

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

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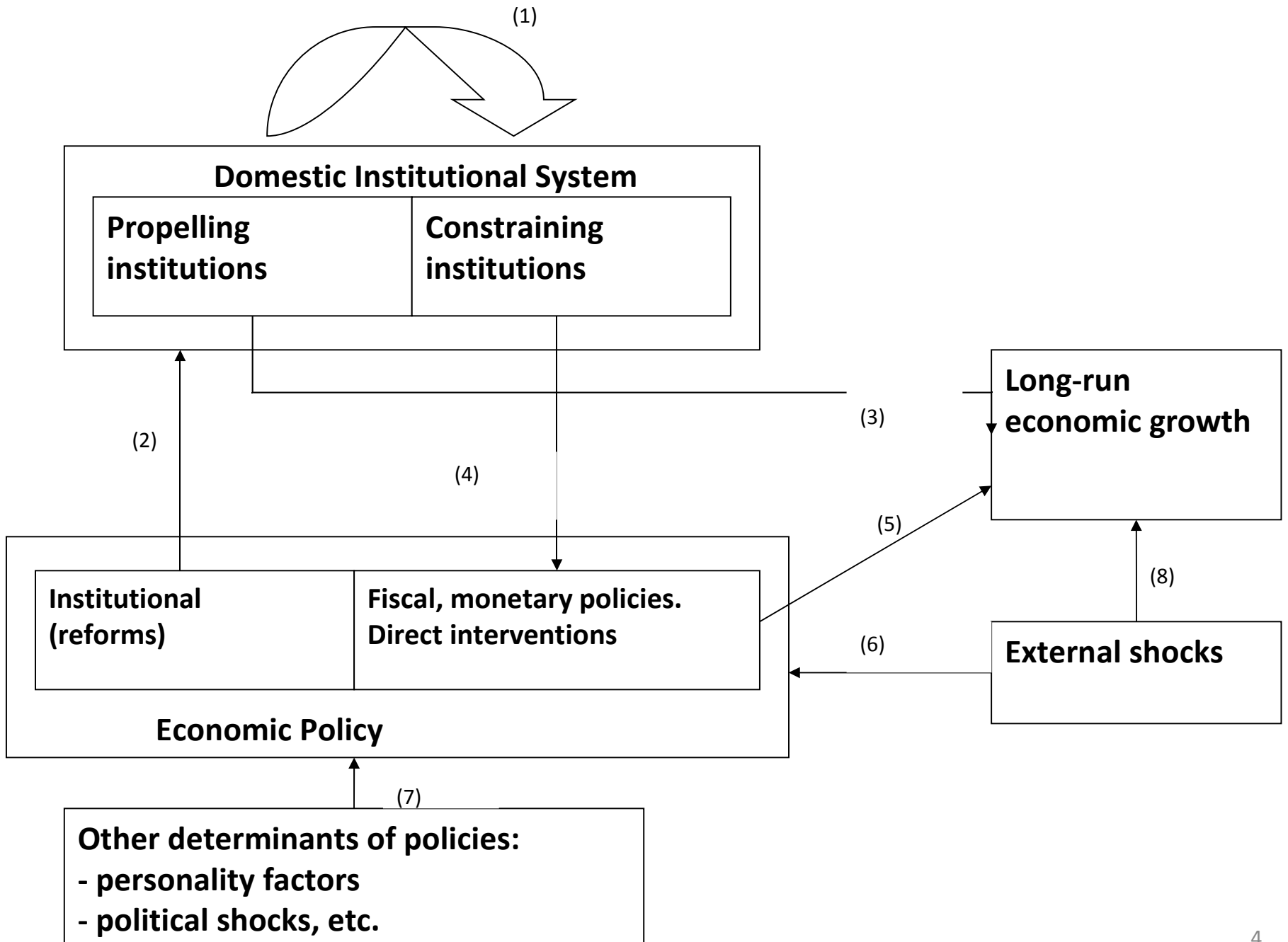
**Warsaw School of Economics**

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# **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**



- Policies – actions of public rulers
- Non-institutional policies  $\leftarrow$  (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).

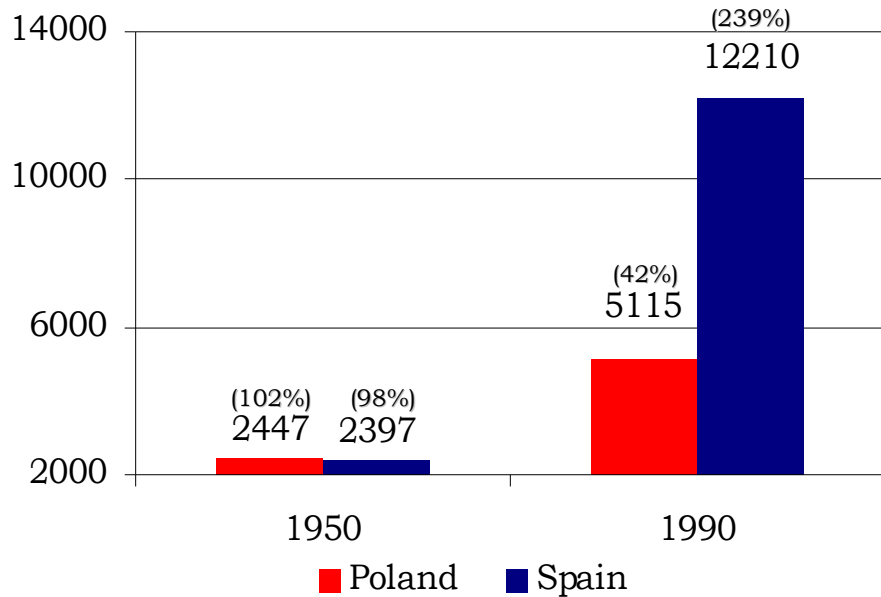
### **3. The economic costs of socialism**



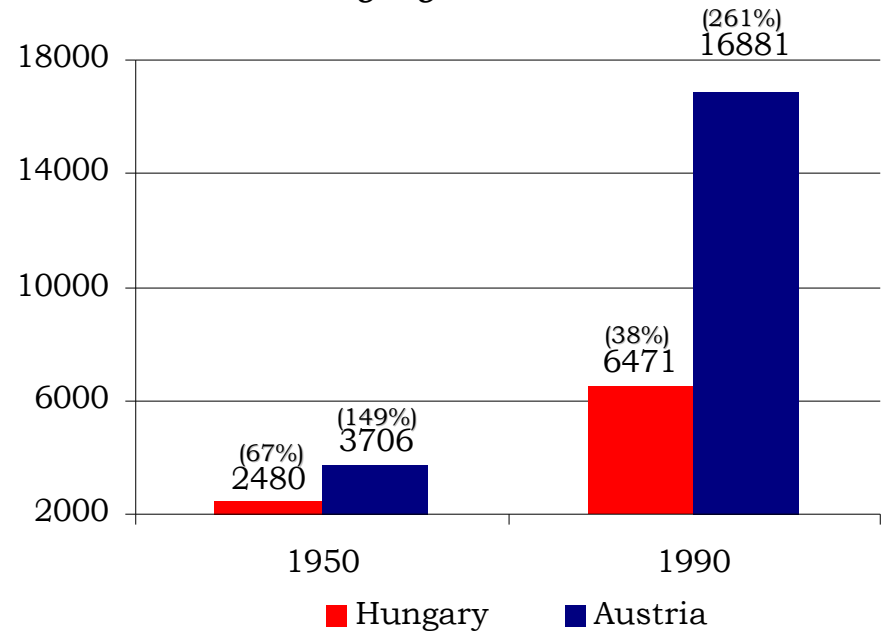
- **Countries under socialism lost a lot of distance to Western European economies.**

