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THE LIBYAN POLITICAL ECONOMY IN TRANSITION

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Abstract: *The impact of collapse of the Soviet Union not only affected communism in the adjacent countries in Eastern Europe, but also expanded to other continents such as Africa, Asia and Latin America. This study analyses the Libyan political economy in transition period after 1988 and factors that impacted the process. The study aims to compare the performance of the Libyan transition with transition economies in Eastern Europe. A significant part of the study involves using data from international financial institutions such as World Bank and IMF. Therefore, a linear regression analysis approach is used in this study. Many economic factors in Libyan and other transition economies such as: GDP, inflation, corruption, free trade and free labor have been analysed to find out the relationship among these economies. Thus, the study suggests that the Libyan transition economy is dissimilar to those in Eastern Europe in the same period. Furthermore, the study indicates that real economic transition "must be" associated with political transition; and yet Libyan transition was an exception to this rule.*

Keywords*: Transition economies; Political Economy; Libya; shock therapy; gradual approach.*

JEL classification: *P16; P19.*

INTRODUCTION

The fall of centrally administered economies gave a rise to the transition process for economic system to be based on market rules. However, the transition process is not only relevant to the economic field. The political and ideological features of the transformation are essential. Therefore, the political economy approach to the transition process required the incorporation not only of the economic activities but also the political and ideological structures. The advice from international financial institutions (IMF and World Bank), and mature market economies to privatise public firms; minimise government intervention and liberalise international trade was fundamental, based on their view. To stabilise the transition economies and create an environment conducive to "creative destruction" (Marangos, 2006). He also argues that, the emphasis during transition on economic variables ignoring politics, institutions, ideology, culture and generally the initial conditions is a reflection of the dominance around the world of the neo-liberal conceptualisation of economic theory.

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It is true that, the transition from administered economy to a market-based economy has been associated with a remarkable inflation, increased unemployment, reduced productivity and corruption. Nonetheless, most transition economies have implemented corrective policies to surpass these economic negative features. Again, it is true that, these policies lasted for years, but the willingness of these economies to build new democratic and free countries helped enormously to establish new and strong economies. However, this willingness for real change did not exist in the Libyan political and economic environment. That is, the transition process in Libya lasted for more than 21 years without concrete results.

In fact, the Libyan economy has passed through three processes of transition in the last four decades. Firstly, the transition from the free market to the planned one after 1973 when Qaddafi made dramatic changes in the Libyan economic system. Secondly, because of, the collapse of the Soviet political and economic system in the late 1980s, epitomized by the fall of the Berlin Wall in November 1989, and more importantly the dramatic economic slowdown experienced by the Soviet bloc countries over the preceding three decades, all these factors may have influenced the decision makers in Libya to adopt new approach to resolve the chronic problem of the Libyan economy. Thirdly, transition after the revolution against the authoritarian regime in 2011, from which I argue the real transition has occurred when all the regime's institutions were destroyed and new era has begun. These transitions indicate that the authoritarian regimes are not stable.

More and more, the political and economic problems which affected Libya during the difficult years of authoritarian regime from 1969 to 2010 rose from the "systemic destruction of society" by weakening the management of the national economy. And the planning function was unable to adequately control the allocation of resources. Perhaps Libya's wars (Egypt 1977, Uganda Tanzania 1978-1979 and Chad 1981-1986) in these decades, and the hard years of the international embargo since the early 1990s to 2004 prevented these problems from surfacing immediately. After the lifting of economic sanctions, the problems of the society (economic, social and political) overflowed to the surface and to address these problems was a huge challenge for any government. Accordingly, all adopted solutions by the regime failed to address the economic problems such as the high rate of unemployment and low productivity of labour market. This failure was a result of mismanagement of the country's economy and politics.

The transition to a market economy began in Libya after 1988. The introduction of the private sector came at a time of weakening in the labour market with a decline in employment and labour force participation and an increase in unemployment to levels previously unseen in Libya of 30 per cent (Auda, Serhal, & Alsadawi, 2008). Also, some economic negative aspects such as corruption and low productivity appeared in the Libyan economy. Furthermore, the considerable increase of the Libyan population that have affected the transition process where the government was unable to absorb the new entrants to the labor market; hence the unemployment and crime increased further.

This study examines the nature of transition process in Libya. Furthermore, it analyses and the political and economic obstacles that hindered the process and considers the performance of the Libyan economy compared to some transition economies in Eastern Europe. A regression analysis was used in this study to determine the relationship between the Libyan transition and some other economies. Many factors have been analysed such as GDP, property rights, fiscal freedom and corruption. The study reveals that the Libyan transition process is dissimilar to those in Eastern Europe; however the results indicate that there was one similarity between these economies which is the corruption where all these economies have suffered from what I term it "economic chronic diseases".

ECONOMIC TRANSITION MODELS AND THEORY

It is well known that, the dominance of neoclassical economics in the economic literature and of economic policies in market economics was the only decisive factor in determining the transition strategy of Russia and Eastern Europe. The neoclassical model of transition from a centrally-administrated socialist economy to a free market economy [whether shock therapy or gradual approach] provided a set of liberalisation, stabilisation, and privatisation policies based on the neoclassical body of economic analysis (Marangos, 2002a). He also claims that this model is used by international organisation such as (IMF) and the World Bank which provided financial aid based on the carrying out of policies recommended by the neoclassical model.

The two approaches of reforms are the big bang theory "shock therapy" and the gradual approach. Firstly, the big bang theory that was implemented in Poland Jan. 1990, Czechoslovakia Jan. 1991, Bulgaria Feb. 1991, Russia Feb. 1992, Albania Jul. 1992 and Latvia Jun. 1993 (Marangos, 2002a) and (Fischer, Sahay, & Végh, 1996). The shock therapy is based on the notion that implementation of the reforms should occur simultaneously, because the fragmented changes would be ineffective. Secondly, the gradual approach which was implemented in Romania and Hungary which has the tradition of a gradual transformation (Poirot, 1996a). This approach was based on the establishment of the economy, institutional, political, and ideological structures before carrying out the liberalisation. Supporters of this approach believe that, without the minimum foundation, radical reforms would have inhibited the transition to the free market. According to (Marangos, 2002a) the implementation of the reform program required minimum standards of living; otherwise the social fabric of the whole society would have been at risk. So, the main objective of the gradual approach is to make a deep and effective change.

