidies will be reduced or removed, to reorganise the tax reforms in any running programmes, but ensure government expenditures are not increased but rather controlled, because they would affect the overall policy implementation in subsidies.
3. It is indicated that monetary policy reform also comprises micro, institutional and other elements. In one way, monetary policy reform should be towards market-based economy, since money clearly facilitates the operations of the price system. It is also pointed out that, if these are not controlled, and then there are threats of inflation, where nothing is guaranteed.
4. There should be a balance in domestic investment over domestic saving, but it should be bores in mind that foreign borrowing and balance of payments and debt problems, or domestic investment will have to be kept in line with domestic saving.
5. Failure to achieve monetary policy reform may also hit new firms, which often rely on credit and upon which future economic growth depends. At the macro level, the need will be to achieve monetary stability and to avoid the undoubted pressures that will arise to soften fiscal constraints by financing deficit through credit creation.
6. It is a known fact that the developing countries' economies which adopted a programme of economic reform, where state enterprises have perhaps been not particularly competent to handle it, suggests that privatisation does not merely alter the ownership of enterprises without doing anything to improve their management and economic performance, which must do other than rely heavily on imported technology. It is crucial for them to concentrate on the human capital. For this reason, they need to pay attention to social policy, education, health and housing, as well as the environment and justice in their everyday life.
7. The end of a trading monopoly, a move away from trading arrangements and the introduction of currency convertibility appear to be vital steps in this context, although a relaxation in attitudes to foreign investment will also be required in order to facilitate inward technology transfer.

In the same way, [65] summarised the aims of any programme of macro-economic reform:

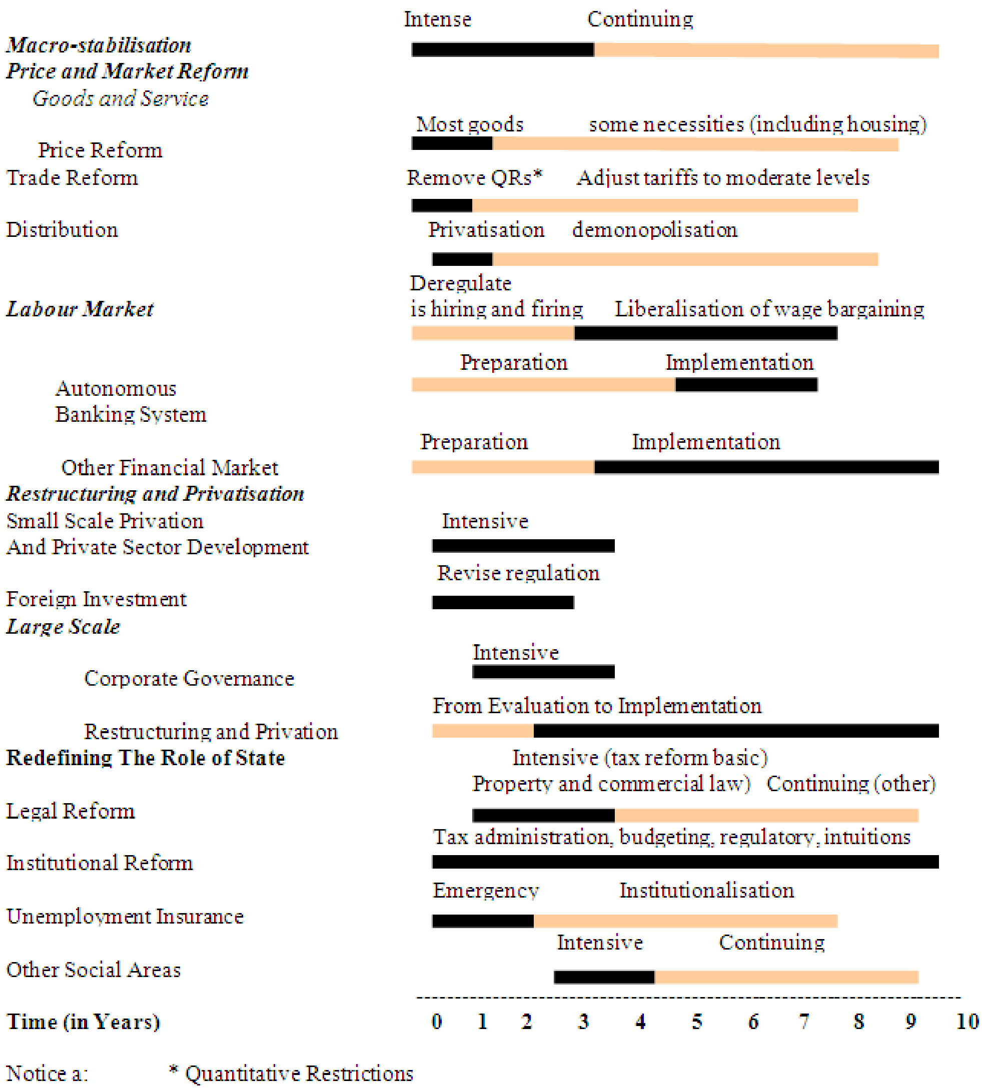
- That inflation rate should be controlled through policies, including the encouragement of healthy competition, whereas monopolies ought to be discouraged