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

*Poland vs. Spain*

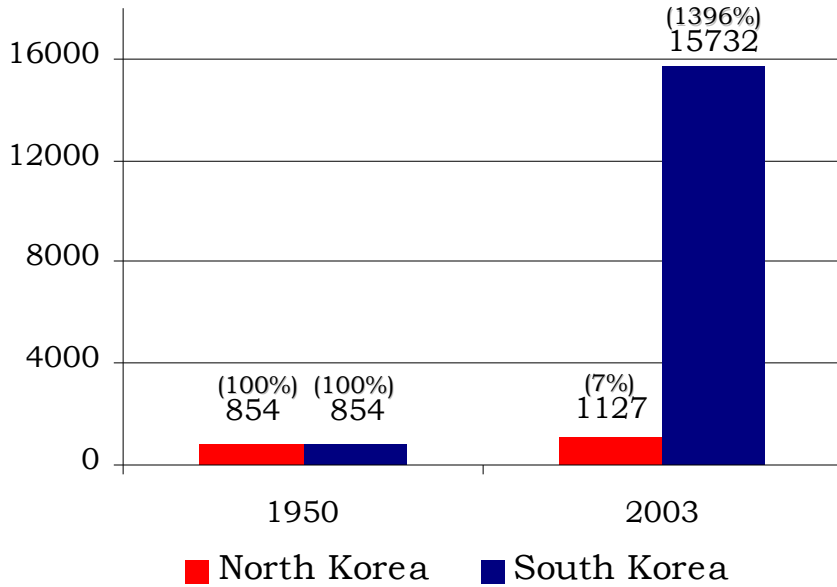


*Hungary vs. Austria.*

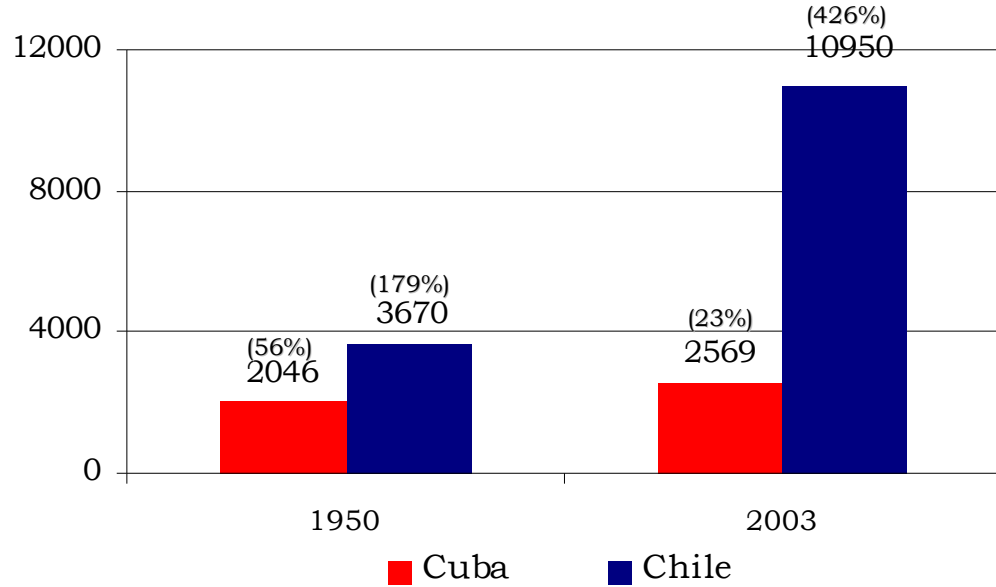


*Per-capita GDP (in 1990 international dollars) in 1950 and 2003:*

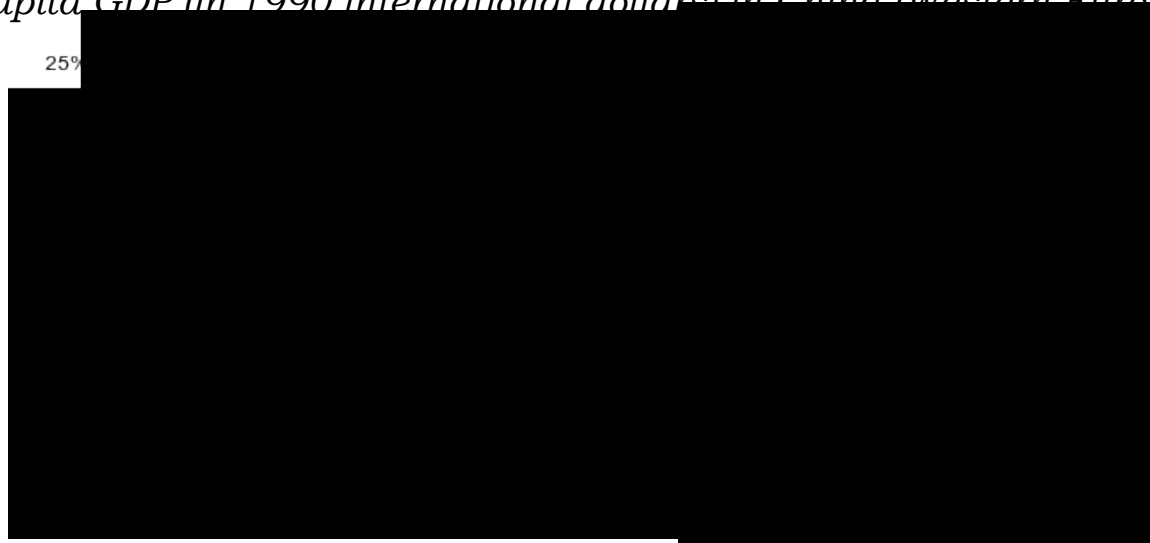
*North Korea vs. South Korea*



*Cuba vs. Chile*

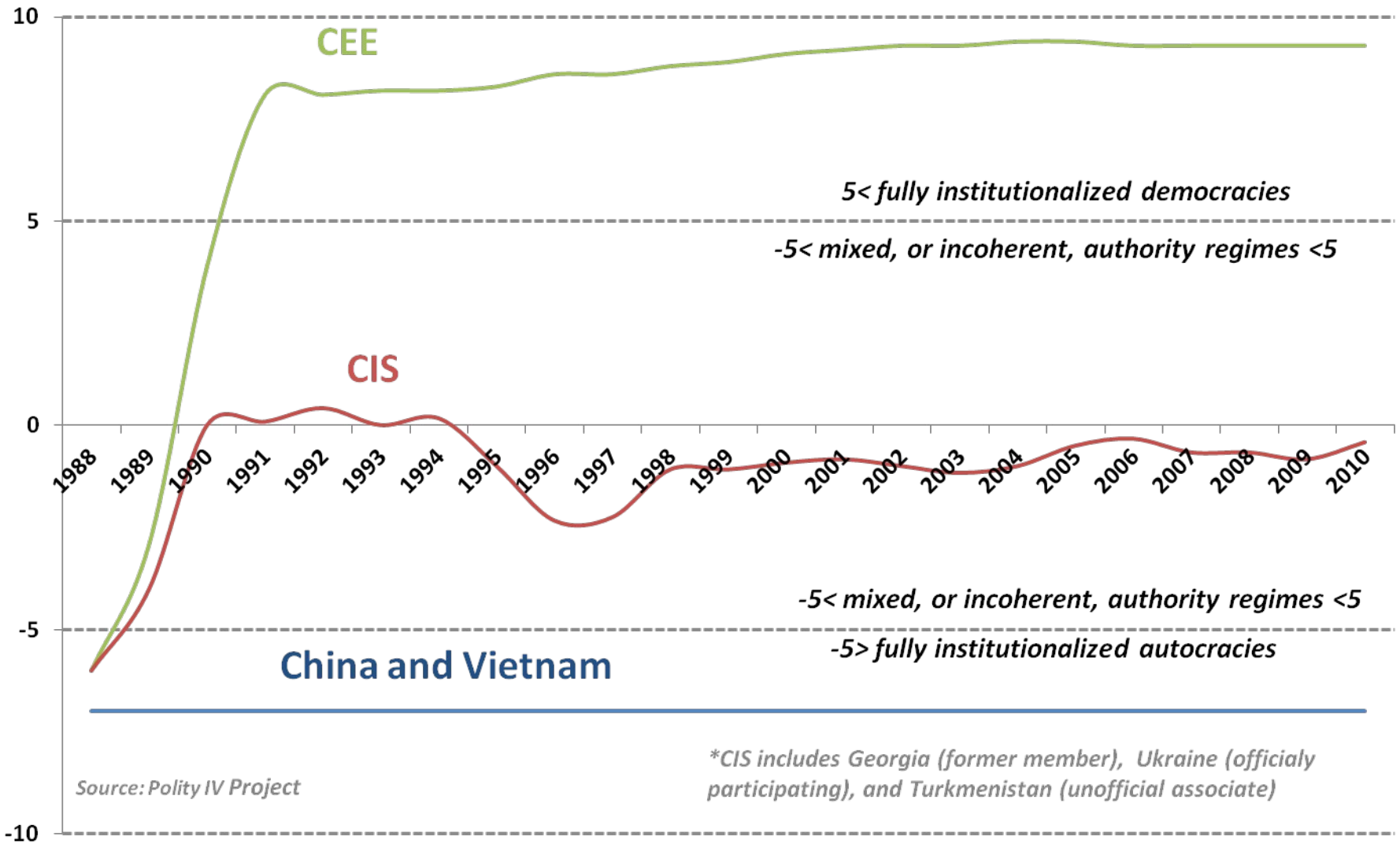


