

# Capitalism system, actuality and problematic in Albania.

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**Abstract:** Since 1989, the year of the fall of the Berlin wall, put an end to the division of the world into two camps and at the same time marked the end of the communist system and the onset of capitalism. The word "CAPITALISM" is often heard in modern times to describe the current system which we live in. The aim of this paper is to examine the Capitalism System, its actuality and problematic. Secondary data were used from different sources and the data were analyzed to get conclusions and recommendations related to the topic.

The study found out that in this system there are three main elements: profit, competition and rationality. The most important quality of capitalism is the idea of a free profit, snooty and without conditions. Also it was discovered that there are four types of capitalist system for different countries in the world and after all, there is a new economic model to improve Albanian economy, because the basis of this system is not man, but economic and political development and such material things that these provide. Orientation is toward mass production and the focus is to increase productivity.

The study concluded that the present form of capitalist system in Albania had a lot of advantages but also many disadvantages and problems that are of interest to be resolved.

Some useful recommendations were made on how to improve this system in Albania.

**Index Terms:** Advantages, capitalism, competition, disadvantages, market and profit.

## 1 INTRODUCTION

THE purpose of this paper is to get a feel of the system which we live in, become acquainted with the way he was born and how it was appeared in our country. This paper helps in presenting the advantages and problems that follow this system and how individuals must face the hard reality full of highly competitiveness and comprehension. The paper consists of six essential sections that it treats: In the first section I will focus on the Albanian transition and at the coming of the new system, on the second section I'll present the different types of capitalism and here in the third section I'll discuss also a new model of Albanian Economy by relating it with economic, political and social reality and treating also the benefits and disadvantages. Finally, based on everything being treated I will try to draw out some conclusions and recommendations that are of interest for all people.

### THE METODOLOGJI

The study used mainly secondary data that are obtained from different sources, mostly academic and scientific materials as well as journals. The data were analyzed to provide useful conclusions and recommendations related with the model of this system in Albania and how it was experienced.

## 1. BIRTH AND DEVELOPMENT OF CAPITALISM IN ALBANIA

The capitalist system that began in the fifteenth century to the nineteenth century, had as its goal the accumulation of capital through profits from the trade and exploitation of human labor, whether employed or slaves, being called commercial capitalism. Capitalism was born initially in developed countries like America and Western Europe, gradually began to spread throughout the world in both developed and developing countries, such as our country. Capitalism was characterized by : 1- class division, 2- profit motive, 3- Capitalism =

free market, 4- The right of private property , 5- Freedom of choice, 6- Market forces, 7- The minimum role of the state." The transition from communism to a market economy represents one of the most important experiments of all the times ... " The biggest challenge was the transition phase transition from an economy completely paralyzed and based on food and emergency aid , to programming and implementation of concrete reforms to develop policies that will radically transform the economic and social relations among the people , between their mentality , institutions , legislation and governance model to enable the opening up to the world , the development of sustainable economic growth and balanced economy and poverty reduction on the basis of a national strategy . The analysis of macroeconomic development in Albania can be by dividing the transition into three main periods which are:

1 - The first period (1991 - '93 to 1995 - '96) the beginning of the transition period was characterized by a large decline in GDP by the deepening of the budget deficit and high inflation, worsening of current account and high social tensions that followed the destruction of productive capacity. Highlights of achievements scored during this period in carrying out reforms , can be considered : 1- liberalization of the economy ,2- privatization ,3- Deregulation meaning , structuring of private business on the basis of state policy .

2 - Second Period 1997-1998 - During this period, due to pyramid riots there was a reduction in supply , especially in industry and construction , while the loss of savings in pyramids: reduced demand. To improve the economic reforms were undertaken : A) Budgetary financial and fiscal policies and fiscal year 1997-1998 after measures were taken to reduce the budget deficit through the implementation of a fiscal policy aimed at revenue mobilization , Monetary policy starting in August of 1997 that had as its main object the achievement of price stability .