The Libyan government faced two sort of pressure to implement the transition. Firstly, the external pressure represented by the international sanctions and the desire of foreign firms to invest in Libyan oil and gas industry in particular. Secondly, the internal pressure represented by the willingness of people for change and the desire to build a new democratic and developed country. So, the gradual approach to achieve the process of transition was adopted because it provides time for the regime to prolong the process for decades. Qadhafi himself did not want this change to capitalism in the first place, as this change was against his ideologies that he had claimed for more than four decades. Secondly, the informal institutions which dominate the Libyan society like the Revolutionary Committees, the Movement of Liberal Officers, and the Peoples' Social Leaderships stood against the transition to the free market; because this transition would weaken these institutions and will strip their power and money. Also, the corruption which is a "chronic disease" in the society played a key role in slowing down the process of transition.

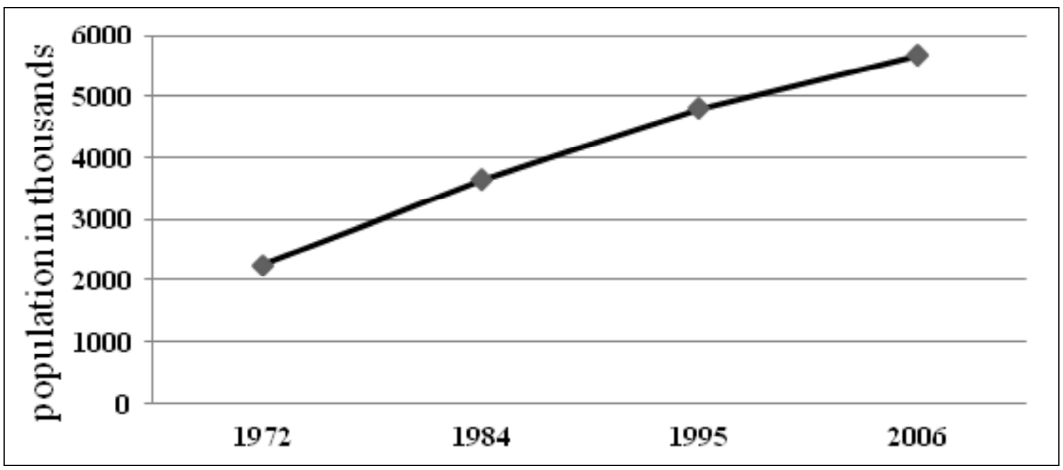
The decision to introduce the private sector into the Libyan economy started in 1988 throughout a chain of laws and decisions of the General Popular Committee (GPC). These included the decision GPC number 8, which gave the right of persons to own their own businesses and manage their activities. Furthermore, the decision GPC number 300/1993 related to privatisation of state-owned businesses, and the law 5/1997 which encourage the movement of foreign capital, and the law number 9/2010 encouragement of foreign investment. Also, many detailed decisions explaining the mechanisms of the private sector have been issued. On the face of it, the Libyan transition was gradual and extremely slow. For instance, the gap between the issue of the law of private sector introduction and the law of privatisation was five years. Economists believe that, even in the gradualist process speed is required. According to (Kornai, 1986) and (Smyth, 1998) the neoclassical gradualist supporters did not rule out the possibility of a 'minimum bang' for some aspects of transition process. Thus, when immediate changes are needed; immediate actions are required. However, the Libyan transition process lasted for long time; this could be one of the causes of dissimilarity of this transition with the others.

LITERATURE REVIEW

Political economy arguments have been at the heart of the debates and controversies surrounding strategies of transition from planned economy to free market. Accordingly, two schools of thoughts have been developed, one advocates a "big bang" approach to transition that has argued for the faster and comprehensive implementation of all major reforms the better their economy would be. (Roland, 2002) and (Lipton & Sachs, 1990). And the best way to do so was to liberalise and privatise as quickly as possible. On the other side, the other school that disputed the big bang approach are advocating a gradual strategy that adopts appropriate sequencing of reforms. This school worried that with institutional infrastructure, which could only be created gradually, privatisation and liberalisation could lead to asset stripping rather than wealth creation (Faggio, 2007) and (Litwack & Qian, 1999). So, any approach should be tested before being applied; because the transition process has an influential effect on the social, economic and political features.

The impact of population during transition process in Libya: The Libyan population has increased sharply in the last three decades. According to the latest census (2006), Libya's population was estimated at 5,298,125, there is a sharp increase of population with the rate of 2.17%. (U S Global Health Policy, 2009), [chart 1] shows this dramatic increase from 1972 to 2006.

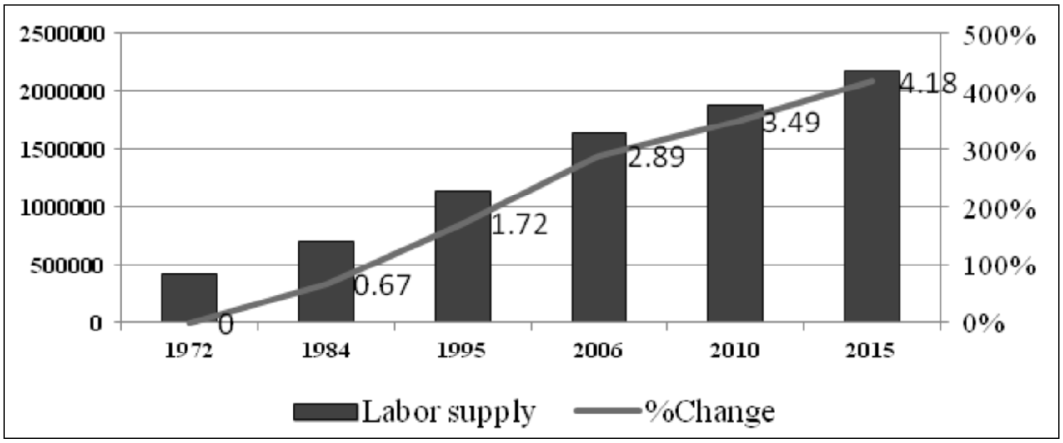
Chart 1: Libyan Population Growth: (GAI, 2008)



The census has also shown that the proportion of the Libyans above 15 years has increased from 50 per cent in 1984 to 68 per cent in 2006 see also (UNDP's, 2008). This increase could create a significant problem to the Libyan government as a pressure on the labour market, also will lead to rising demand for social services such as health care, education and security issues. In addition, the working population is about 1,876,206 this number represents only 35 per cent of the total population; accordingly facing the problem of unemployment in Libya remains big challenge and the issue is becoming more complicated by the failure of the government at creating new jobs. [Chart 2] shows the sharp increase of labor supply for forty years. The percentage change is calculated to the base year 1972.