*Per-capita GDP (in 1990 international dollars) in China (Western Europe=100).*



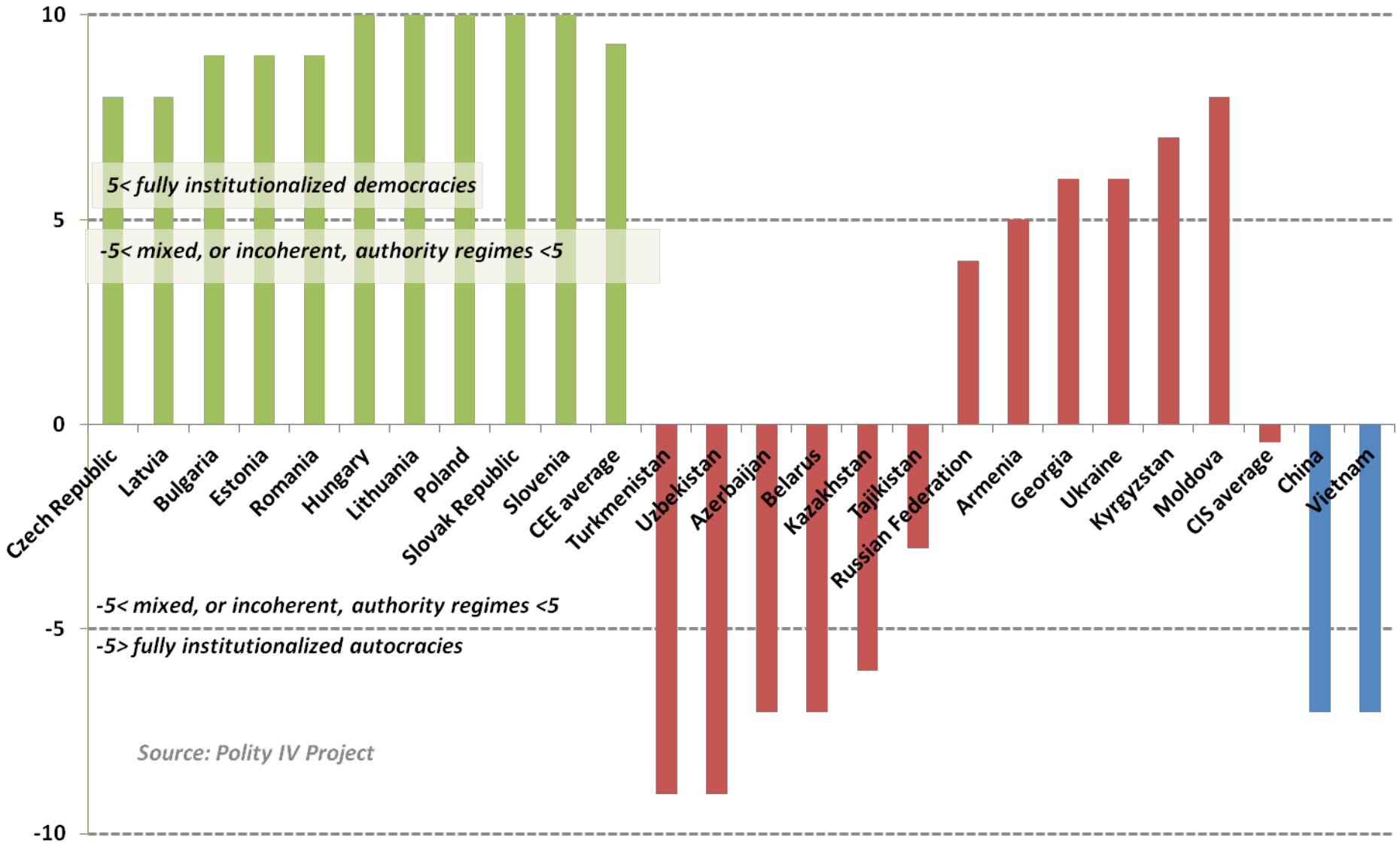
## **4. The insitutional trajectories after socialism**

# Political freedom (Polity IV indicator)



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)



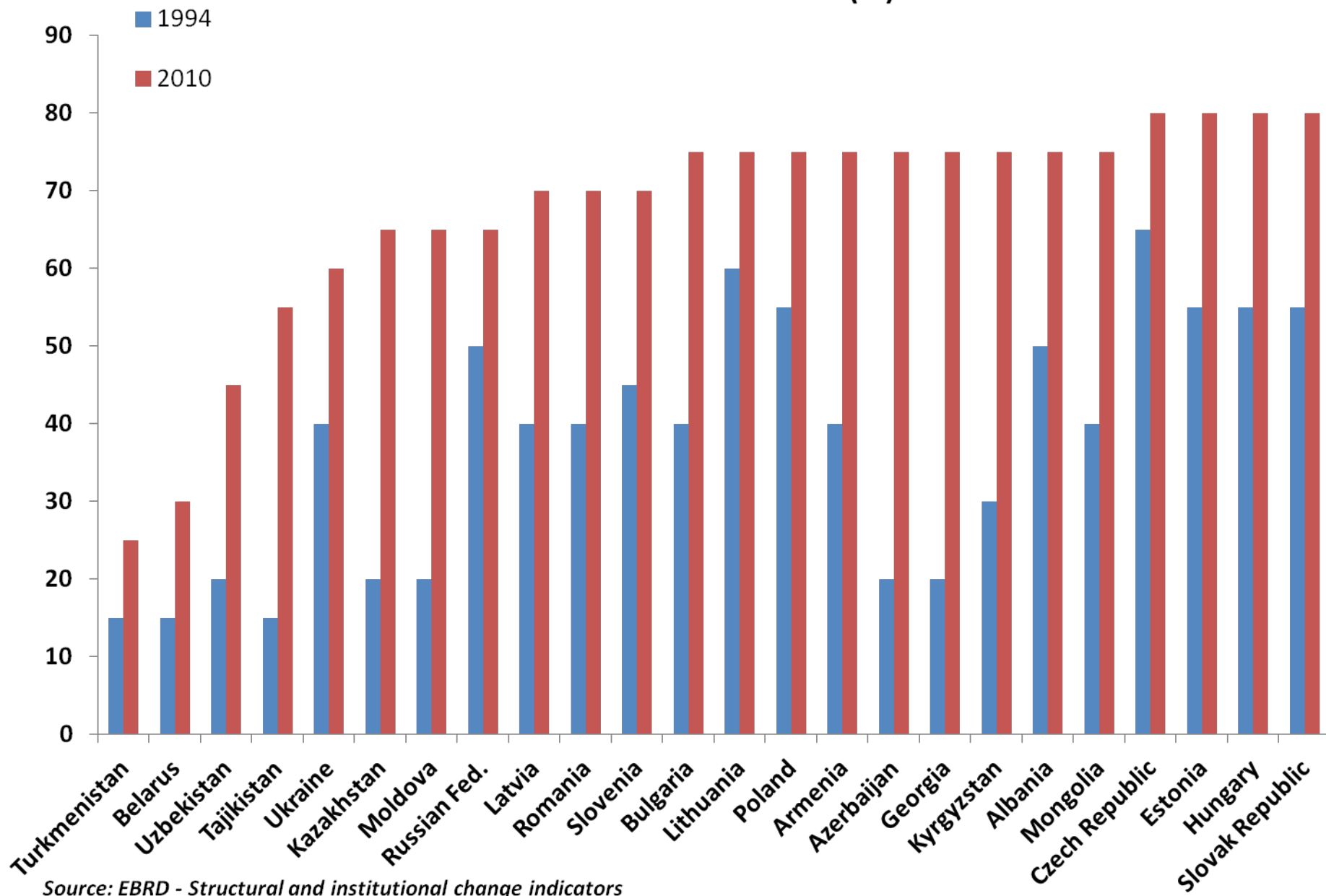
# Economic and Political Rights, 1996-2005

