

Transition Economics. Transition and Economics

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Transition Economics. How it all started.

- Fall of Berlin Wall and collapse of communist regimes came completely unexpected.
- Economists were totally unprepared. For transition economics, policy came first and research came later.
- Policy papers were initially focusing on stabilization policy. Very little understanding of systemic transition.
- Jan Svejnar's transition plan for Czechoslovakia (PlanEcon, December 1989) was a comprehensive plan focusing on all aspects of transition, with a comprehensive sequencing of reforms, based on the best economic knowledge at the time. It had a big influence on Vaclav Havel.

Transition economics. The surprises.

- Many surprises since there was no preexisting theory of transition:
 - large unexpected early output fall in most transition countries except China. One expected some macro contraction from stabilization policies but not an output fall following price liberalization (domestic and international).
 - Disappointing results of privatization
 - Widespread criminality and corruption.
 - Democracy failed in most former Soviet Union.

Transition Economics.

- It was not before 1992 that top journals started publishing research on transition.
- CEPR Transition Economics Program co-directed by Jan Svejnar and William Davidson Institute organized annual conferences on transition economics.
- Specific topics in transition economics research were political economy of reform, understanding the output fall, structural transformation, effects of privatization, restructuring, financial reform, labor market reforms, ...

Transition Economics.

- Peak may have been achieved in 1998 when a single issue of AER published 3 papers on economics of transition (including, Ham, Svejnar and Terrell on unemployment in Czech republic and Slovakia).
- MIT Press published in 2000 a graduate textbook in economics of transition where a lot of Jan's work is cited.
- JEP organized symposium at CERGE-EI published in 2002.
- Jan's later on work on the effects of privatization has been very influential (see Estrin, Hanousek, Kocenda, Svejnar JEL 2009)

Transition and Economics. Liberalization and the Output Fall.

- It took many years to understand the output fall, and even today it is still misunderstood by many.
- The output fall could not be understood through the lens of general equilibrium theory and price theory.
- Contract theory and transaction cost theory provided explanation by focusing on production disruption : breakdown of efficient bargaining due to institutional failures (Blanchard and Kremer, 1997), asset-specificity, lack of commitment and search costs (Roland and Verdier, 1999). Empirical support by Konings and Walsh (1999).

Transition and economics: The importance of institutions

- Lessons from the output fall and the many other transition surprises, together with progress in contract and transaction cost theory, changed economists' understanding of the functioning of the market economy and the importance of its institutional underpinnings.
- Lens of institutions also helps to understand different evolutions of transition countries.