- That there should be a balance in the introduction of interest rates in line with inflation rates.

According to [66], who outline the key measure of reform as shown in Figure 1, the process of economic reform in the CEEs in relation to what needs to be done includes:

1. Macro-economic stabilisation: fiscal and credit policies and external imbalance.
2. Price and market reform; remove price controls, trade liberalisation, fix the nominal exchange rate for the price level, which could be an exchange rate reduction high-bred inflation within few months, perhaps stabilisation possibly following consistent macroeconomic policies over periods of time.
3. Enterprise reform and restructuring; investment, privatisation of state-owned firms, unemployment insurance emergency and new tax measures.
4. Institutional reform: a stable legal framework for regulation institution, social safety net, reform of government institutions (tax administration, budget and expenditure control, monetary control) and enforceable property rights.

Simultaneously, it is apparent from the previous discussion that most elements of reforms are very closely intertwined, and some early reform will produce immediate beneficial improvements. Economic performance will require more time; Figure 1 presents the strategy of reform for long-term system.



Source: Adapted from [66].

***Figure 1.** Phasing of reform*

From another perspective, Gomulka [67] observed that any economic reform programme package usually consists of the following measures to be applied to arrive at the economic reform objectives.

1. *Consideration of the government budget*: this can be achieved through government spending decreases but taxes are increased beyond reducing price subsidies.
2. *Price liberalisation and launching privatisation:* this area can be achieved via reduction of subsidies

and the deregulation of price fixing, accompanied by the liberalisation of domestic trade.

3. *Control monetary policy*: through to the Central Bank interest by increasing real rate of interest rates, and the balance is created to introducing regulation of bank lending.
4. *Convertibility of the domestic currency:* all firms and companies should be provided with the facilities of money exchanges so that their transactions get through. This means that domestic enterprises and society in general can freely buy or sell foreign currency for any purposes.
5. *Foreign trade liberalisation*: it is a simple matter that fees should be reduced in export and import licenses, and through giving permission to all enterprises to engage in foreign trade; through tariffs which were meaningless in the previous system of administered trade and, at the same time, become active instruments of trade policy and were lowered so as to express the commitment to trade liberalisation. This will bring about more competitors in the market and revenue will be automatically increased.
6. *Setting up a market environment:* this could be achieved by reform in the banking and financial sectors and will further guarantee competition in the market.
7. *Laws should support privatisation and the dismantling of the former state monopolies*.

While studying the economic reform programme in the transition economy case of Czechoslovakia, [68,69] indicated certain achievable steps of an economic reform programme.

- Introduction of certain deregulations so that the private sector should play its role. Removing legislation restrictions on private economic activities, encouraging foreign investment and preparing the denationalisation of state enterprises.
- Introduction of laws so that 100 *per cent* foreign ownership of enterprise can occur.
- Introduction of laws to achieve a budget surplus via a decrease or, at least, a restraint on government expenditure.
- Introduction of laws so that the exchange rate of the currency can be controlled. This can be accompanied by an increase in the level of exports and a decrease in the level of imports.
- Introduction of laws so that a skilled workforce can be easily adjusted in companies.

Clague and Rausserc [70] suggested a list of civilities related to creating a new set of rules which national governments attempting to realise a market economy.