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

<sup>(1)</sup> Heritage Foundation, "Index of Economic Freedom", 2009

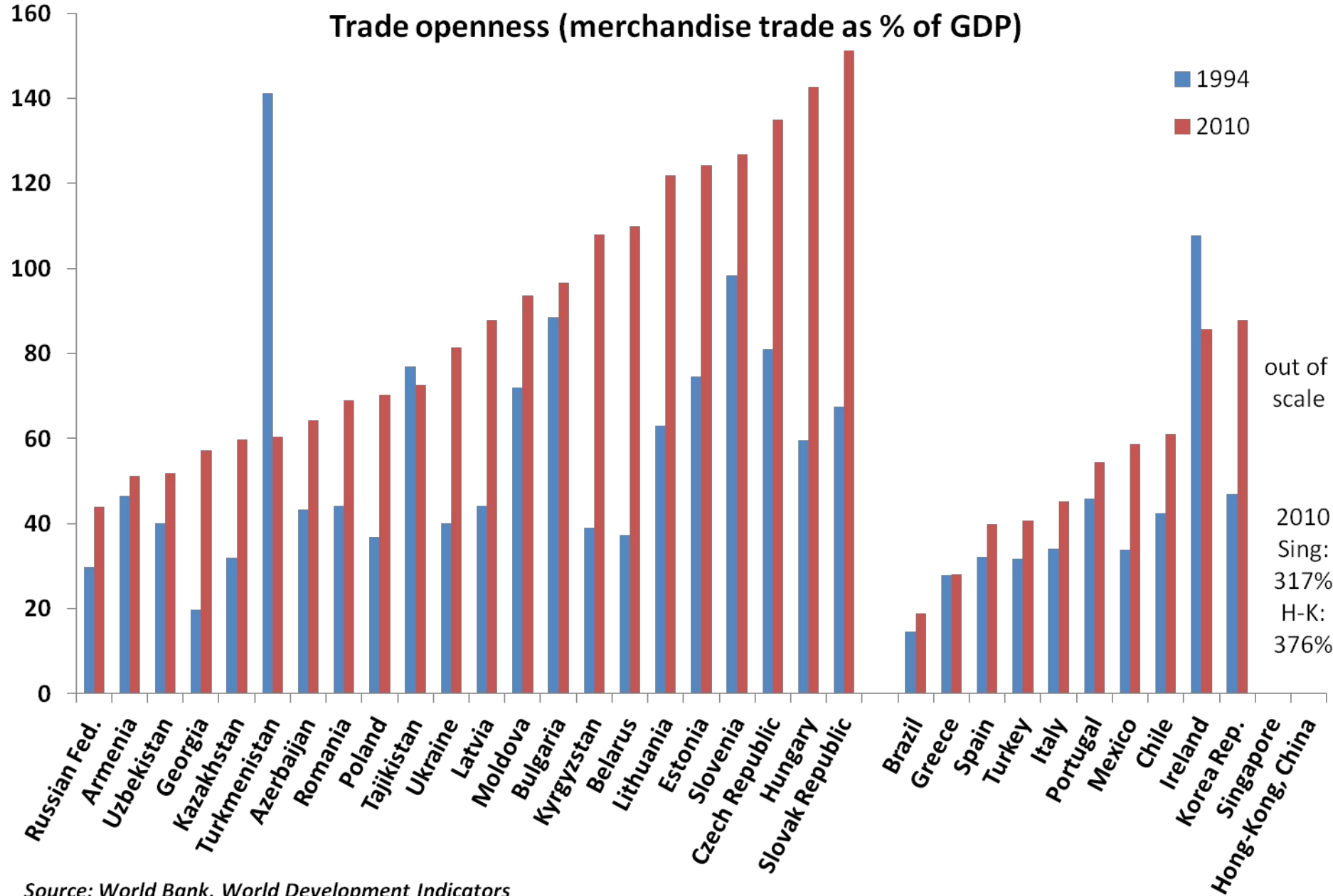
<sup>(2)</sup> Freedom House, "Freedom in the World", 2009

## Private sector share in GDP (%)



Source: EBRD - Structural and institutional change indicators

# Trade openness (merchandise trade as % of GDP)

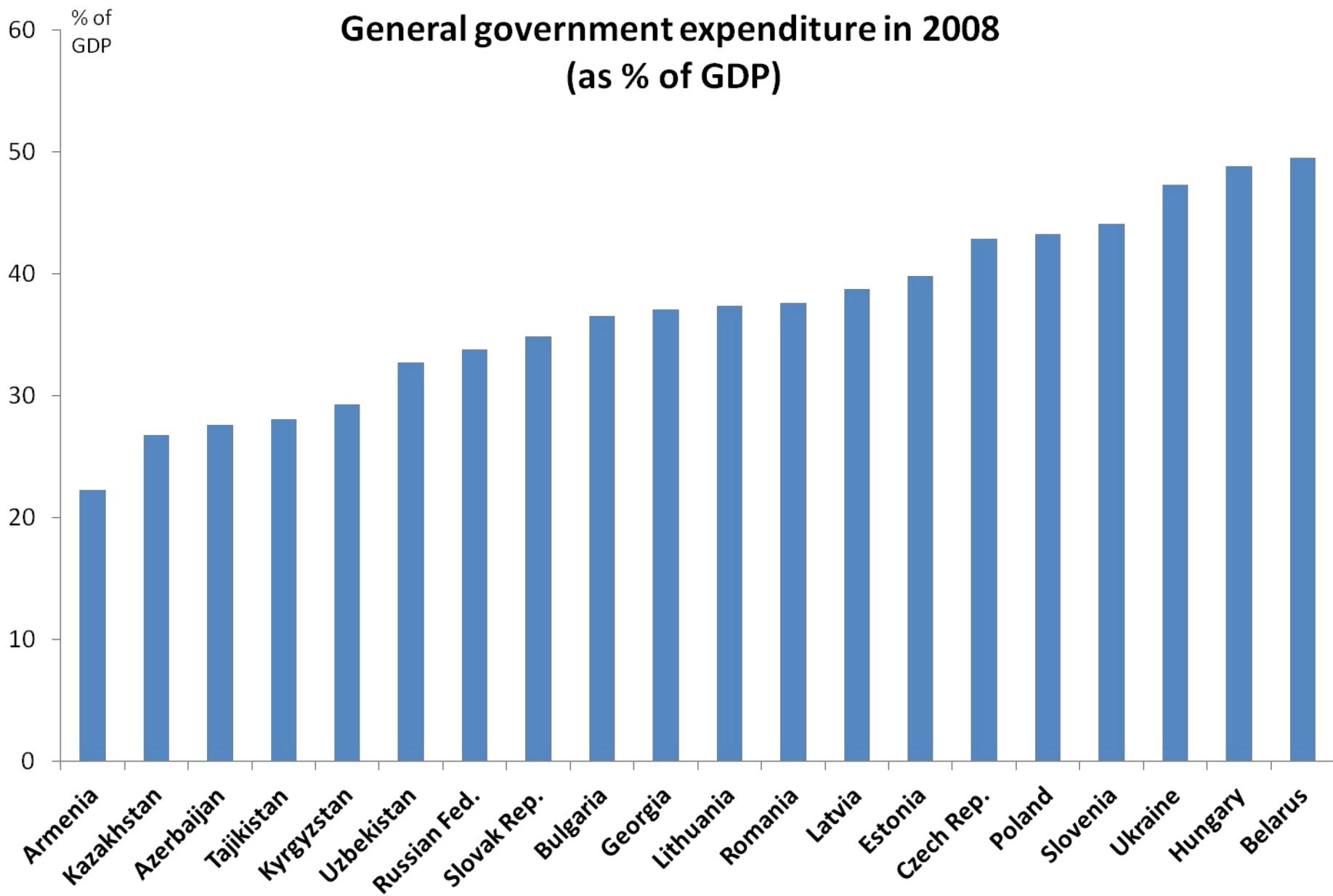


Source: World Bank, World Development Indicators

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)