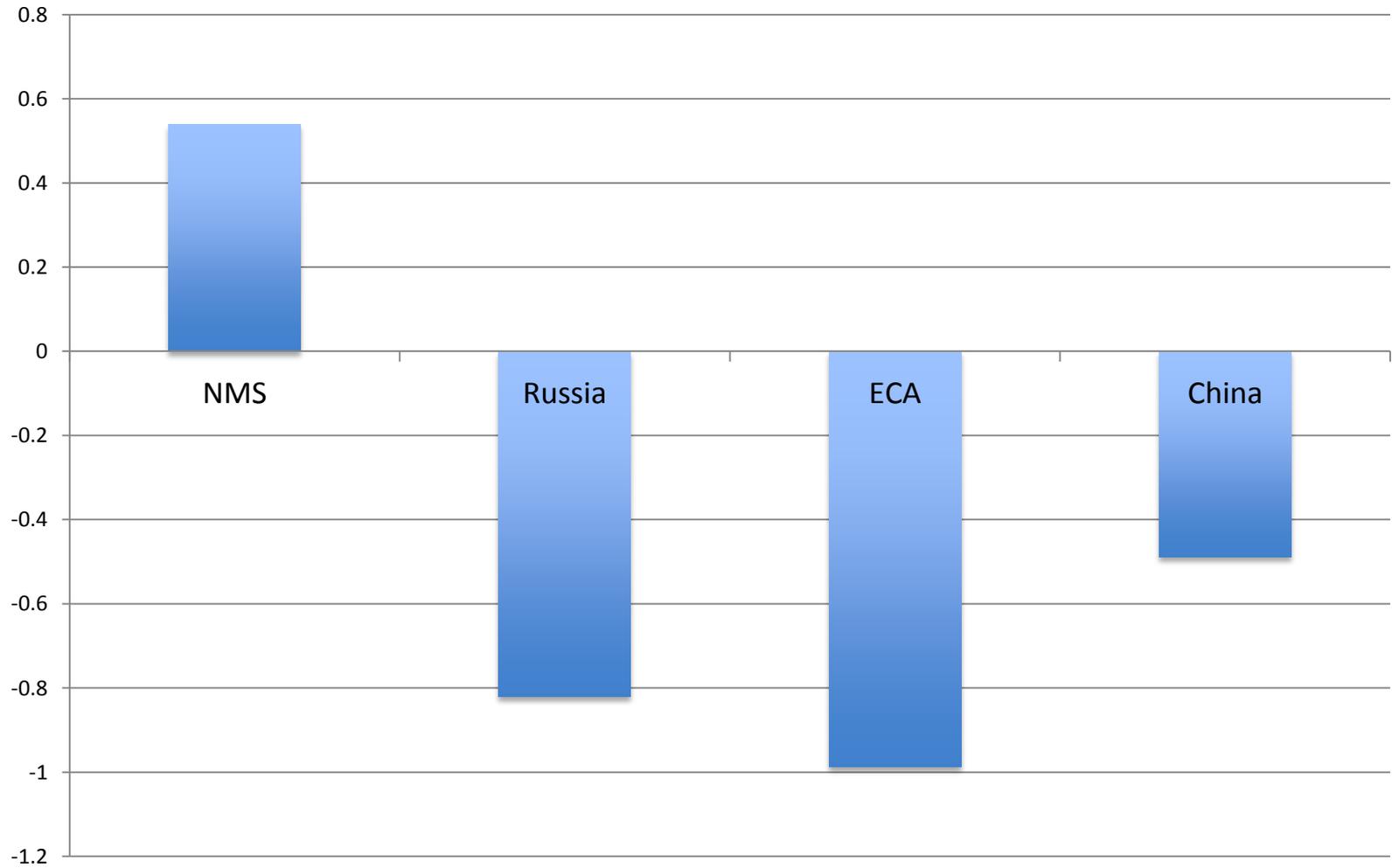
Facts about transition 25 years later

- Central European countries achieved quick transition, despite strong initial output fall at the beginning of the reforms, and successfully entered the EU.
- China had a very successful transition, launching a 30 year economic miracle that is changing the world economy: GDP multiplied by 20, GDP per capita multiplied by 16, exports multiplied by 117...
- ... but has not experienced any major change in its political institutions.

Facts about transition 25 years later

- Eastern Europe and Central Asia (ECA: Former Soviet Union countries apart from the Baltics) have had bad performance in the 90s and significant improvement the last decade, mostly due to natural resource exports. With some exceptions (Georgia, Kyrgyzstan), their economic and political institutions have evolved in a negative way.

WB Rule of Law 2012



Why differences in institutions?

- Accession gave good incentives and was institutional anchor (Roland-Verdier, 2003; Berglof-Roland, 2000) for NMS.
- But why bad institutions in ECA and Russia?
- Geography (landlocked, distance from equator, ruggedness)? Ethnic fractionalization? Natural resources? Trust ?
- Democracy seems the most important. Strong association of democracy with quality of economic institutions (see EBRD TR 2013).