3 - The third period after the 1998-2005 - It is full of periods of full restoring macroeconomic and structural reform progress, related to the continuation and deepening of the process of privatization of strategic enterprises, small and medium enterprises and privatization strategy was designed to large enterprises and public services. Important role in this respect have also played financial sector reforms related to privatization of state banks and the entry of banks into joint capital and private foreign banks which have contributed to enhancing the quality of banking services. But related with the termination or not of the transition period we can say that we can see it in two different points of view,

- I. The first perspective is one that compares the economic reality of today with that of the former communist regime. In this regard, it is thought that the transition in Albania has been completed.
- II. The second perspective is that of the trial of Albania's economic transition from the perspective of how much and how Albanian economy is developing, and what standard level it has reached, it is able to withstand the economic needs of the country and how it is able to withstand the processes of integration and globalization. From this perspective it is thought that the Albanian transition has a long way to go.

## 2- ALBANIAN ECONOMIC MODEL

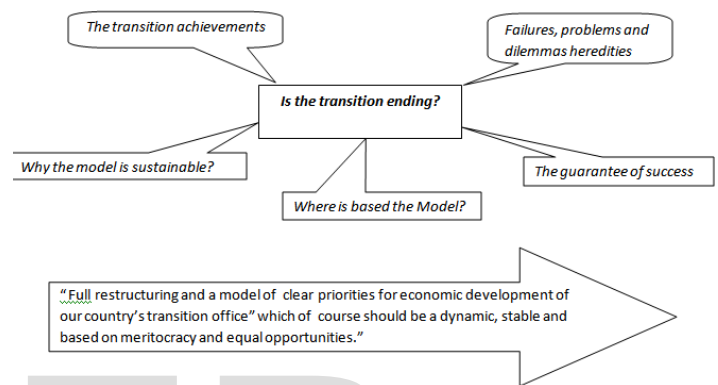
The failure of the economy in the communist camp in Albania almost consolidated opinion that capitalism and the free market economy are the most efficient systems for generating wealth and economic prosperity. History has proved that there is no unique model of global capitalism, but there are variants of regional or national types of capitalism. But which is the most appropriate model of capitalism for Albania? An expected response could be: "taking into consideration that Albanian's objective is EU, and our model of capitalism would be "European capitalist model ". And here starts the problem because capitalism has some basic principles and rules that constitute its essence, so each country has to profile the specificities of capitalism according to his choice. The experience of the 24 years of transition, with all its achievements and failures, the need to integrate our economy into the European economy, the effects, dilemmas, problems and lessons that have emerged from the global crisis and ways of solving them are important reasons that support the need for: " Full restructuring and a model of clear priorities for economic development of our country's transition office ", which of course should be a dynamic economy, strong and stable, based on meritocracy and equal opportunities. " The capitalist model of Albanian economy should focus on those priorities that keep him in the center of the main objective, comprehensive of Albanian economy should focus on those priorities that keep him in the center of the main objective, comprehensive eco-

nomical development of the country.

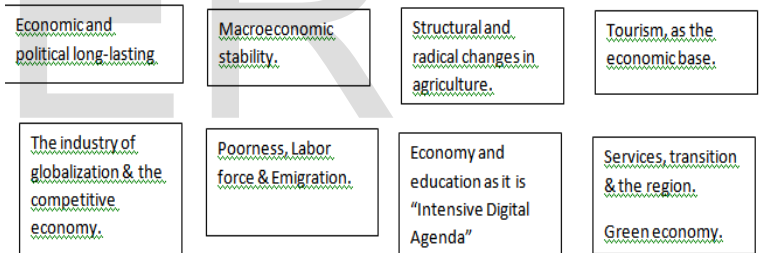
The success of this model requires that the economic development affects the growth improvement in the level of social development throughout the country, it can be achieved by:

- \* Security of a high economic growth and balanced in all respects.
- \* An innovative economic development, supporting knowledge and innovation economy.
- \* A comprehensive economic development by creating new jobs.

### The theory essence



### The Model's Priorities



Success is guaranteed if the model is based on some economic policy priorities and structural transformation: macroeconomic stability, improvement of public finance management, budget policy, monetary and fiscal necessity of this model are:

- 1- final resolution of property issues,
- 2- Implementation of new technologies,
- 3- Innovation and education in this sector.
- 4- Transform tourism branch into an essential sector in the economy and its consideration "as an export branch "as a source for providing income in foreign currency.

The development of green economy on the agenda. Environmental protection as a future development is an important factor in promoting the idea that the economic model must develop. To achieve this it must seriously be considered:

- a- climate and alternative energy sources,
- b- Economy and saving natural resources and green infrastructure

c - Good management of water resources " An industrial policy in the new era of globalization ", through increased competitiveness , is a priority target complex and important for the future economic development of the country .