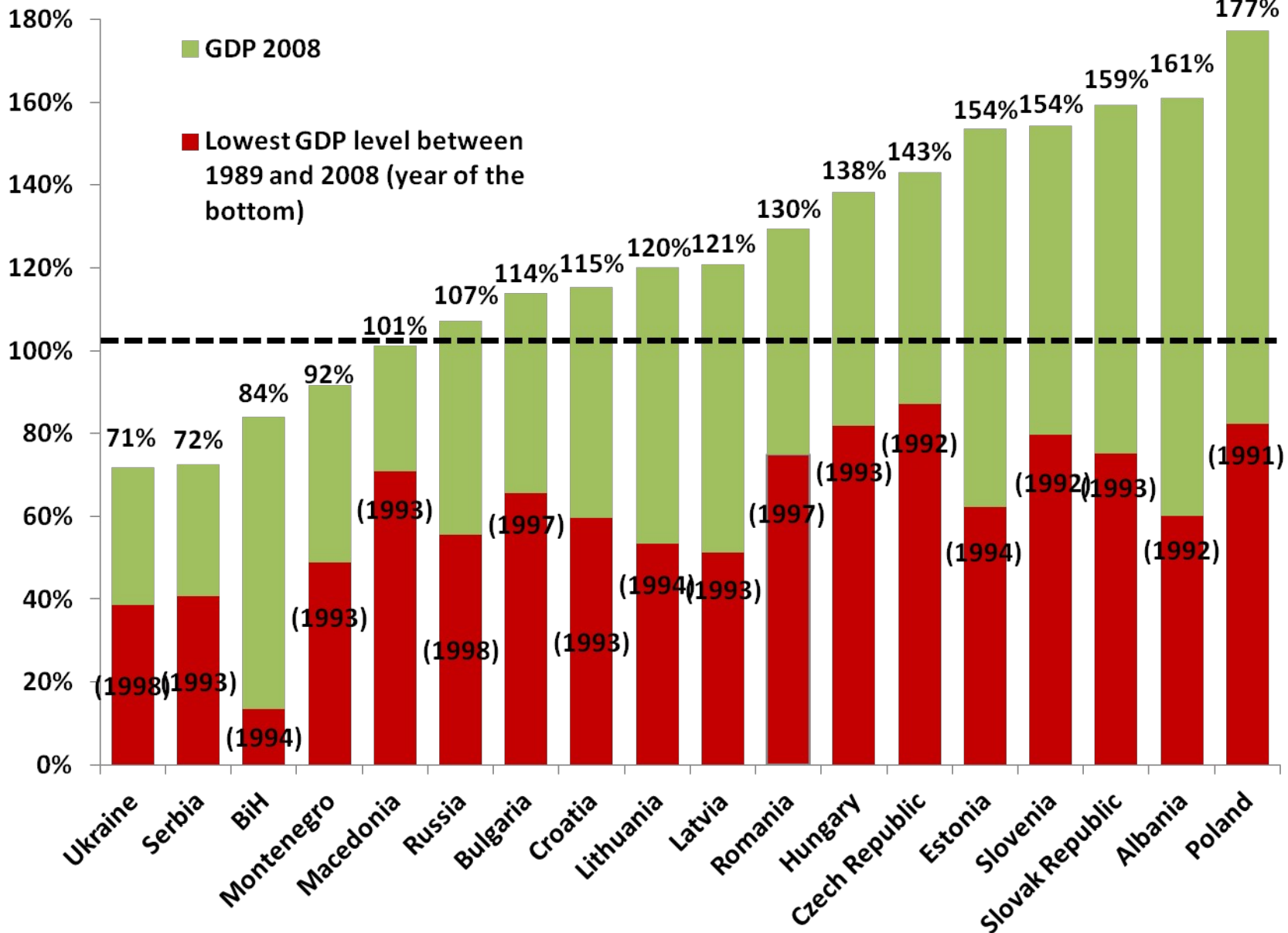
Source: EBRD - Macroeconomic indicators

# 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

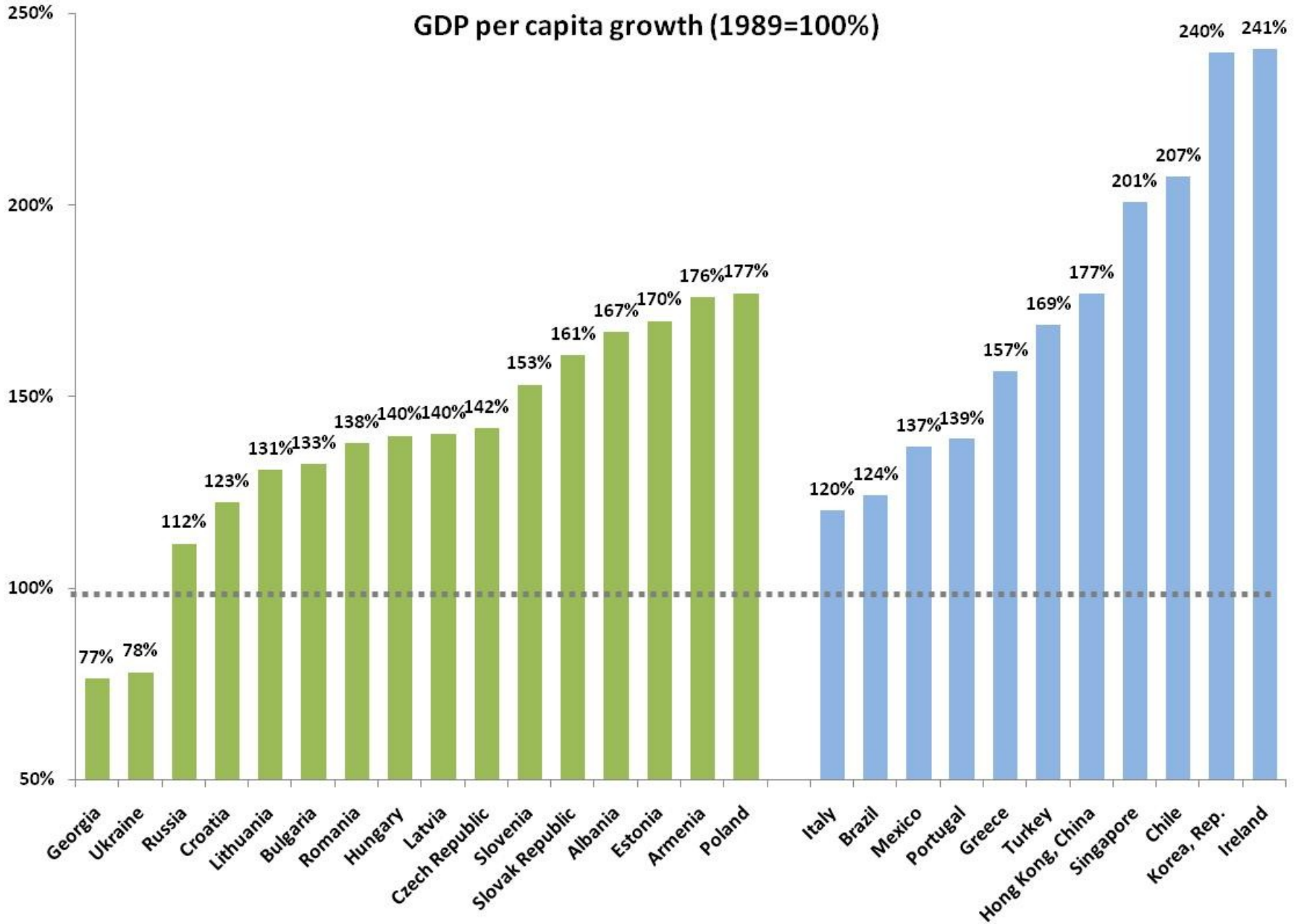
## **5. The economic outcomes after socialism**