1. *Setting up the legal infrastructure for private ownership:* commercial and contract law, and labour law, also the inclusion of environmental and health regulations.
2. *Devising a system of taxation of the new private ownership:* organising the Internal Revenue Service (IRS) to collect taxes from private ownership.
3. *Devising rules for the new financial sector:* establishing a new system of banks and investors' regulations.
4. *Determining ownership rights to existing real property:* the laws affecting landlord-tenant relationship to resolving the issue of property confiscated.
5. *Foreign exchange:* setting the rules under private firms and individuals pertaining to the acquisition and sale of foreign exchange and foreign goods.
6. *Reforming prices:* the demands of the government budget will require the increase of prices on many consumer goods that have been provided at low cost price.
7. *Creating a safety net:* setting up an unemployment compensation scheme for times of crisis.
8. *Stabilising the macro-economy:* the government budget to avoid an excessive fiscal deficit and the total credit provided by the banking system.
9. *Small-scale privatisation:* establishing the private right to purchase services from railroads, ports and other enterprises which may remain in the public sector.
10. *Large-scale privatisation*: transforming medium and large-scale of enterprise that have not yet privatised.
11. *Financial reorganisation:* managing banks before they are privatised, including arrangements for loans to new business.

These points represent broader means to obtain the aims of the economic reform programme than the previous perspectives. However, it is simple to understand that 100 *per cent* ownership of foreign companies will provide a sound foundation for economic reforms but foreign companies should also comprehend that their savings should remain in the same environment. The decentralisation of all state owned companies or enterprises can give rise in establishing economic reforms but this should be with the coverage of proper regulation. The democratic and political forces in all environments can resist. Mihalyi and Smolik [71] discussed the aims of the economic reform programme.

- Allocation of funds should improve living conditions and prevent a further marginalisation of the middle class. Domestic and foreign aid should cut/ reduce inflation rates. This is only possible when the process of pricing is controlled.
- All major companies should invest in joint stock companies, ownership being transferred to external owners including foreign investors. This should be undertaken through legislation.
- All government/ companies should establish a social fund to meet the negative impact of the economic reform programme. This fund can be used in higher prices resulting from the subsidy.

Pensions and family allowances should be increased so that middle class workers and others do not suffer. All governments should allocate funds for unemployment compensation, employment service and retraining programmes. If this is done, as suggested by Mihalyi and Smolik, then there are chances of positive economic reforms.

On the other hand, the IMF [72] summarised the aims of the economic reform programme in two main dimensions: stabilisation policies and structural policies. The first point-stabilisation policies reduce domestic demand and make up the external deficit through restrictive monetary and fiscal policy and devaluation. Here it is further indicated that the various state governments are advised to reduce their currency so that the external deficit can be controlled and, second, there are structural adjustment policies, such as price liberalisation, privatisation, and financial reform, which are planned to make the economy more approachable to market indicators. [73,74] reported thus while conducting a study about economic reforms under the auspices of the IMF. Similarly, [45] divided the aims of an economic reform programme into two groups: the first group was measured by stabilisation aims and the second was measured by structural adjustment aims. The aims of each group are now explained.

The first group, stabilisation aims programme, addresses temporary imbalances by reducing the level of economic activities, without affecting the system's structural characteristics. Also, reduction of government expenditure, limitations of money supply or internal credit resulting in higher rates of interest and a reduction in real wage levels, can be achieved, either directly, through public sector wage by reducing legislated into the smallest amount of wage levels, or indirectly, through the descending pressure exercised by the increasing unemployment associated with falling output levels. However, it is revealed by Mosley that the reduction in wages is not the sole means of economic reform but to control prices in the market of commonly consumed commodities. The second group, structural adjustment aims, on the contrary, at balancing the economic activities through an expansion of supply, which can be achieved by overcoming existing bottlenecks and distortions. Obviously, three broad components are present in most structural adjustment programmes.

1. Liberalisation of the price system in order to support efficient distribution of resources. This step usually involves a liberalisation of rates of interest, a reduction in government subsidies to specific goods and services, as well as an elimination of taxes and boundaries on the currency exchange rate.
2. Developed openness of the national economy process to international trade, this can be achieved through a reduction of export and import taxes and also made more effective by devaluation in the currency exchange rate.
3. Reform of the revenue and expenditure structure of the public sectors. In it the state role comes after international trade. Leaving aside specific aspects tailored to the situation of individual countries, six economic policies can therefore be associated with structural adjustments:

a. A reduction in export taxes,
b. A reduction in import tariffs,
c. A stabilisation of exchange rates and rates of interest,
d. An elimination of price subsidies and,
e. An increase in direct taxation.