More and more, life expectancy at birth averages 74 years. The infant mortality rate is about 18 per 1,000 births (compared with an average of 85.3 for Africa), and

Chart 2: Labor Supply Growth (1972-1984-1995-2006) and the Estimation of the Year (2015): (GPCP, 2006)



an average maternal mortality ratio is 97 per 100,000 live births (Shaaeldin, 2009), also Naturalization of some of ethnic races from Chad, Mauritania and Egypt does matter in terms of population increase. Furthermore, a rapid demographic transition has temporarily raised population growth and skewed the age structure towards the young, the working age population is growing rapidly, and large numbers of young workers have been difficult to absorb quickly into productive employment. Over the last two decades, there has been net migration into Libya. Also, most of the population growth is occurring in urban areas, accompanied with high fertility.

(Waniss & Karlberg, 2007) claim that in a transitional phase, the effects on unemployment of the current privatisation where many companies will be privatised or liquidated will be increasingly felt. The creation of new jobs for these redundant workers, as well as Libya's rapidly growing labour force will become a major social problem facing the Libyan policy makers, this is because to absorb these as well as the entrant to the labour market. According to (Waniss & Karlberg, 2007) the manpower in Libya is estimated at around 1.8 million workers, is expected to grow 3.3 per cent per year over the medium term.

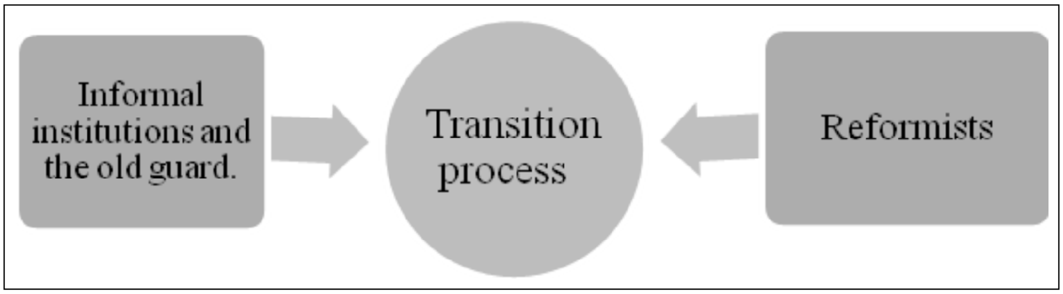
The political constraints during transition process: political constraints are remarkably important in any transition process. (Lipton & Sachs, 1992), (Sachs, 1993), (Marangos, 2005a) and (Roland, 2000) claim that the key transition problem was a political and not economic nor social. Therefore, the political environment can play a key role in the transition process; because this environment could promote or inhibit the meaningful economic reforms. The lack of a democratic political culture might obscure rampant corruption (Poirot, 1996b). Also, the lack of development efforts, integration into world economic structure and the dominance of the informal institutions on all economic and social aspects were the main features of the Libyan economy. Therefore, the situation in Libya from 1988 to 2010 is completely different to the other situations in transitional economies.

In 1969 Colonel Muamar Gadhafi and his associates dominated the power; accordingly Libya became increasingly centric on the teachings of his Green Book, which he published in 1977 as a foundation for a new form of government. This "Jamahiriya", as he called it, was supposedly a form of direct democracy in which power was balanced between a General People's Congress, and an executive General People's Committee, headed by a General Secretary, who reported to the Prime Minister and the President. In fact, Gaddafi held all power, by instructions which represent the real laws in the country. These instructions (must be) obeyed and implemented without being discussed. Gaddafi also cancelled all sort of laws in 1972 and abolished the constitution since 1977. These measures secured his freedom to act without control. According to the leader's ideologies, the party is a contemporary form of dictatorship. In 1973, Gaddafi delivered a "Five-Point Address" that represented the path for new Libya according the perspective of the leader. Accordingly, he announced the suspension of all existing laws. He also announced that the country would be purged of the "politically sick". A "people's militia" would "protect the revolution". There would be an administrative revolution, and a cultural revolution. Gaddafi set up an extensive surveillance system. 10 to 20 per cent of Libyans worked in surveillance for the Revolutionary Committees. The surveillance took place in government, in factories, and in the education sector. Then, he executed dissidents publicly and the executions were often rebroadcast on state television channels. Gaddafi employed his network of diplomats and recruits to assassinate dozens of critical refugees around the world. Amnesty International listed at least 25 assassinations between 1980 and 1987.

The transition process in Libya was under two opposite powers; on one hand the informal institutions such as the Revolutionary Movement and the Popular Leaderships, and the old guards represented by the senior officers and the "leader's companions" these institutions have significant impact on the society and they were trying to inhibit the entire transition process. On the other hand, the new reformists such as educated people, the academics and the pressure of the tax-payers and their desire to change. These powers have created a stagnant situation in terms of economic transition. See [chart 3]

Therefore, a change of economic and political systems requires major structural shifts in terms of institutions, ownership, modes of interpersonal behavior, attitudes to work, and laws. According to (Marangos, 2002b) transition economies had to develop appropriate laws and institutions, which included defined property rights and well-enforced rules of contract that were essential if they were to be able to obtain the benefit associated with the market process. Accordingly, some formal and informal institutions have to be closed down or cut in size such the

Chart 3: Powers affect the Libyan Transition Process. The Researcher



Revolutionary Committee, the media that calls for the regime's thoughts and the other social organisations. The irony is that, this change has happened in all of the transition economies, where the freedom of establishing new political parties and the freedom of speech were provided. However, in Libya the situation remained stagnant; no new parties, no new media but that which represented the regime, accordingly the power remained in the hands of the colonel.

Eastern Europe transition was characterised by "restrictions on political activities for nonsanctioned political groups and organizations ceased to exist and resulted in the resurrection of civil society. The institutionalisation of political parties and movements was a dialectical process: on the one hand, a highly diversified political landscape emerged; on the other hand, broad anti-communist sentiment united the opposition" (Welsh, 1994). According to (Marangos, 2003) the success of the transition process depended not only on specifying the necessary economic conditions, but also on whether certain conditions were satisfied with respect to the non-economic elements. Differences in historical background, national culture, economic and political structures and international aspirations can affect growth pattens. According to (Krusell & Rios-Rull, 2002), the recent experience of former eastern-block, as moves towards free market economies, suggest that political and economic transitions should go hand in hand and analysed jointly to understand the transition process fully. Therefore, I argue that the key reason for the failure of Libyan transition from 1988 to 2010 was the political constraints. Because, the transition to the free market in Eastern Europe came with a real political transition; however Libya was an exception to that. However, this transition after 2011 is now possible with all former institutions destroyed and new government established.