## GDP growth (1989 = 100%)



Source: EBRD Transition Report 2008; EU Commission

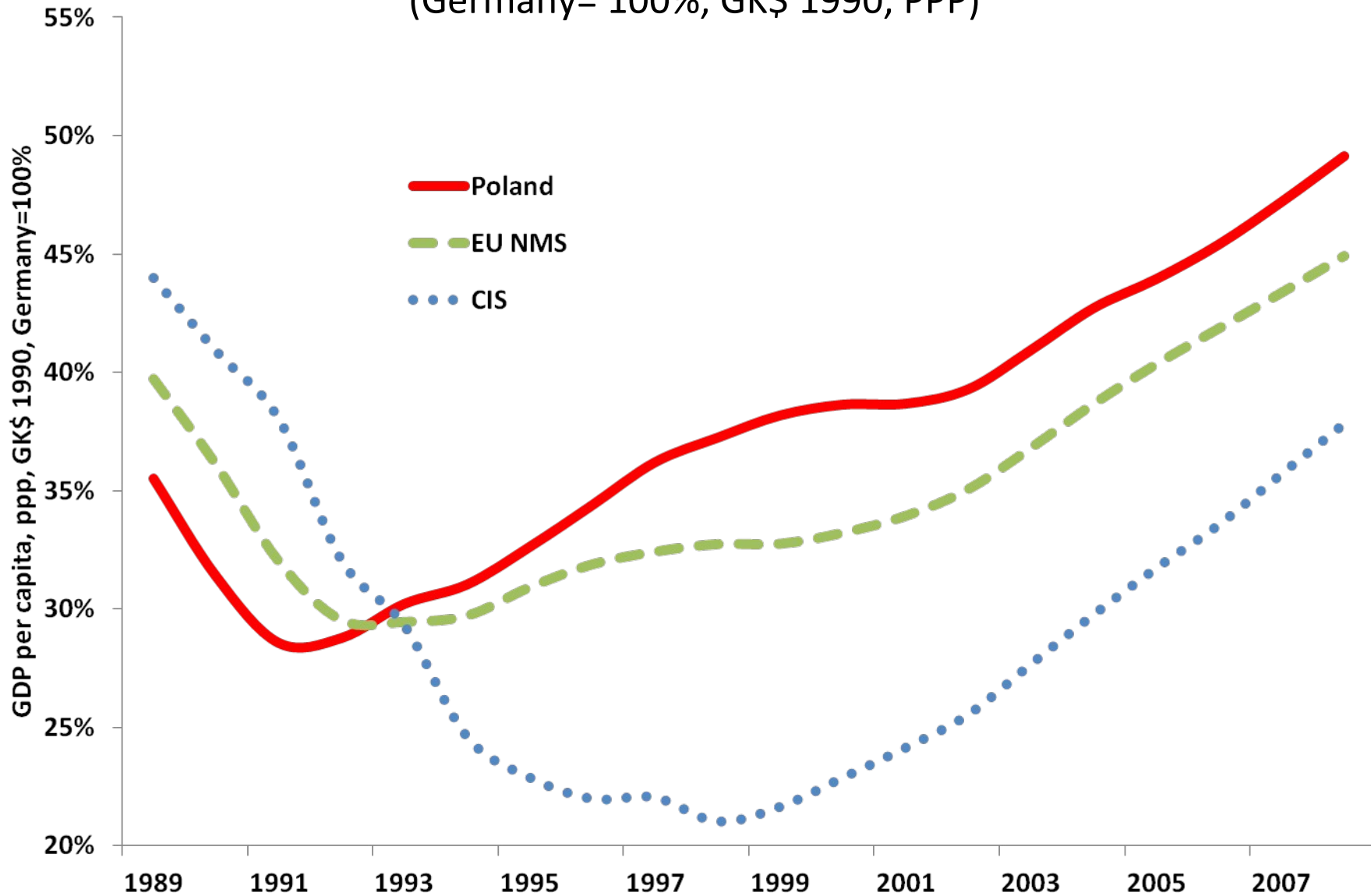
### GDP per capita growth (1989=100%)