The final step in the planning reform is, as required by [65] highlighted the following points that can bring positive changes in economic reform programme.

- It is important to achieve budgetary balance. The significant ways are by increasing tax revenues, reducing government investments and reducing government subsidies.
- The state governments must eliminate hidden subsidies from household savers to state enterprises via low rates of interest in the banking sectors. Put simply, the state should provide laws so that banks have to reduce their interest rates; this will encourage investors to come forward in the business sector.
- The state should control the barriers which cause prices not to be in balanced shape.
- Foreign debits are the biggest drawbacks to economic reforms; however, rescheduling foreign debts should be affected to minimise this.
- Foreign trade should be liberalised. This can be affected existing by lifting licensing restrictions and reducing tariffs.

In an inference, the major points which can alter the scenario and could provide foundation for the economic reforms transition which are reduction in taxes in foreign trade, controlling of government expenditures, and provision of soft terms and conditions to the general population in banks. However, if we look closely at all the researchers who presented their point of views regarding economic reforms, it appears that there are variations. The two main areas which can break through in having economic reforms in all circumstances are fiscal policies and monetary policies.

4. Assessing the Economic Reform Programme and Macro-Economic Performance Approaches

What is always fundamental in any economic reform programme is its success to improve the performance of economy activity. In order to evaluate the performance of every economic reform programme it is crucial to establish the basic approaches of variables that can reveal the performance of the economic reform programme. However, according to diverse authors and economists, dealing with transition economies' experience and cross-countries in the main differences areas as follows:

1. The fundamental and the function of macro-economic variables such as fiscal balance payment and inflation [51,75,76].
2. The structure of economic reforms especially in liberalisation and privatisation [77,78,79, 80,81,82].
3. The degree of macro-economic conditions an initial structure of transition from the beginning [79,83]. Other studies have further results to enjoyed potential that group for more reforms (3,84,85,86].

According to many authors, for instance, [87], [88], [89] and [90], it is reported that economic reform can be measured mostly through the following factors:

- Privatisation, together with new measures in fiscal and monetary policy and income policy.
- Price liberalisation.
- Exchange and trade liberalisation.

According to Lavigne [91], though, more specific variables should be taken into consideration in measuring macro-economic reform performance. They feature:

- The inflation rate,
- The balance of payments,
- The government budget,
- The liberalisation of prices,
- The current exchange rate,
- The rate of growth.

It can be noted that some of the parameters of economic measurement are similar, because the methodology of measurement remains the same in the majority of cases. The work of various researchers focuses on government policies, budgets of government and approved policies. The political forces in any nation cannot be override. Political forces wield considerable influence in economic reforms. It is noted that strong economies are always the basis of strong governments, especially in a democracy. On the contrary, poor political processes and political present poor economic levels. Lavigne; stresses that economic reforms should be measured through to performance. However, Lavigne further advocated the control of inflation in the economies, especially when subsidies are ended. It is also held that running prices of commodities cannot be reduced/ lowered, but remains static. Therefore, various governments can control prices. This may reduce budget deficits. By doing so, the balance of payment can also be improved. These measures can assist if adopted in real a perspective which means that growth of any muddled economy might improve.

Williamson [92] considered ten reforms of the "Washington Consensus" in view points for economic institution's policy.

1. *Fiscal Discipline:* where almost all budget deficits included that of the central government, the provincial government, state enterprises and that of the central bank; this should be reduced to be financed without recourse to inflation and tax, which will hit the poor because the rich could invest their money overseas.
2. *Public Expenditure Priorities:* expenditure should be readdressed from political policy areas such as administration, defiance and subsidies to basic health care, education and infrastructure.
3. *Tax Reform:* this could involve broadening the tax base and improving administration.
4. *Financial Liberalising:* the target is to achieve a reasonably positive interest rate.
5. *Exchange Rates:* the exchange rate would be sufficiently comparable to rapid growth in non-traditional exports.
6. *Trade Liberalisation:* how rapid trade tariff should be liberalised.
7. *Foreign Direct Investment:* foreign firms should be able to contend with domestic firms on equal terms.
8. *Privatisation of State Owned Enterprises.*
9. *Deregulation:* this should be mainly to ensure safety, environmental production and supervision of financial institutions.
10. *Property Rights:* these should be protected without excessive cost, and provided for the informal sector.