The economic constraints during transition process: The abolition of the labor unions in Libya was one of the main features of Libyan economy. In 1977 the regime banned the unions and forbade the strikes. It is well known that, the impact of the unions is very important in the labour market, because the trade union, through its leadership, bargains with the employer on behalf of union members and negotiates labour contracts with employers. This may include the negotiation of wages, work rules, complaint procedures, rules governing hiring, firing and promotion of workers, benefits, workplace safety and policies. Thus, the abolishment of the workers' rights aimed to control the country by preventing workers from gathering, striking and demanding their rights.

In fact, the Libyan economy already faces many challenges. Firstly, Libya imports more than 75 per cent of food, whereas sectors of agriculture, forestry and tourism represent only 4 per cent of Libyan manpower. These sectors only contribute 5 per cent of NDP (EC, 2009). Secondly, Libya's economy is heavily dependent on revenues from natural resources with an oil sector that provides nearly all of its export earnings and constitutes more than two-thirds of GDP. Thirdly, the productivity of Libyan labor in the non-oil sector points to a weak performance, with negative growth during most of the 1990s and an average hovering at around -2 per cent. Negative productivity growth has persisted in manufacturing since the mid-1990s and had been also observed in services and agriculture, (WorldBank, 2006). Also, (Bharat, 2006) asserts that the larger labor productivity gaps that Libya has vis-à-vis the worldwide average. Again, a gap need not be a bad sign. Rather, it is simply a substantial difference that might merit further attention or signal a firm's relative incentive to invest locally. Furthermore, the unemployment in Libya was very high 30 per cent (Auda, *et al.*, 2008). This figure is very high compared to other transition economies. [Table 1] compares the unemployment rate in selected transition economies.

Table 1
Unemployment in Selected Transition Countries (Nesporova, 2002)

Country	*1994*	*1998*	*2000*
Czech Rep.	4.3	7.3	8.8
Georgia	–	14.5	13.8
Poland	14.0	10.5	16.6
Russia	8.1	13.3	13.4
Ukraine	5.6	11.3	11.9
Hungary	10.7	7.8	6.6

The effect of unemployment in the Libyan society is clearly seen through the increase of crime rate. According to overseas security advisory council (Report, 2009) The U.S. Department of State considers Libya a high crime country. While official statistics are often inaccurate and difficult to access, crime has increased in recent years and has outpaced the efforts of an under-equipped police department and an inefficient judicial system. According to the report, high unemployment and a rising cost of living also contribute to crime rates in Libya. These terrible facts must urge the Libyan decision makers to adopt scientific policies to resolve the problems of the Libyan economy.

Exposition of the transition problem in the economic literature must be a simplification of the complexities involved. In most cases, economists writing on transition process reduce it to an isolated variable of the economic sphere (Marangos, 2003) he also claims that, the transition issue is limited to some features such as price policy, government expenditure, investment policy and unemployment, accordingly ignoring the interrelated nature of economic institutions and behaviour. Therefore, success of the transition process depends on both determination of the necessary economic conditions, and if certain conditions were satisfied with respects to the non-economic elements such as political and social matters. According to (Ofer, 1987), differences in historical background, national culture, economic and political structures and international aspirations can affect growth patterns in the transition process, therefore the analysis in the tradition of "political economy" many factors such as political and social institutions, the framework of economic relationships and the desire of people to change should be incorporated to reach reliable outcomes. Some scientists argue that, the transition is holistic, historical, dynamic and comparative process in nature and, as such, a political economy approach would seem appropriate. Political economy stresses that making economic sense and understanding economic relationships is not feasible without explicit awareness of power, institutions and values (Heilbroner, 2003). Also, other economists claim that political economy maintains that politics and economics are not reducible to one another (Caporaso & Levine, 1992).

DATA AND METHODOLOGY

Libya does not publish data about the economy (Waniss & Karlberg, 2007) (EC, 2009). Therefore, the study is framed against a background of very serious gaps and limitations in the data available on Libya's transition economy. So, a significant part of the study involves bringing to the fore the data from international financial institutions such as (World Bank and IMF) in relation to transition economies. Also, data collected from the Heritage Foundation "is a research and educational institution" where its data has been used in other research such as (Redek & Sušjan, 2005).

Methodology: Linear Regression approach is used in this study. This method is modelling the relationship between a scalar variable y and one or more variable denoted x. accordingly; it used to find out the relationship between the Libyan transition economy and other transition economies in Eastern Europe. R^2, is the regression sum of squares divided by total sum of squares, RegSS/ TotSS. It is the fraction of the variability in the response that is fitted by the model. So, R^2 indicates how well the regression line approximates the real data. This number shows how much of the output variable's variance is explained by the input variables' variance. Ideally, it should be at least 0.6, 60 per cent or 0.7, 70 per cent. However, the analysis illustrates that R square is only 38 per cent. Also, a descriptive approach is being used in this study to indicate the relationship between the GDP and the transition process.

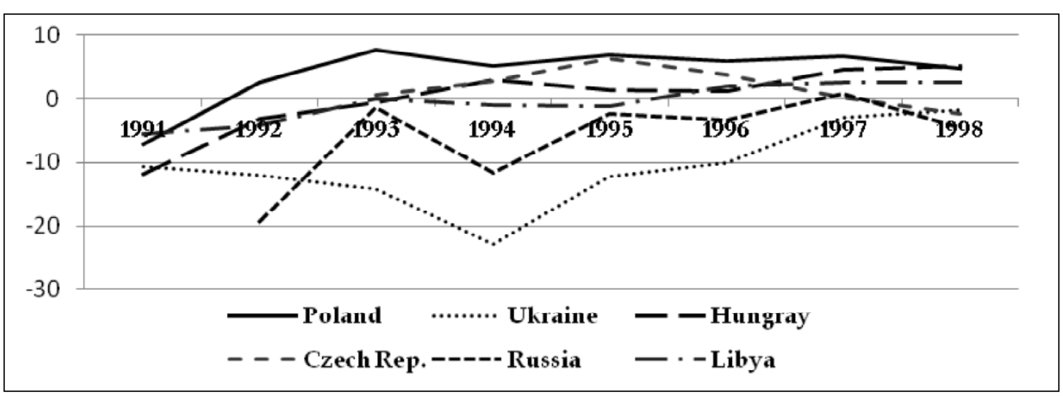
CHARACTERISTICS OF THE LIBYAN TRANSITION ECONOMY COMPARED TO SOME TRANSITION ECONOMIES