Source: EBRD Transition Report 2008; WB WDI, IMF WEO

# Transition economies GDP per capita against Germany's GDP

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

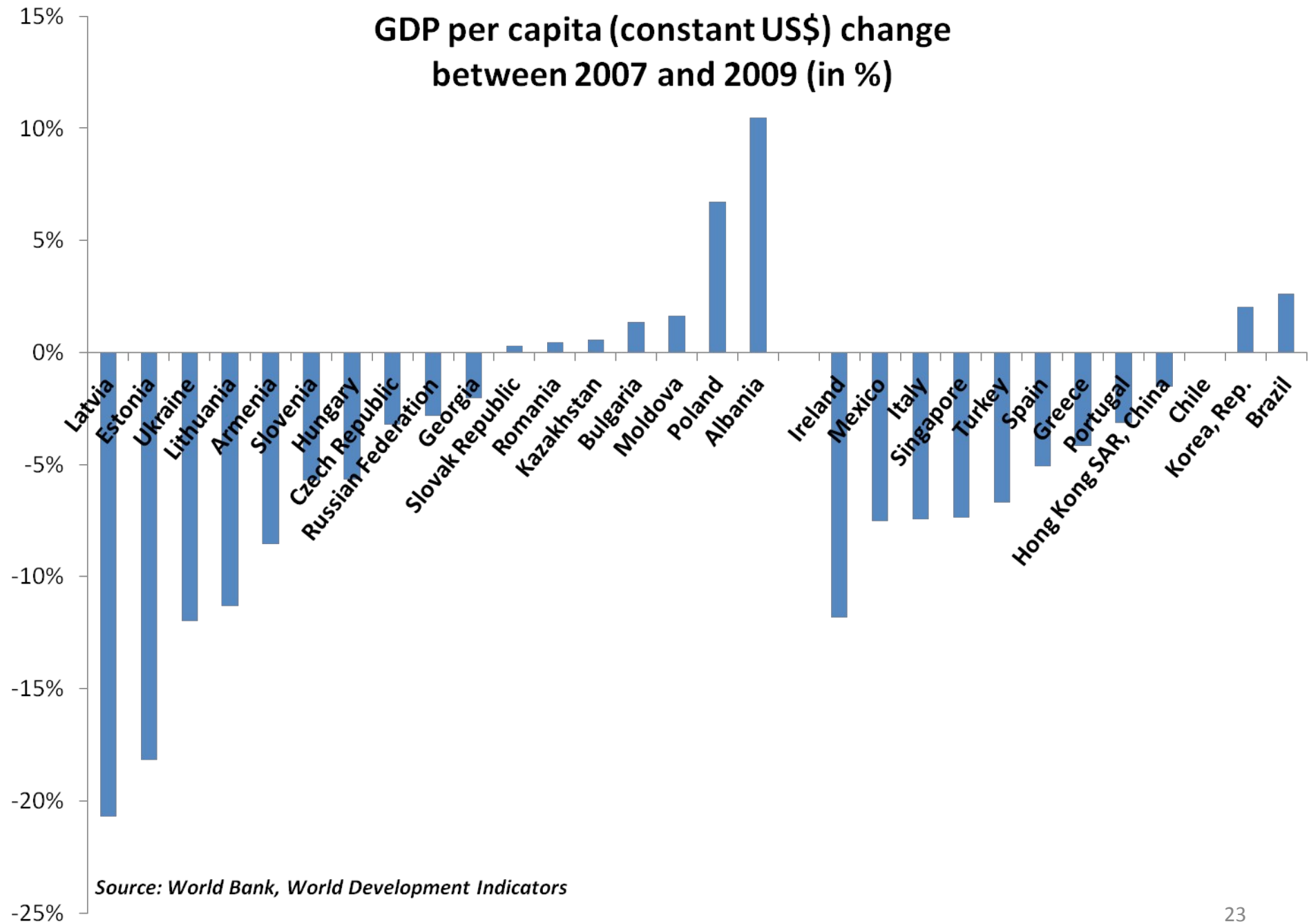


NMS=Bulgaria, Czech R., Estonia, Hungary, Latvia, Lithuania, Slovak R., Romania

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

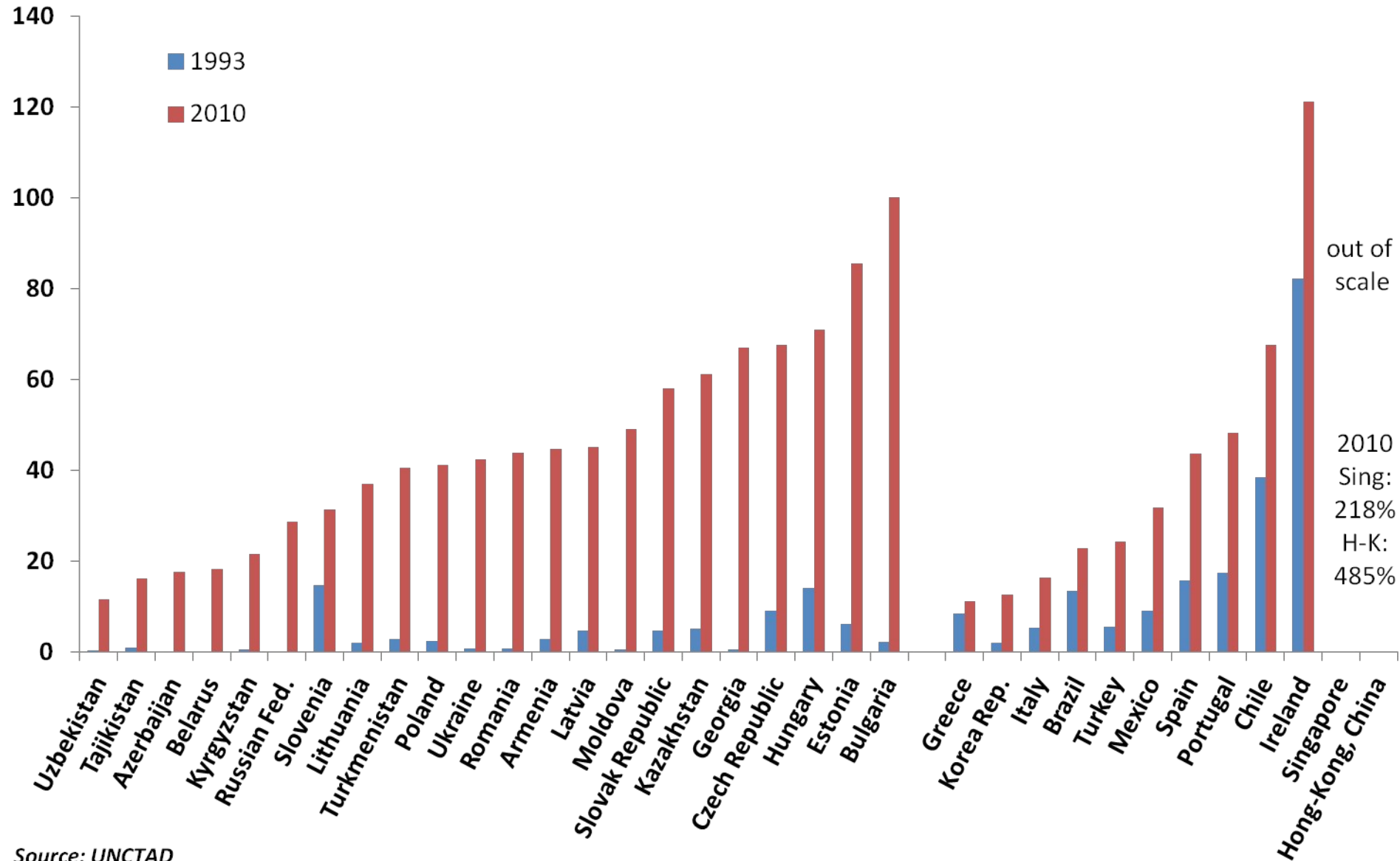
Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, January 2009