Clearly, these 10 points should be relevant to the economic policy situation of the transition countries which included other points reported by the World Bank and the IMF [72] as the cautioning against corruption in the public sector and money laundering in the financial sector, which will take fiscal and monetary policy very seriously. [93], however, pointed out that the Washington Consensus permitted the following explanation of the transformation of former socialist economy: Transition = Liberalisation + Privatisation (State Owned Enterprises), and to open international trade in order to have an efficient market economy.

As observed by the majority of researchers have indicated nearly the same parameters to be adopted for making macro-economic reform variables successful: trade liberalisation (imports and exports), rates of interest, the privatisation process, inflation rate, convertibility of domestic currency, current accounts, government budget, rates of employment and the balance of payments. In addition, in one empirical study, the Centre for International Private Enterprise [50] determined almost the same parameters as previously discussed, including free flow information and the existence of an enabling environment.

It has been indicated earlier that there are minute differences in parameters, which include the economic reforms. It is argued that ways and means in measurable change as the conditions alter in any economy. There is a wide disparity in the form of governments' systems. The basic tool of measurement is to obtain information. If desired, information is accessible, remains in the reach of researchers, and would provide sufficient and sound data to discuss economic reforms. Alternately, there are bureaucratic channels which inhibit information; hence, researchers would be unable to comment upon economic reforms. Therefore, the sole difference in economic reforms would remain as methods of research and information availability.

The majority of researchers have concurred that there are some common parameters/ variables of economic reforms, such as inflation rate, interest rate, foreign exchange rate, government budget, privatisation process and balance of payment. Their application would differ from one economy to another. Keeping in view, the importance of some of the common parameters, including real interest rates, real GDP and per capita income, as measurements of the performance of the macro-economic reform. This is because these variables ought to have a significant effect on the performance of the stock market compared with other variables.

The Centre for International Private Enterprise CIPE [94] conducted research on the reform process in 28 developing and 4 former socialist countries. CIPE research targeted all regions in the world, such as Africa, Eastern Europe, Latin America and South and East Asia. The main purpose was to examine the economic reform programmes. It was discovered that, in these countries, two approaches were used in economic reforms: a pre-economic reform programme and an economic reform programme. It was further found that the implementers, managers and company chiefs made drastic and decisive policy changes to obtain the goals in some of the countries. In reality, the survey data, which is called the quantitative way of explanations in companies only, provide indicators of general trends in commitment to the economic reform programme. These methods of conducting research can only offer an approach applicable to one country, but it is warranted that the same approach in another environment might misguide the researchers.

In addition, Guitian [95] presented the standard which can be used to measure or evaluate the performance of the economic reform programme. These standards or principles can be classified into three categories namely, normative standard, check and write, and the judgmental standard. Normative standard: this standard measures the actual results achieved under the economic reform programme period. This second or normative standard compares, contrasting the results of the economic reform programme to the targets of this programme. In a sense, this is what “is” with what “should be”. Judgmental standard: this standard focuses upon what we have and what we are going to do In fact, the third standard, or conjectural standard, focuses on a comparison of what “is” versus what's “has been”. In reality, these standards provide the opportunity to understand and to plan so that the implementers of economic reforms can witness the results of any programme. Guitian discussed these standards to provide ways and means to reformists worldwide. Performance of a programme is necessary so that at least input can be compared to that of output. Obviously, the second standard is quite easily understandable as it measures the output versus objectives. Therefore, it appears that the second standard is reasonably acceptable and applicable in all situations. [96] considered the third standard the most controversial from many angles. This may be due to the fact that the objective of most assessments is to compare what has happened with what would have happened in the absence of the economic reform programme in separate countries. This standard is not comparable in reality with other standards, because this is only where there are not economic reforms. So, in principle, this would be argued from a different standpoint altogether. Besides this, the first standard, i.e. positive standard, can be considered as the least contentious because this kind of standard simply compares sets of realistic information to the economic reform programme.