Gross Domestic Product: The most important measure of economic activity in a country, the Gross Domestic Product is the crossing point of three sides of the economy: expenditure, output, and income. As a measure of well-being of a country for international and temporal comparisons, it provides a good first approximation. Of course, the indicator ignores many crucial elements of general well-being, like environment conservation, safety, life expectancy, and population literacy. Nevertheless, this indicator remains a reliable measure of the economic activities. For more than 60 years, it has served the nation well as a comprehensive measure of market activity that is useful for a wide variety of purposes such as measuring productivity, conducting monetary policy, and projecting tax revenues.

This measure has been affected by the process of transition from planned economy to the free market in all countries. [Chart 4] the sharp decrease in GDP in most countries in transition. This substantial decrease happened at the outset of the process, it might be affected by some factors such as institutions destruction of social system, privatisation of public firms and the increase rate of unemployment. Libya is an exception of this fact; because the GDP is related to the oil prices rather than other factors. For example, Libya has the highest unemployment rate (30 per cent) and the GDP is relatively high compared to some countries.

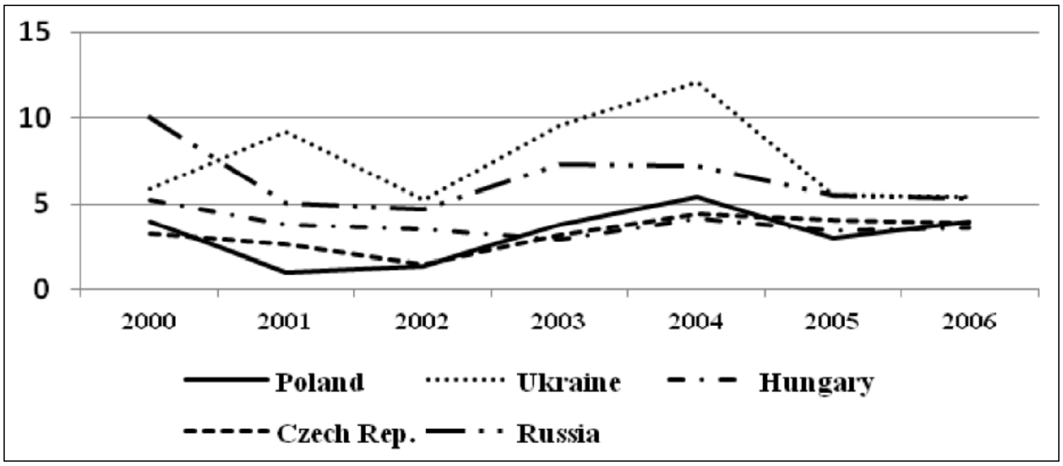
However, after the first decade of transition the GDP has sharply increased in most transition economies. For instance, GDP growth was in negative figures for Ukraine and Russia and relatively low in Hungary and Czech Republic in the first

Chart 4: GDP for Some Transition Countries from 1991to 1998
***Source:* (IMF various issues)**



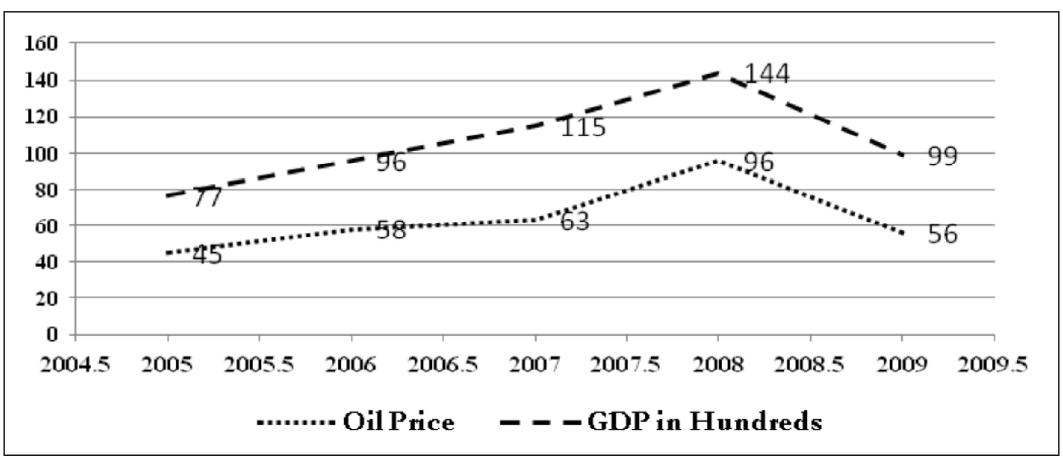
decade of transition process, these figures remarkably increased in the second decade of the process. This dramatic change could be attributed to the change in the economy performance, hence the change was substantial. [Chart 5] shows the dramatic change in terms of GDP after the first decade of transition to the free market in most of transition economies.

Chart 5: GDP in Some Transition Economies after 2000 (IMF Various Issues).



On the other hand, the figures of GDP in Libya rested with the oil prices. [Chart 6] indicates the direct relationship between the GDP and oil price in the period from 2005 to 2009 respectively. It can be seen that, the increase in oil prices leads to increases in GDP.