### 3- FOUR TYPES OF CAPITALISM

#### A - *State Guided capitalism.*

In this type of capitalism growth is the main objective (as well as in the two other forms of capitalism) but attempts to reach this through favoring specific firms or industries. Governments allocate credit (through central bank or by orientating private banks for credit decisions), and government economic policy helped those decisions, using various policy instruments to carry out the chosen "winners". Governments are also able to favor some chosen firms with tax breaks, exclusive licenses or government contracts. Finally these companies can become "national champions" but their success is assured through government policy. In this way government can control the foreign investors or partners, allowing them only in some specific sectors and under certain conditions. Some examples of this type of guidance are China's Joint Venture with American manufacturers and Japanese arrangements with US aerospace companies.

*The features of State guided capitalist system are:*

- ✓ The government plays a very important role in directing the economy; it has a greater role in economic growth than in privatization.
- ✓ The state exercises significant checks to the banking system in general and in lending in particular.
- ✓ The government realizes a good administration of government, offering advantages and convenient industrial policy to attract winners.
- ✓ The government plays a crucial role as a good guide of production and it directs production where he thinks it is necessary, where consumers or producers may desire.

Southeast Asian economies have had a great success with the running of the state, and by the end of the 1990s in the United States; there were calls to follow their example.

*The downsides of this system are:*

- Belief that the state leadership will work forever.
- Excessive investment, like the case of South Korea in 1990s ( long accustomed to directing its banks to provide loans to the larger conglomerates)
- Picking the wrong winners and losers
- Susceptibility to Corruption
- And finally the difficulty in preventing and redirecting the government resources.

In sum, states can often successfully guide their economies when they have well defined targets to aim for.

#### B - *Oligarchic capitalism*

Oligarchic capitalism exists where the power and money are concentrated in a few hands only. It is the worst form of capitalism, not only for the extreme inequality in income and wealth that such economies tolerate, but also because the elites do not promote growth as the central goal of economic policy. Instead, oligarchs fix the rules to maximize their income and wealth. The main goal of the leaders of the oligarchic system is patronage (protection) and not economic growth as the system of state capitalism is. Such arrangements prevail in large parts of Latin America, the Arab Middle East and Africa. *Oligarchic capitalism economies have some features in common.*

*Firstly their earnings are distributed extremely unequally.* Government policies promoting the interests of the elite classes.

*Second, another feature is its informality* as mentioned in the book of Hernando de Soto's, is a feature which prevents the development of capitalism.

*Third, this system is typically plagued by corruption,* more than state capitalism. The preconditions that lead to informality also create opportunities for low ranked officials to accept bribes.

*And fourth, the danger of abundant natural resources, oil in particular.* In these countries, economic freedoms are at very low levels.

*Weaknesses of this system are:*

- The small increase in economy
- Discouraging corruption levels
- Economic Inequality
- Political instability.

#### C - *Big Firm capitalism or managerial capitalism.*

The economy of this system is characterized by big firms which dominate production and employment. So they have the form of oligopolistic markets which are dominated by some big firms that control every action and also set market prices because the competition is not so little in reality. These firms usually realize the problem of property in their markets through the division of property between them. In this kind of capitalism, markets are run by professional managers who are highly skilled at what they do.

There are also small ventures, but they are usually primarily retail businesses or services with only one or a few employees. Big firms nonetheless can grow and prosper by constantly refining existing products and services and occasionally developing new ones, typically after considerable market research about what consumers will and won't buy. Economies of Western Europe and Japan are the leading exemplars of managerial capitalism, which, as state capitalism, also gives high economical results.

*Advantages of big firms or oligopolistic capitalism:*

- ✓ Fixed benefits provide the basis for an increased innovation As firms in oligopolistic system have a supernormal prof-

it they have the cash flow to finance the development of the incremental improvements in technology that are the Hallmark of large firms (e.g. Toyota and Honda)

✓ Providing cost effective means for essential innovations derived from small enterprises that they can become mass market products. Since radical entrepreneurs are unable to manufacture by themselves in a cost-effective way, big firms are also essential to mass-produce some of the innovations.