The Libyan economic reforms clearly suggest success because of the application of positive standards. In general, these suffice the overall situation in a particular economy. Furthermore, positive standards provide clear-cut comparisons with other standards. The crucial point of consideration is why we apply standards in economic evaluations. The reasons are to improve the economic in both sides. Similarly in the Libyan economy the application of positive standards has provided ways and means of enjoying economic prosperity. It is understood that, to study the economic reform programme, there are many common parameters through which objectives of the Libyan economy were achieved.

The author argues, it is a general phenomenon that various governments stabilise the prices of various commodities in the market. The administrators critically monitor the demand and supply in this area. Now we have to focus on why prices increase. The simple answer would be that, when suppliers control the supply in the market, this gives rise to an increase in demand by consumers. At this stage the situation becomes very alarming for governments. This situation becomes the reason for lower GDP and an increase in inflation rates. In these circumstances the economic reform programmes to assist in all circumstances. Nevertheless, government control remains significantly important in what forms governments would make it possible to control the all-important factors.

5. The Process of the Economic Reform Programme

In the late 1980s and early 1990s socialist economies opted to move forwards in the difference of giving a large policy role to market forces reducing the policy role of bureaucratic decision-marking to improving the planning process. At this juncture, the economic theory suggests that the instalments agreed in an external borrowing should remain in contact. It means that the borrowed external should be returned as agreed upon by those concerned. It has been observed that various governments were unable to accomplish this, whereas, according to their agreements, they were obliged to do so. However, when this is not happening, the government borrows another external investment; this leads to numerous problems, such as poor growth rate, low GDP, uncountable inflation rates. This gives rise to debt; [97] studied why external borrowing cannot benefit those countries which borrowed via external investment. It is a recognised fact that economic specialists in any country recommend their governments when and why external borrowing would be appropriate. More specifically, the debt problems can be determined as:

1. Government's imbalance of spending borrowed external money.
2. Governments are unable to return external borrowing, and this condition generates further debt for a country.
3. Governments lack control and monitoring of the external investment and hence it gives rise to debt.
4. Governmental imbalance by making external payments, as governments are bound by the agreements to make payments on time but, in these circumstances, it is recognised that external borrowing was increased by devaluing their currencies. This led to yet more debt.

Although it is common for creditors to control debt issues in their respective countries, the IMF which is the main agency providing external funding to various governments, obtains guarantees to control debts from creditors. Even then these countries suffer from problems. This situation is threatening and, indeed, a major issue in setting economic reforms. In simple words, capable and competent administrators, who must possess the abilities to do so, should monitor the directions of the spending of borrowed sums. Economic reforms should not be politicised at all. The IMF would recoup the money by other means and sources. Similarly, [98] studied debt impact and specifically reported that the debt crisis erupted into the global consciousness in dramatic fashion with the announcement by Brazil and Mexico in 1982 that they were unable to maintain debt service payments as the financial crises. In another study, [99] and [100] reported upon Bolivian debt issues and problems, where Bolivia eventually cut short the debt, stating "*we cannot pay, and we are not going to pay*", which is the message that was delivered to the International Monetary Fund. This message compelled the IMF to consider and, ultimately, it agreed to cancel a substantial part of the debt. Consequently, during 1987 the IMF became the sponsor of many countries especially those which were developed for debt buyback operations with the commercial banks in order to offer solutions to debt problems.

Foreign assistance is another way to reduce debt in those countries that are engulfed in debt. This type of assistance comprises many forms, such as economic reforms, positive responses from aid programmes and a reduction in debts. [91] suggests taking determined foreign assistance as a second step to consider the first step of the economic reform programme, i.e. humanitarian aid, technical assistance, macroeconomic multilateral financing, special balance of payments' financing, financing of specific projects, providing a stabilisation fund and granting of export credits. From reflection upon the previous discussion, i.e. foreign assistance, these are various measures which are in practice throughout a number of countries. Their purpose was to improve their poor economies. In terms of humanitarian aid, simply food and medicine are supplied. In technical assistance, training in weak areas is provided. However, special balance of payments financing gives way to debt write-offs, including rescheduling and concessionary restructuring and financing of specific projects on concessionary terms. Foreign assistance also helps in stabilisation to establish the currency convertibility and granting of export credits on concessionary or non-concessionary terms.