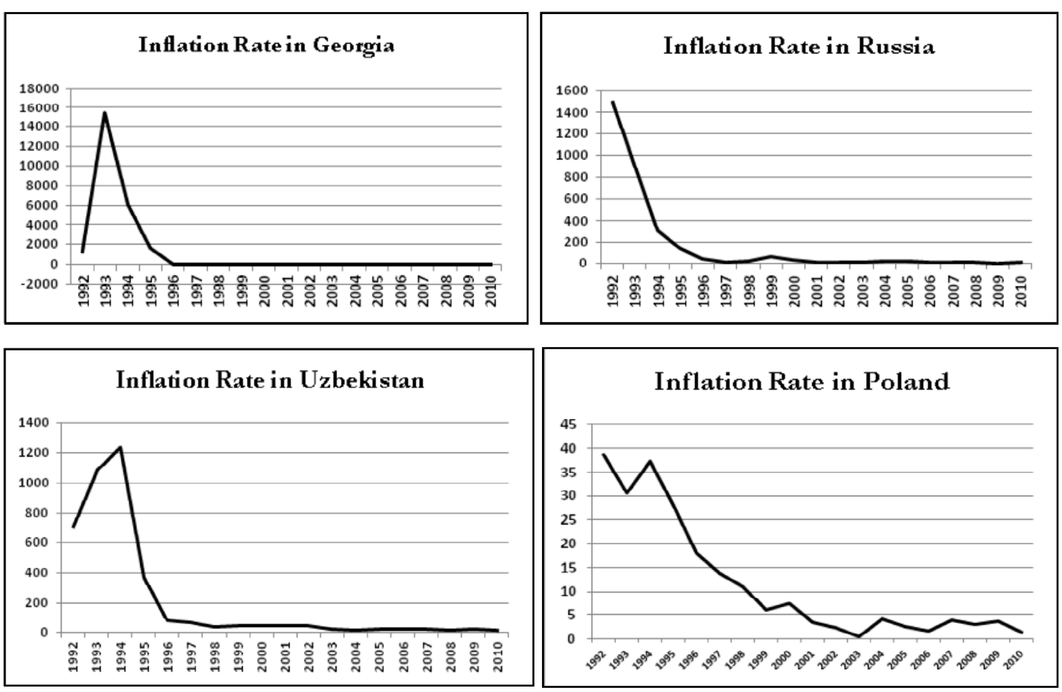
Chart 6: The Relationship between Oil Prices and GDP per person in Libyan Economy. World Bank (2010) and (Inflationdata, 2010).

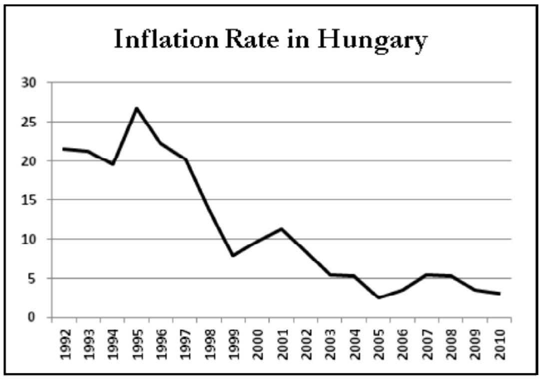


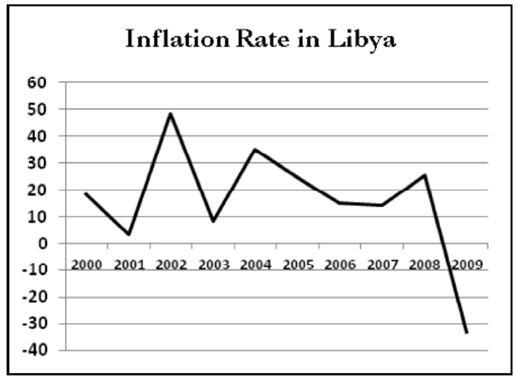
Inflation: The transition process is also associated with of inflation. Accordingly, countries in transition experienced very high rates of inflation several years during reform programs. According to (Cottarelli & Doyle, 1999), when the centrally planned economies began to transform themselves into market economies in the early 1990s, inflation spiked in the context of loose macroeconomic policies and removal of price controls. They argue that in 1992, the median inflation rate was nearly 100 per cent in the Central and Eastern European countries, and well over 1,000 per cent and rising in the Baltics, Russia, and other countries of the former Soviet Union. By 1997, the median inflation rate in both areas had fallen to 11 per cent after the first six years of transition. [Chart 7] indicates the inflation rate in some transition economies for nineteen years.

From the chart it can be seen that, the inflation rate was very high at the outset of the transition process in all countries. Indeed, this rate differs from one country to another, whereas this rate reached more than 1200 per cent in Russia, Georgia and Uzbekistan; it was only 39, 26 per cent in Poland and Hungary respectively. On the other hand, all aforementioned economies controlled the inflation rate after the first decade of the transition process, which ranged from zero to ten per cent after 1999. However, the inflation rate in Libya is relatively high compared to the

Chart 7: Inflation in Some Transition Countries during Transition Process: (WorldBank, 2010).







other transition economies. The inflation might be a result of the economic sanctions that were imposed by United Nations and United States and other factors such as the sudden rise of oil price in specific years.

Free Trade: the introduction of free trade is considered one of main factors that should be associated with transition process (Marangos, 2005b). Free trade occurs when goods and services can be bought and sold between countries or sub-national regions without tariffs, quotas or other restrictions being applied. That is, the government does not discriminate against imports or interfere with exports by applying tariffs or subsidies. It is well known that, the states in communism control all the foreign trade, and individuals are not allowed to practice this sort of commerce. One of the transition requirements is free trade. Because, free trade urges foreign investors to work in countries in transition; and this could provide new jobs, and high income. Of course, free trade is not optimal for the economies in transition, because these economies are characterised by low quality of their products, large depreciations of their currencies, and a high degree of government intervention. However, this factor is very important for the transition process. Libyan transition economy differs from other transition. Firstly, whereas most of countries in transition suffered in currency depreciations, the Libyan currency remained stable during the transition process. Secondly, Libyan economy heavily depends on oil industry rather than other activities. So, a difference in this factor among transition economies and Libya one is predicted. [Tables 2, 3 and chart 8] show the weak relationship of this factor between selected economies and Libya.

Corruption: another issue that accompanies the process of transition is corruption, which is defined in the context of governance as: the failure of integrity in the system, a distortion by which individuals are able to gain personally at the expense of the whole (Esposto & Tohmes, 2011). Political corruption is a sad part of human history and manifests itself in many forms such as bribery, extortion, nepotism, cronyism, patronage embezzlement, and (most commonly) graft, whereby public officials steal or profit illegitimately from public funds ("The

Table 2
The Free Trade Ranking[*] (Libya and Selected Transition Economies).
("The Heritage Foundation and the Wall Street Journal," 2011)