*The disadvantages of this system are:*

- Oligopolistic markets reduce competition and increase prices.
- Markets steady large firms reduce incentives until substantially renovate themselves.
- Labor market rigidity (people have tendency to work to stable jobs so they prefer large firms e.g. Western Europe).
- Can focus on renting rather than on selling.

This leads us to the fourth type:

#### D - *Entrepreneurial capitalism.*

This is the capitalist system in which a large number of the actors within the economy have the incentive to innovate but also commercialize radical innovations. These innovations altogether refined by entrepreneurs have improved living standards.

Some examples of the last two centuries may include such transformative products and innovations as railroads, automobiles and airplanes, telegraph, telephones, radio and television, air conditioning, and, as noted, the various technologies that are responsible for the IT (Information Technology - Technology information) between them Mainframe (or central computer systems which are powerful IBM used by large organizations) and personal computers, routers (router - Computer network at three levels) and different kinds of hardware and software.

Undoubtedly, no economy can achieve its full potential only with entrepreneurial firms. Another feature of this system is relatively inexpensive dominate markets that inherently encourage more toward experimentation.

It was necessary, for example, that Boeing and other manufacturers may commercialize large aircraft that launched the Wright Brothers, or that "Ford" and "General Motors" (GM), might produce the vehicles massively and so on. But without entrepreneurs, only few bold innovations that have shaped our modern economy and our lives would be in use.

*Advantages of this system:*

- Promoting innovative products like mobile money innovations in a country that practices this kind of capitalism. Successful entrepreneurial economies usually encourage change and they eliminate barriers which bring them from slow moving or dying sectors to dynamic industries.

- They take their economies at technology boundaries borders.

*Disadvantages:*

- Destruction and instability
- Creation of new winners also means the creation of new losers.
- Losers may seek political protection (e.g. backlash against globalization).

Then, the challenge for all economies seeking to maximize their growth potential is to find the right mix of managerial and entrepreneurial capitalism. Economies where entrepreneurs now flourish must not become complacent. State-guided economies can continue their path of rapid growth, but ultimately they have to spend in the appropriate combination of the two other forms of "good capitalism" if they want to continue with a rapid growth.

India and China, each in its own way, already move in this direction. The most difficult challenge will be to achieve a similar transition economy that occupies the oligarchic capitalism. For this may be needed a kind of revolution –that would be ideal, peaceful and of course - for replacing the elites, which now dominate the economy and society, and for which growth is not the main objective.

## 4- THE ADVANTAGES AND PROBLEMS OF CAPITALISM IN ALBANIA

### ➤ *The advantages*

- ❖ *Effective allocation cost of resources.*

In Albania, capitalism provides that resources are allocated according to the choices of consumers. When manufacturers understand that their goods cannot be sold at existing prices, they will use their own initiative, the two regulatory mechanisms, that are going to reduce the amount of production as well as prices. The reason for this behavior is the profit of any firm which isn't rewarded for producing goods that consumers don't want.

- ❖ *Financial incentives.*

It is observed that people in Albania as in many countries work in difficult jobs only when there is a huge financial reward. When there is a large personal financial incentive, only then they accept to take risks in business development. In a market economy, employment services as well as goods are purchased and sold in the market. Firms need a work force to produce goods and services. The much higher the wages of a firm the less the purchases the firms would need to hire. Usually when the wages of the workers are higher, they are able to offer more work.

- ❖ *Technological improvements.*

The element of competition in capitalism in Albania as everywhere in the world leads producers to a new innovation that promotes increasing to sales and also brings progress. For

producing well known products new developed technology is needed and the companies that don't adapt this new technology will have problems with the selling of their goods, because they would threaten to set high prices that aren't acceptable by the buyers and so they wouldn't match the market.

➤ Some main problems

❖ *Inequality*

Besides the fact that every economic system should use efficiently every resource it must also provide distribution of incomes. One of the important reasons why the planned economy enjoyed respect for a long time was because in that system the incomes were distributed more fairly than in this system. A free market economy creates opportunities for some efficient and lucky people to become rich quickly. It is precisely this income margin that serves as a driving force for capitalism system, but that can be adjusted by the government through the taxation system and that's why I think the new fiscal package was a good beginning for the reduction of those inequalities.

❖ *Monopolistic behavior*

Another disadvantage of capitalism is that firms gain monopoly power in a free market which allows manufacturers to determine prices by charging customers higher prices and on the other hand Owners often pay lower wages for workers.