In an inference, the foreign aid programmes are returning those countries who are in great debt to the main stream of the IMF. Hand in hand the IMF is additionally supported these activities in a variety of ways. It is further acknowledged that countries who are not paying their debts would receive facilities of further borrowing. Foreign aid is, additionally, creating ways for these countries to conduct business in the international perspective, because the IMF is not creating problems for them to operate. The greatest impact upon developing countries was to lead them to start their own economic reform programmes due to the debt-rescheduling scheme with the IMF, to form points of view. Many countries, especially in transition economies, play a key role in economic reform programmes to reschedule debt and foreign assistance. It has been witnessed that Mexico, in the latter 1990s, enjoyed the World Bank's help, which meant that it was the second largest "customer" with 19 billion US$ in loans outstanding. Such assistance was crucial in aiding Mexico to "get off to a good start" in their economic transition. Similarly, following the programme of external finance for economic reform helps Chile during the 1980s was the major beneficiary of international assistance following 1982. It can be further seen that, after the application of foreign aid programmes, including rescheduling, Chile's official loans rose from 1.2 billion US$ to 3.9 billion US$ which increased 16 *per cent* of Chile's average GDP over the four years, or approximately 4 *per cent* per average during 1983 and 1987 [91]. In addition, in 1988 Hungary introduced an austerity programme which was designed to restore the budget balance and to generate hard currency surplus in trade which improved by the IMF and, at the same time, the programme had been launched with support from the World Bank to provide funding for the implementation of tax reform for modernisation projects in agriculture and food processing. The same impact was observed in the economic reforms of Poland during 1991, when the G-7 nations cancelled two stage loans under the leadership of the US. The Polish government applied all measures as were implied by G-7 countries, and this paved the way for cancellation of the remainder of loans in 1993. Despite this argument, two former countries of the Yugoslav Republic, Croatia and FYR Macedonia were involved in military conflicts and experienced higher inflation than other Central European economies. Croatia subsequently achieved macroeconomic stabilisation without institutional changes and, ultimately, without IMF backing. The law granting independence to the National Bank of a country like Macedonia was legislated and introduced in the year when inflation was at its highest.

[101] shows that, Romania, Bulgaria and Albania; where reform programmes and transformation started later in 1991-1992, and more hesitantly, share two features. The first is that they were less developed than the Central European countries and the other, that they remained for a longer time ruled by leaders close to the former political regime. In this group, Romania introduced changes to the CB law as late as May 1998 as part of the new government's reform programme. The new law restricted government borrowing from the bank by setting the market interest rate in advance of the budget. The IMF had a standby agreement which was signed less than a year prior to this programme. In late 1996 Bulgaria, was on the verge of hyperinflation and the quickly deteriorating macroeconomic situation called for radical policy actions. But, in mid-1997, the Bulgarian government successfully introduced a currency board system; the new system was engorged and monitored by the IMF. Albania introduced the new central bank law as part of the 1992 stabilisation package just a few months before the IMF programme backed stated.

Libya experienced a relatively high inflation during 1991 due to the devaluation of the Libyan Dinar and the consequent inflationary effects related with devaluation and economic sanction by the UN and US during early 1990. The decrease in consumer prices is attributed mainly to the fact that in 1993 peak was a one-off event caused by the devaluation of the LD, while the government continued to adopt economic stability policies aimed at controlling the growth rate of aggregate demand in order to contain inflationary pressures on the Libyan economy [102]. In Lithuania inflation stayed close to the level experienced by its Baltic neighbours but a currency board was introduced three years after inflation was reduced to a two-digit level. Among other nations, Moldova was one of the first to follow the Baltic States. It managed to reduce inflation rapidly after the implementation of the IMF programme. Furthermore, the Kyrgyz Republic successfully stabilised its economic programme after leaving the trouble zone. Armenia and Georgia were, two nations involved in military conflict. The Armenian programme started after six months, backed by the IMF agreement, and the new central bank law was enacted one year later. Georgia also had a similar programme, but the CB was independently upgraded simultaneously with the IMF agreement. Belarus and Ukraine concluded their agreements with the IMF a few months after launching their programmes. The CBI in Belarus was relatively high with the IMF after the introduction of the national currency. However, Ukraine did not upgrade CB independence after launching the programme. Russia introduced its programme concurrently with the signing of the IMF standby agreement and upgrading of the CBI.