	Libya	*Russia*	*Poland*	*Hungary*	*Ukraine*	*Czech Rep.*	*Bulgaria*	*Albania*
1995	35	52	57	61	55	76	72.4	59
1996	39	52	57	59	59	75	71	59
1997	42	46	49.6	59	59	75	71	59
1998	49	58.6	73	61	61	77.4	49	59
1999	49	53.2	73	63.2	63.2	79.8	46.8	75.8
2000	49	52.4	74	76.6	76.6	72	49.8	63.8
2001	49	52.4	77.6	77.8	77.8	72.8	57.2	63.4
2002	49	57.4	78.8	80	80	73	60.2	56.2
2003	42.4	57.4	70.2	76	76	74.6	62.4	61.4
2004	42.4	63.2	70.4	76	76	74.4	63.2	60.2
2005	42.4	63.2	79.2	70	70	76.8	82	62.4
2006	35.2	62.6	82.4	82	77.2	82	65.8	73.2
2007	34.6	62.6	86.6	86.6	77.2	86.6	70.8	75.8
2008	39.6	44.2	86	86	80.2	86	86	75.8
2009	39.9	60.8	85.8	85.8	84	85.8	85.8	85.8
2010	90	68.4	78.5	87.5	82.6	87.5	87.4	79.8

*These numbers represent ranking countries in terms of free trade. Where, 1 represents less freedom and 100 represents the best. ** Standard Deviation which calculated individually between Libya and the other countries: 11.64; 18.75; 18.67; 17.58; 19.38; 17.09; 15.51; respectively.

Table 3
Data Analysis of Free Trade

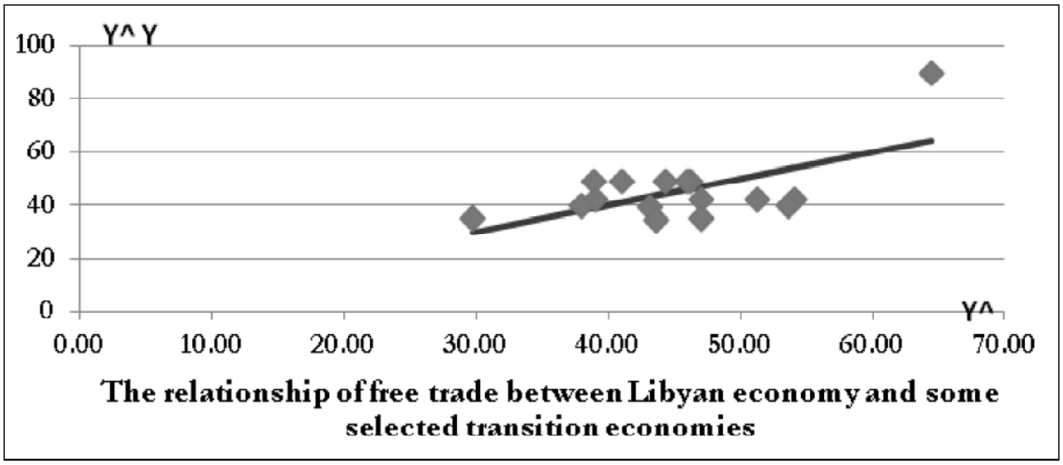
Regression Statistics	
Multiple R	0.617
R^2	0.380
Adj R^2	-0.162
S	13.989
n	16

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	960.59	137.23	0.70	0.67347
Residual	8	1565.54	195.69		
Total	15	2526.134			

	Coef	*s(b)*	*t Stat*	*P-value*	*partial F*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-140.767	122.407	-1.150	0.283	1.322	141.5051	-423.039	141.5051
Russia	0.554	0.629	0.881	0.404	0.775	2.00575	-0.89727	2.00575
Poland	-0.972	0.731	-1.330	0.220	1.768	0.713414	-2.65668	0.713414
Hungary	-1.933	1.909	-1.012	0.341	1.025	2.469938	-6.336	2.469938
Ukraine	2.967	2.131	1.393	0.201	1.939	7.881283	-1.94661	7.881283
Czech Rep.	2.661	2.524	1.054	0.323	1.112	8.480905	-3.15916	8.480905
Bulgaria	-0.296	0.416	-0.711	0.497	0.505	0.664346	-1.25631	0.664346
Albania	-0.493	1.111	-0.443	0.669	0.197	2.069408	-3.05452	2.069408

Chart 8: Free Trade Data Distribution



Heritage Foundation and the Wall Street Journal," 2011). According to (Wei, 2001) systematic research conducted recently finds that corruption is negatively related with a number of "desirable items" (such as income level). There are several channels through which corruption hinders economic development. They include reduced domestic investment, reduced foreign direct investment, overblown government expenditure, distorted composition of government expenditure away from education, health, and the maintenance of infrastructure, towards less efficient but more manipulable public projects. Accordingly, corruption hampers the transition process (that requires a good legal environment and conditions to be implemented), economic growth and labor market performance. [Tables 4, 5 and chart 9] indicate that Libya and some countries in transition are facing the problem of corruption which concerns investors, politician and economists. Also, it reveals that there strong relationship between the selected transition economies and Libya. Where, R square is 97 per cent. That is, Libya is very similar to other transition economies in terms of corruption.

Labor freedom: last but not least, is the role of labor freedom which might help the improvement of economic performance. It is well known that, labor freedom was not granted in the social system. Labor freedom is defined as the ability of individuals to work as much as they want and wherever they want and is a key component of economic freedom. By the same token, the ability of businesses to contract freely for labor and to fire workers when they are no longer needed is a vital mechanism for increasing productivity and sustaining economic growth. In Libya labor freedom is very low, where there are no casual and part-time jobs. Workers are not allowed to work in two jobs. Also, businesses are not allowed to fire workers to improve the productivity. Most of the countries in transition proved no exception to this issue during the communism era. However,

Table 4
Rate of Corruption in Libya and Selected Countries in Transition
("The Heritage Foundation and the Wall Street Journal," 2011) (Nowak, N. D.)