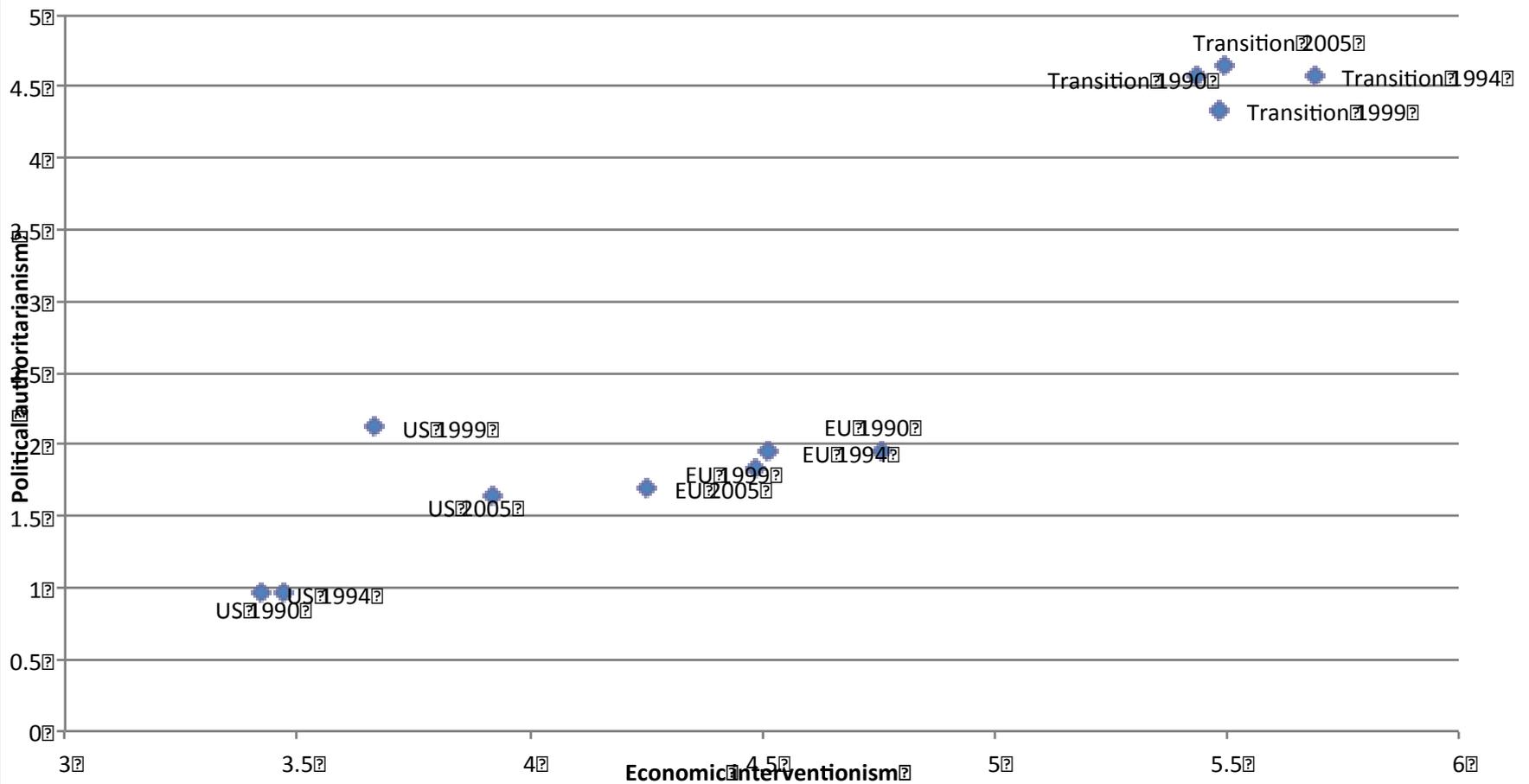
Why differences in institutions

- Why democracy? Differences in civil society (Bruszt et al. 2012).
- Why civil society? Length of communism (Treisman, 2012) but also culture (Roland, 2012). Historical past. China and Empire. Russia and authoritarianism. Clan and tribe politics.

How stable are the New Member States?

- EU is better at handling carrot than sticks. Great incentives for accession but once inside, few incentives for discipline (similar problem as Eurozone).
- Once inside, NMS started behaving differently. Stronger culture of authoritarianism visible today and very persistent!
- WVS survey data shows little cultural change in NMS and ECA since end of communism.

Inertia in economic and political values



Conclusion.

- 25 years later, transition economics has melded with development economics and political economy. The transition from socialism is long over, but many countries are stuck with inefficient institutions.
- Corruption is a scourge.
- There is currently little political will in most FSU, apart from Georgia and Ukraine, to transition away from these inefficient institutions.
- Inside the EU, authoritarian nationalist tendencies of NMS are being felt more and more (Orban, recent Polish elections, refugee crisis).
- Transition may be long over, but has created a legacy of many problems to understand solve.