Turkey is another example of a developing country within the Middle Eastern sector which has been successful when adopting the economic reform programme which happened during the 1980s, as 1970 has witnessed the financial collapse. Indeed these were the economic reforms, which provided strength and a boom in the economic uplift of Turkey's financial recovery. This was further assisted via the application of international aid programmes. Similarly, during 1979 the US, Germany and the North Atlantic Treaty Organisation (NATO) supported the Turkish economy via international assistance. Turkey applied all measures which were the needs for these deeds with the donors including the (OECD) which coordinated and assisted in massive financial assistance to Turkey during 1979-1982. In the context of Israel, did not, in truth, wait long and simply applied economic reform during 1985. As a result, Israel achieved a successful economic reform programme. This all happened due to international backing. It is also a fact that, under international assistance, the US gave 1.5 billion US$ extra aid, on top of the usual 3 billion US$ per year already given. This amount of money improved Israel's GDP. The government of Israel utilised foreign aid as agreed and, hence, achieved its targets [4].

Although in all the cases discussed, an agreement was made by the IMF regarding economic reform programmes which occur in the world, both programme rescheduling and foreign international assistance was considered as a foundation for economic reform in transition economies. It can be noted that economic successes are close to the appropriate applications of practicing economic reforms. There is no doubt that debt cancellation of many countries allowed relief and, consequently, international assistance supported poor economies in many countries, including rescheduling of loans for some countries. It also provided room to breathe but it is again linked to the proper utilisation of rescheduling loans. It is further understood that some of the agreement for rescheduling for repayments of their loans, but this represents an alarming situation, especially in third world countries. Rescheduling has a big impact on their economies. The respective currencies are devalued and, hence, GDP falls and inflation rates increase.

6. Summary and Conclusion

This paper has provided an economic review of the impact of an economic reform programme on the macro-economic performances. Agreeing about the most important target performance measures is a political process. We can assume that it has been done and the economic reform policy target measures are given in most cases. The key points of this paper are now summarised.

1. There are diverse expressions to economic reform programme such as transition, transformation, economic adjustment, stabilisation and regime. In

this paper the expression "economic reform programme" and "transition" has been used.

2. In the last two decades the economic reform programme has become a global phenomenon in the world adopted by many developing countries in a trisection economy.
3. Economic reform programmes and macro-economic reform performances generally seek the combativeness of the economic system, the satisfaction of demands, solvency of state and the welfare of citizens. They may differ from the particular mix of these goals and in the instruments they use. Inflation, budgetary and current-account deficits, unemployment and loss of competitiveness are serious challenges for new democratic government policy.
4. The economic reform program has options to change the transformation of any economy from a closed or a socialist economy to an open-door policy or capitalist economy.
5. The key target of any economic reform programme represents the rate of economic growth and increase per-capita income in order to enhance the welfare of the economic society as a whole.
6. Economic freedom enhances growth more rapidly than those that are less free for the achievement of three factors contributing to personal choice: competition, entrepreneurship and investment.
7. The major concept of the aims can be provided by two main points, monetary policy and fiscal policy, as a result of the variation between authors in identifying the reform programme due to the nature of regional or national history upon which authors concentrated their studies or investigation.
8. The variables of reform are assessed in terms of the economic reform programme and macro-economic reform performance, such as deregulation, corporatisation, privatisation and liberalisation, budget deficit, the exchange rate, rate of GDP growth, per capita income, real interest rates and inflation rate.
9. The rearrangements of debt and foreign aid have both played a crucial role in many developing countries to produce their economic reform programmes.
10. Most developing countries, especially those in transition economies, benefited themselves in agreeing the policies of the IMF, in applying these economic reforms, remaining under the auspices of the IMF and continuing to borrow external investments.

Recently, the world over, the type of financial model practiced by sovereign countries has reflected the type of government regime in power. Many Eastern Europe, Middle Eastern and African countries have practiced socialism for many years, Libya is included among these. Nevertheless, in the light of recent trends and under the direction of the IMF and World Bank, many nations are reforming their economies and gradually adopting capitalism, largely as a result of the failure of socialism and particularly in an effort to rescue their economies. Nevertheless, this paper can be described as a significant exploratory study that includes crucial issues which need to be barriers to understanding or a temptation/ requirement to judge some practices as 'better' than others for economic reform programme effective approach and implement successful financial market and the rate of economic growth.

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