	Libya	*Russia*	*Poland*	*Hungary*	*Ukraine*	*Czech Rep.*	*Uzbekistan*	*Georgia*
1995	10	10	50	50	10	50	10	10
1996	10	30	70	41	30	50	15	10
1997	10	30	70	41	30	50	13	10
1998	10	26	56	52	30	54	10	10
1999	10	23	51	50	30	52	10	10
2000	10	24	46	52	28	48	10	10
2001	10	24	42	52	26	46	18	23
2002	10	21	41	53	15	43	24	23
2003	10	23	41	49	21	39	27	23
2004	10	27	39	48	24	37	29	24
2005	21	27	36	48	23	39	24	18
2006	25	28	35	50	22	42	23	20
2007	25	24	34	52	26	50	22	23
2008	27	27	37	53	28	52	21	28
2009	25	25	42	53	27	52	17	34
2010	26	26	46	52	25	52	18	39

Table 5
Data Analysis of Corruption

Summary Output
Regression Statistics

Multiple R	0.99
R^2	0.97
Adj R^2	0.95
S	1.71
n	16

ANOVA

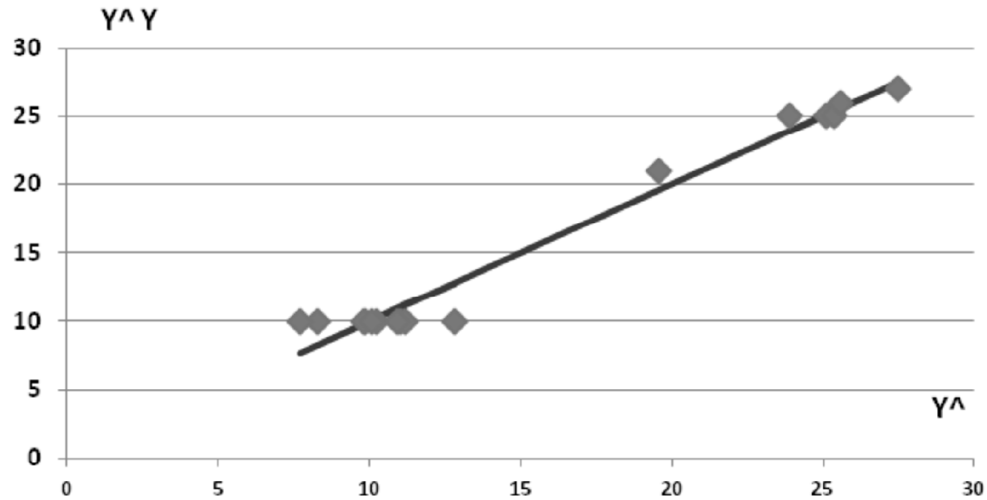
	df	*SS*	*MS*	*F*	*Significance F*
Regression	7	822.53	117.50	40.16	0.0000
Residual	8	23.40	2.93		
Total	15	845.94			

	Coef	*S(b)*	*t Stat*	*P-value*	*partial f*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	85.117	21.454	3.967	0.004	35.644	134.5909	35.64382	134.5909
Russia	1.512	0.261	5.783	0.000	0.909	2.115058	0.909109	2.115058
Poland	-1.144	0.114	-10.010	0.000	-1.407	-0.88015	-1.40708	-0.88015
Hungary	-1.844	0.294	-6.275	0.000	-2.521	-1.16604	-2.52098	-1.16604
Ukraine	-1.052	0.205	-5.139	0.001	-1.524	-0.58003	-1.52429	-0.58003
Czech Rep.	1.452	0.191	7.597	0.000	1.012	1.893378	1.011594	1.893378
Uzbekistan	-0.596	0.218	-2.741	0.025	-1.098	-0.09456	-1.09806	-0.09456
Georgia	0.286	0.091	3.137	0.014	0.076	0.495945	0.075714	0.495945

the situation changed in most transition economies, where the labor market has become less rigid in the recent years; but it has remained rigid in Libya. [Chart 10] compares the labor freedom in some countries in transition and Libya. It can be seen that Libya is ranked very low in terms of labor freedom.

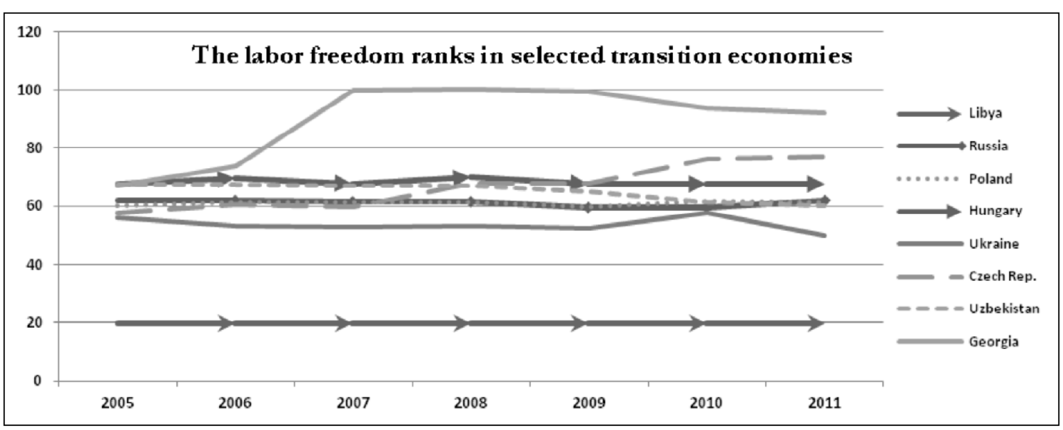
The chart shows that Libya has the lowest figures of labor freedom. It also indicates that all mentioned transition economies change the policy of labor market to encourage labor freedom. However, Libya is completely different to those economies.

Chart 9: Corruption Analysis



corruption relation in selected transition economies and Libya

Chart 10: Illustrates the Labor Freedom in Libya and some Transition Economies. ("The Heritage Foundation and the Wall Street Journal," 2011) and(IOF, 2009)



CONCLUSION

The fundamental basis of the neoclassical gradualist approach to transition in Russia and Eastern Europe was to establish economic, institutional, political and ideological structure before attempting liberalisation. Without the minimum foundation radical reform would have inherited the development of a competitive market capitalist system (Marangos, 2004). Apparently, Libyan transition is far-off from this fundamental basis. This study reveals that the Libyan transition is dissimilar to those in Eastern Europe. Due to the paucity of data in all fields in Libya; I resorted to international financial institutions such as World Bank and IMF to get data related to this study. A regression approach is used in this study to find out the relationship between the Libyan one and other transition economies. R^2 is used to find out the relationship between these economies and the Libyan one, there was one exception in the analysed factors which is the corruption, where all transition economies suffered from this phenomenon. Also, I tried to describe some factors such as GDP in two phases of the transition process. This technique shows that the most of transition economies had low and negative figures of GDP in the first phase of the transition; then after all transition economies improved this factor. Nevertheless, Libyan GDP figures are directly related to the oil prices. I argue that, the failure of transition process in Libya is due to some factors. Firstly, the economic transition process in the other countries was associated with political transition. Secondly, the transition process in Libya lasted for long time from 1988 to 2010. Thus, the Libyan transition was partial.

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