The Post-socialist Transition in a Comparative Perspective: The lessons*

Moscow, 6 July 2012

Leszek Balcerowicz

Warsaw School of Economics

I’m grateful to Magda Ciżkowicz, Aleksander Łaszek, and Marek Tatała for their assistance in preparing this presentation.
Content:

1. The analytical scheme: institutional systems versus policies
2. Socialism as an institutional system
3. The economic costs of socialism
4. The institutional trajectories after socialism
5. The economic outcomes after socialism
6. The non-economic outcomes after socialism
7. Some observations and lessons
1. The analytical scheme: institutional systems versus policies
Domestic Institutional System

Propelling institutions

Constraining institutions

Economic Policy

Institutional (reforms)

Fiscal, monetary policies. Direct interventions

Other determinants of policies:
- personality factors
- political shocks, etc.

Long-run economic growth

External shocks

Other determinants of policies:
- personality factors
- political shocks, etc.
- Policies – actions of public rulers

Non-institutional policies \( \leftrightarrow \) (constraining institutions \( \times \) personality factors) \( \rightarrow \) policy shocks

- Constraining institutions:
  - primary – the political system (checks and balances)
  - secondary (e.g. banking supervision, independent central bank)

- Propelling institutions:
  - type and the level of protection of property rights
  - the extent of market competition
  - fiscal and regulatory burden
2. Socialism as an institutional system
2. Socialism as an institutional system

1. The monopoly of the non-private sector.
2. Command economy

4. Non-democracy (the “democratic socialism” is impossible)
5. A long list of “crimes against socialism” (as distinct from crimes against other private persons)

In other words: socialism was characterized by:

d) Weak propelling institutions: responsible for the declining rate of economic growth over a longer run (waste, low innovativeness)

b) Weak or non-existent constraining institutions: Responsible for the catastrophic policies which produced deep decline in GDP and sometimes in population (Stalinism, Maoism).
3. The economic costs of socialism
Countries under socialism lost a lot of distance to Western European economies.

Per-capita GDP (in 1990 international dollars) in 1950 and 1990:

Poland vs. Spain

1950: Poland - 2447, Spain - 2397
1990: Poland - 5115, Spain - 12210

Hungary vs. Austria

1950: Hungary - 2480, Austria - 3706
1990: Hungary - 6471, Austria - 16881

Source: Maddison Database.
Per-capita GDP (in 1990 international dollars) in 1950 and 2003:

**North Korea vs. South Korea**

- 1950: North Korea 854, South Korea 854
- 2003: North Korea 1127, South Korea 15732

**Cuba vs. Chile**

- 1950: Cuba 2046, Chile 3670
- 2003: Cuba 2569, Chile 10950

Per-capita GDP (in 1990 international dollars) in China (Western Europe=100).

Source: Maddison Database.
4. The insitutional trajectories after socialism
The Polity conceptual scheme is unique in that it examines concomitant qualities of democratic and autocratic authority in governing institutions, rather than discreet and mutually exclusive forms of governance.
Political freedom 2010 (Polity IV)

-5< mixed, or incoherent, authority regimes <5

5< fully institutionalized democracies

-5> fully institutionalized autocracies

Source: Polity IV Project
### Economic and Political Rights, 1996-2005

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Rights(^1)</th>
<th>Political Rights(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Leaders</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>90-95</td>
<td>1</td>
</tr>
<tr>
<td>Finland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>The Transition Countries</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td>50 → 30</td>
<td>2 → 1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>Estonia</td>
<td>70 → 90</td>
<td>1</td>
</tr>
<tr>
<td>Hungary</td>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>Latvia</td>
<td>50</td>
<td>1 → 2</td>
</tr>
<tr>
<td>Lithuania</td>
<td>50</td>
<td>2 → 1</td>
</tr>
<tr>
<td>Poland</td>
<td>70 → 50</td>
<td>1</td>
</tr>
<tr>
<td>Romania</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Slovakia</td>
<td>50</td>
<td>2 → 1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>50 → 60</td>
<td>1</td>
</tr>
<tr>
<td>Belarus</td>
<td>50 → 20</td>
<td>6 → 7</td>
</tr>
<tr>
<td>Russia</td>
<td>50 → 25</td>
<td>4 → 6</td>
</tr>
<tr>
<td>Ukraine</td>
<td>30</td>
<td>4 → 3</td>
</tr>
<tr>
<td>China</td>
<td>30 → 20</td>
<td>7</td>
</tr>
<tr>
<td><strong>Other OECD Comparators</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>70 → 50</td>
<td>1</td>
</tr>
<tr>
<td>Italy</td>
<td>70 → 50</td>
<td>1</td>
</tr>
<tr>
<td>Portugal</td>
<td>70</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>70</td>
<td>1</td>
</tr>
</tbody>
</table>

\(^1\) Heritage Foundation, “Index of Economic Freedom”, 2009  
Private sector share in GDP (%)

Source: EBRD - Structural and institutional change indicators
Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars. (WDI)
General government expenditure in 2008 (as % of GDP)

Source: EBRD - Macroeconomic indicators
Observations

- Democracy was introduced and maintained in the countries which introduced capitalism (CEE)
- Non-democratic political systems co-exist with:
  - quasi-capitalist economies (e.g. Russia)
  - quasi-socialist economies (e.g. Belarus, Central Asia)
- Important questions regarding the variation of the economic systems after socialism include especially the differences between the capitalist systems in CEE and quasi-capitalist systems elsewhere
5. The economic outcomes after socialism
GDP growth (1989 = 100%)

- **GDP 2008**

- **Lowest GDP level between 1989 and 2008 (year of the bottom)**

Source: EBRD Transition Report 2008; EU Commision
GDP per capita growth (1989=100%)

Source: EBRD Transition Report 2008; WB WDI, IMF WEO
Transition economies GDP per capita against Germany's GDP

(Germany = 100%, GK$ 1990, PPP)

NMS = Bulgaria, Czech R., Estonia, Hungary, Latvia, Lithuania, Slovak R., Romania

CIS = Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Turkmenistan, Tajikistan, Uzbekistan, Ukraine

Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009
GDP per capita (constant US$) change between 2007 and 2009 (in %)

Source: World Bank, World Development Indicators
FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprises. \(\text{(WDI)}\)
6. The non-economic outcomes after socialism
Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.

Source: World Bank, World Development Indicators
Under-five mortality rate is the probability per 1,000 that a newborn baby will die before reaching age five, if subject to current age-specific mortality rates. (WDI)
Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement. They include carbon dioxide produced during consumption of solid, liquid, and gas fuels and gas flaring. (WDI)
Explaining the differences in economic outcomes

The principal factors explaining differences in growth rates are:

• initial conditions,

• external developments (e.g. the Russian crisis) including:
  - access to markets,

• location,

• extent of market reforms and the nature of macroeconomic policies: most important in the long run