Usually there are three kinds of monopolies:

\* Industry Monopoly, with economic growth enterprises has become much larger in absolute value, it brings that monopoly has a greater weight in the market and it draws more attention than the competition. Over accentuation of the great versus the smallest is, also very important. Monopoly is much more widespread in industrial sector than in other sectors. Such typical industries in Albania are oil, minerals and the quarries which mainly operate for export.

\* State monopoly or supported by the government is a kind of monopoly created by government for giving patents only for some companies. Biggest monopolies in Albania may be considered mobile phone companies and airlines companies.

\* Working monopoly has a big influence for different kind of jobs. The aim of Labor union is to increase the wages of the workers who are well paid at the expense of underpaid workers. Labor union has damaged the public by deforming the use of Labor and this kind of monopoly isn't very common in Albania.

❖ *Mechanization and automation.*

Capitalism encourages mechanization and automation. This results in an increase in unemployment due to the high de-

mands of employee training, especially in the economy of labor surpluses. If we think in general terms most firms require three inputs: labor, capital and raw materials. A manufacturer, who has a natural interest in maintaining the cost as low as possible, will change the composition of inputs if their prices vary. If wages rise it will increase the use of machinery during production. But this in turn can lead to reduction in workforce and growing the number of unemployed. but on the other hand it causes a reduction in the work force and a growing number of the unemployed.

❖ *Ignoring substantial social benefits.*

There are some basic social sectors such as literacy, public health, poverty, drinking water, social welfare and social security. Since the limits of the benefit in this sector are low, Albanian capitalists do not invest in these sectors. The growth of these human problems will be ignored in the capitalist system. Always capitalism system will grow these problems because capitalists aren't disposed to help the poor.

### 3- CONCLUSIONS AND RECOMMENDATIONS

Capitalism is always considered as the foundation of economic growth and of liberty.

In conclusion, we can say that the answer on the fate of the development of capitalism in transition countries (including Albania) depends entirely on the governments of these countries. Generally there is no unique model of global capitalism, but variants of regional or national types of capitalism. Each state has developed its ways of functioning of the economy, its institutions, certain compromises, historical and political performances and their weaknesses etc.

Capitalist model of Albanian Economy should focus on those priorities that ensure and maintain its focus on the main objective, the economic development of the country, through the harmonization of all economic and natural resources and effective use of all the present capacities in our country, in order to develop long-term sustainable and economic

Some recommendations for the Albanian government would be:

1 - The Albanian government should make maximum efforts in reducing the gap that exists between the rich and the poor. Certainly the new fiscal package, with its progressive taxation is a good beginning for this problem.

2 - Capitalists should train their workers in order that everyone would be specialized in the work that he does because this leads the worker to the perfection and dedication. Although on the other hand the government should stimulate constantly the workers by increasing the minimum wage level and also

though pension wage differentiation in order to encourage the workers to declare their real wages, and in this way it brings tax reduction and less informality.

3 – Government should make a careful control against all big monopolies in order not to let them enter easily. Also should be a rigorous taxation on monopolies as it is known that profits in certain sectors are sufficiently high, compared to other businesses in the country.

4 - The role of trade unions should be increasingly strengthened in order to protect workers who work in difficult sectors like construction, metallurgy, oil, mining, etc.

5 - As capitalists, as individuals tend not to help the poor then it's government that should influence through its policies, offering free health services and a minimum free education.

6 - Finally, the government should show more care towards informality, which is constituted as a threatening danger for the country. Should increase safety controls on businesses and especially VIP businesses and those who are sewing on apparel, which are known to have more people employed, so it is necessary to have a look at the rate of their statements, if it's everything declared or not.

7 – Another important sector to be controlled is the hygiene of food sectors production because is essential for human health.

8 - I think according to businesses who do not declare, they would not only be fined but it mustn't be absolutely fiscal amnesty, because this thing promotes dishonesty and encourage businessmen towards a wrong way.

All those recommendations that I have just told bring unfair competition, which is a major concern for all the honest Albanian businessmen.

However, capitalism has accumulated a contradiction after another, which at one time intended to cause a massive collapse of the productive forces.

“The best economic system is the one that offers more of what more people wish”<sup>1</sup>

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