## GDP per capita (constant US\$) change between 2007 and 2009 (in %)



Source: World Bank, World Development Indicators

## FDI stock (% of GDP)



out of scale

2010  
Sing:  
218%  
H-K:  
485%

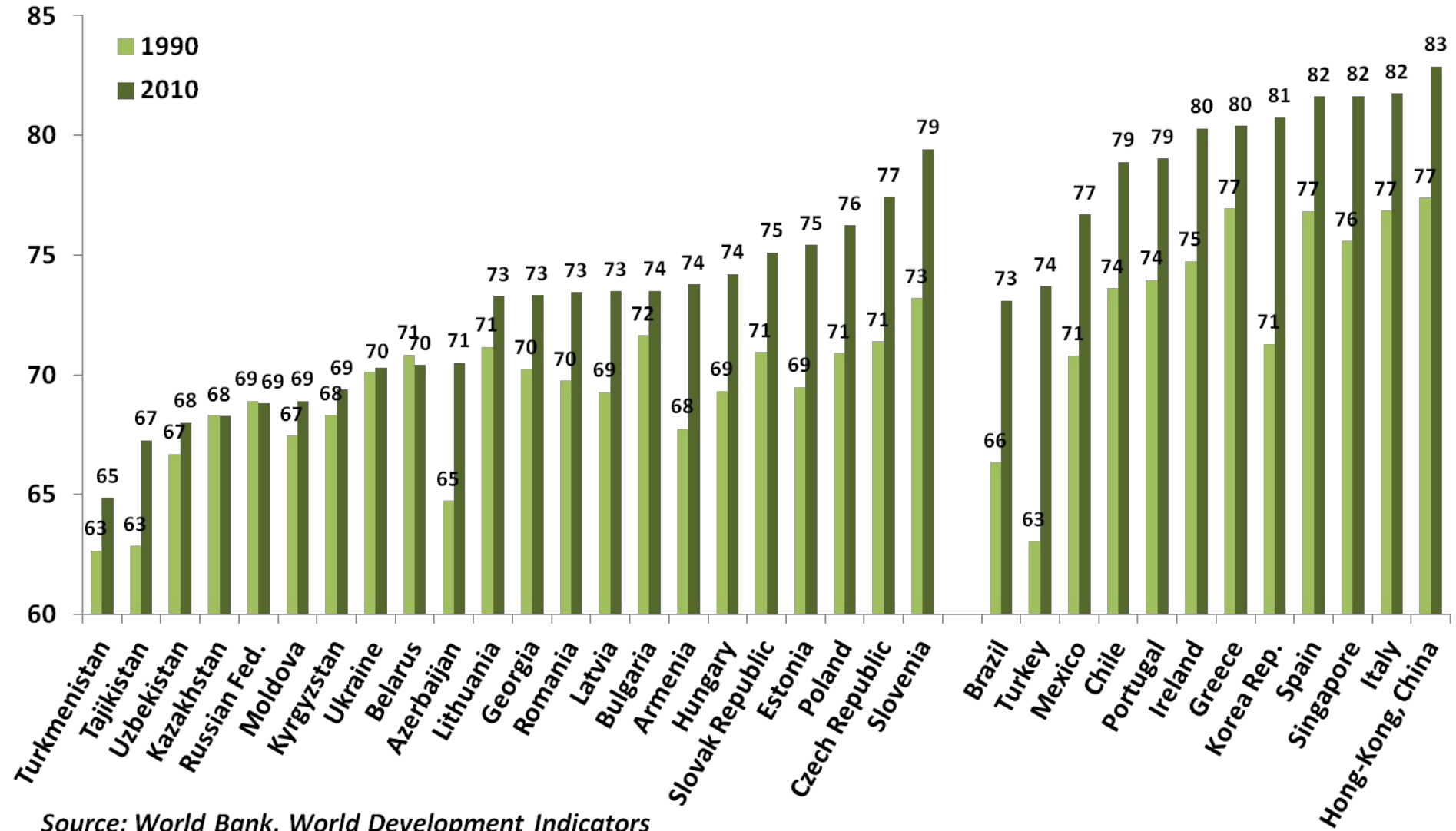
Source: UNCTAD

*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. (WDI)*



## **6. The non-economic outcomes after socialism**

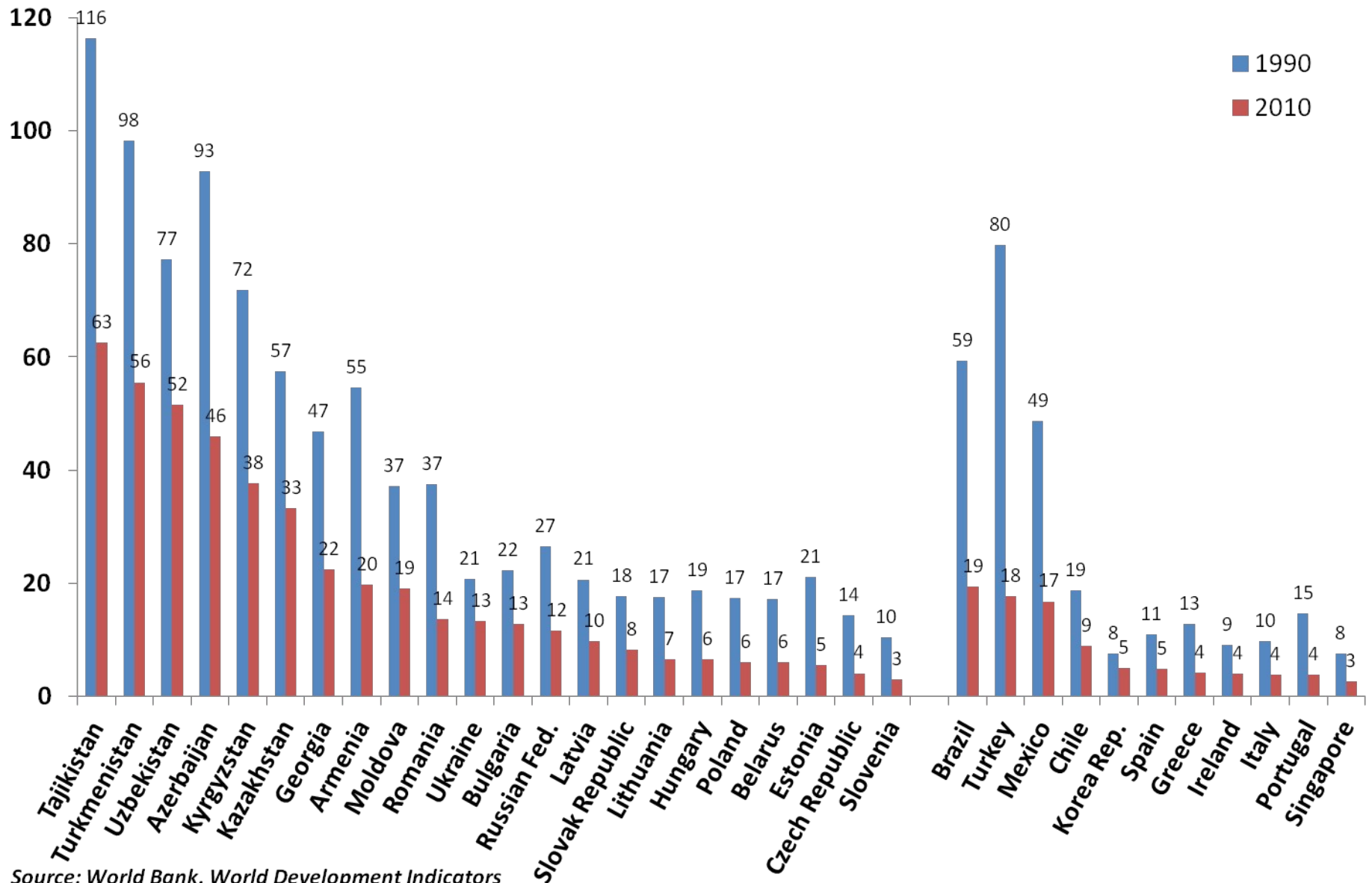
## Life expectancy at birth, total (years)



Source: World Bank, World Development Indicators

*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.*

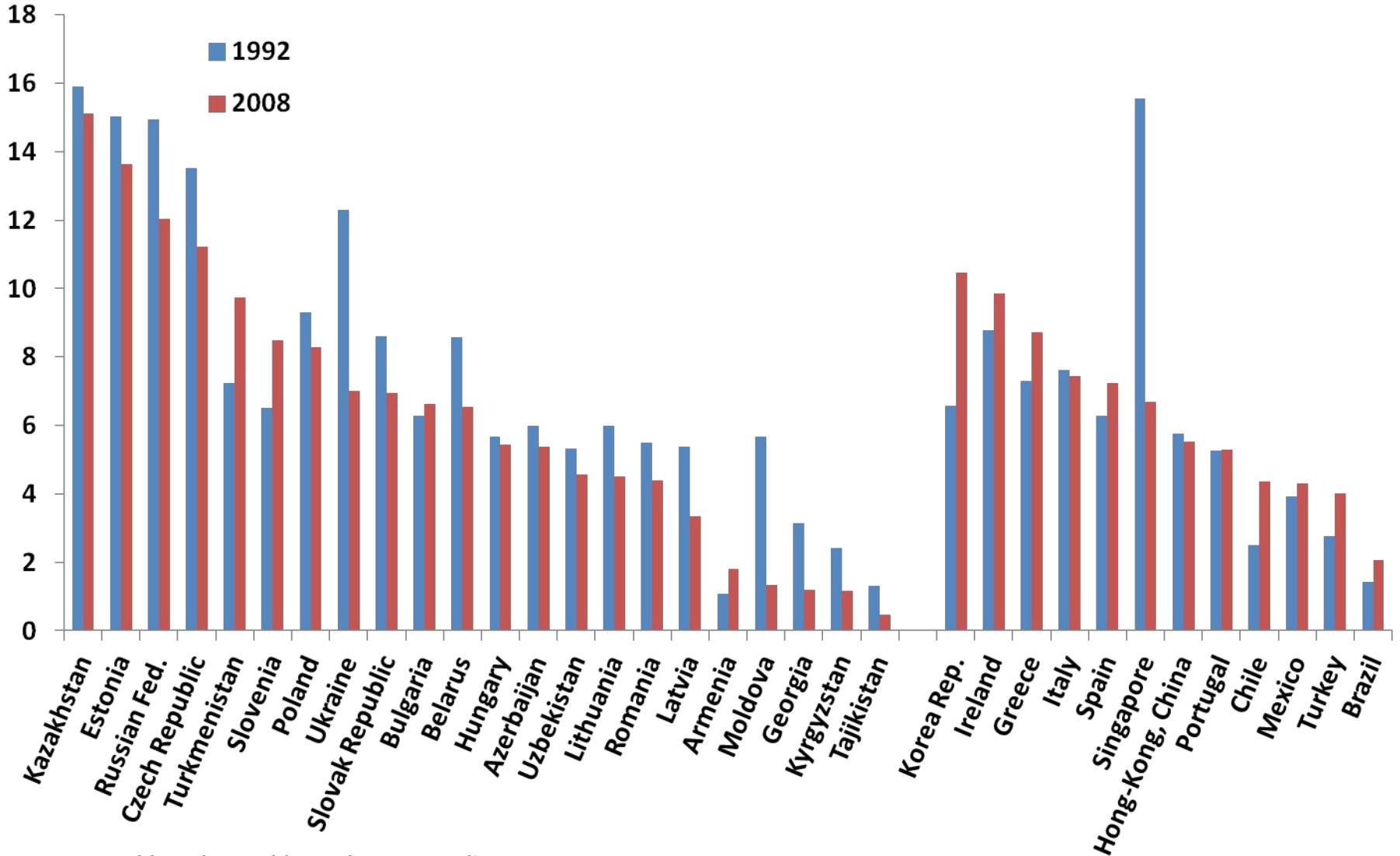
## Mortality rate, under-5 (per 1,000 live births)



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)*

## CO2 emissions (metric tones per capita)



Source: World Bank, World Development Indicators

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

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**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**