

Changes After Socialism*

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Leszek Balcerowicz

Warsaw School of Economics

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Content:

- 1. The institutional systems, policies, and outcomes; Socialism as an institutional system.**
- 2. The economic costs of socialism.**
- 3. The institutional trajectories after socialism.**
- 4. The economic outcomes after socialism.**
- 5. The non-economic outcomes after socialism.**
- 6. Explaining the differences in economic growth.**

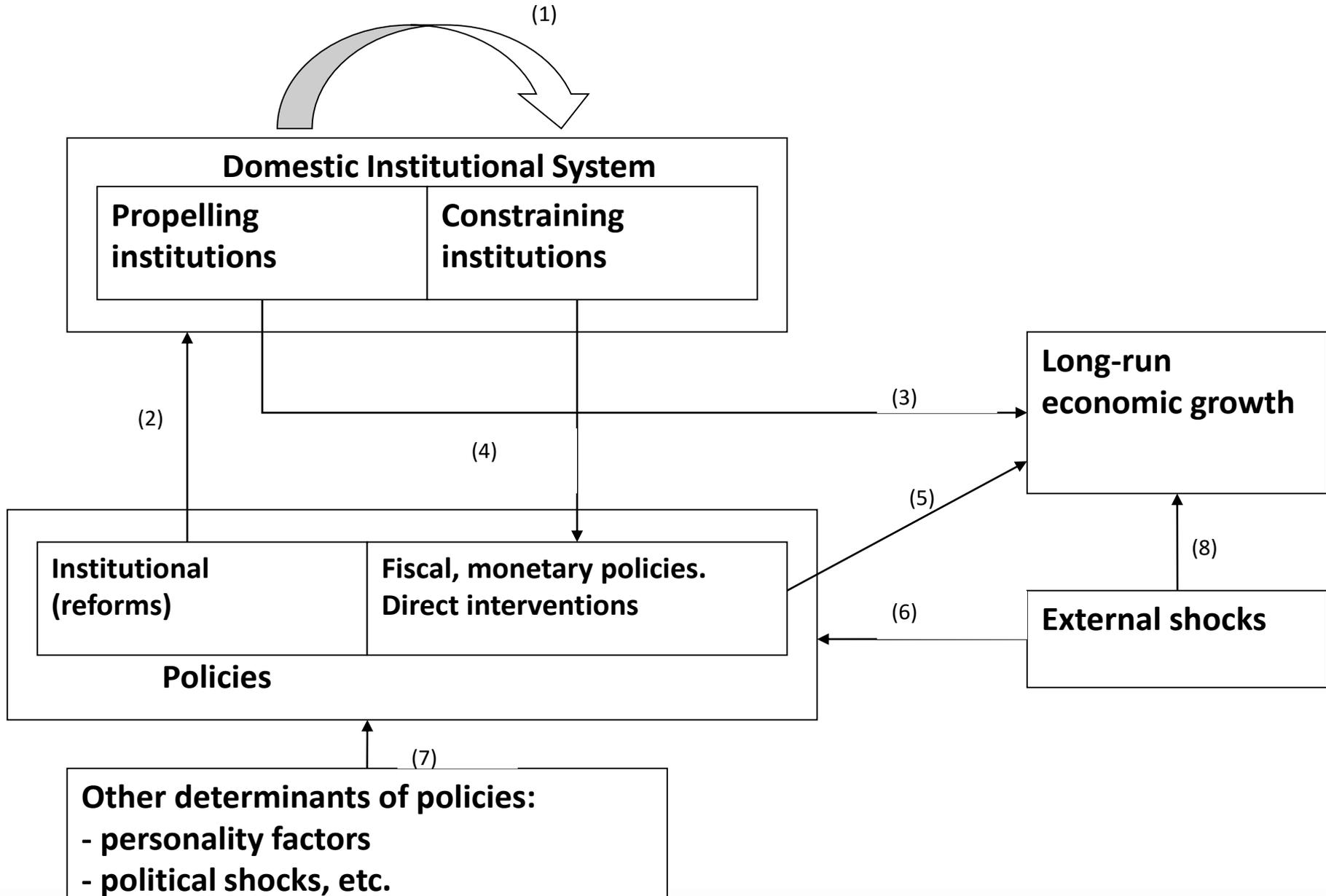


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Dimensions and types of Institutional Systems

Types	Dimensions Democracy (D) non-Democracy (non D)	Rule of Law (RL) Civil Rights (CR)	Economic freedom: scope for private ownership and markets
1. Socialism	Non-D.	V. low RL CR banned	None; Command Economy
2. Free Market Capitalism	Usually D.	High RL Extensive CR	Wide
3. Crony capitalism	Usually non-D.	Low RL Limited CR	Limited due to uneven protection of property rights
4. Overregulated and/or unstable capitalism	D. or non-D.	Limited RL- due to arbitrary regulations CR rather high	Limited due to overregulation and/or fiscal instability
Examples of available measures:	Polity IV index and its variables (e.g. Executive Constraints)	Property Rights index from Heritage Foundation; Political rights index from Freedom House; Legal System and Property Rights index from Fraser Institute	Fraser Institute, „Economic Freedom of the World Rating”



- Policies – actions of public rulers
- Non-institutional policies ← (institutions x personality factors)
- 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



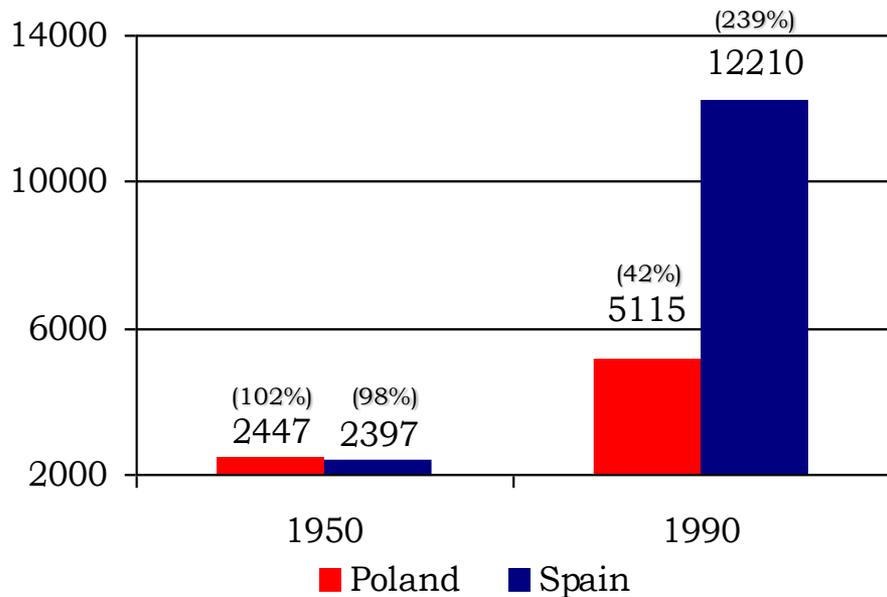
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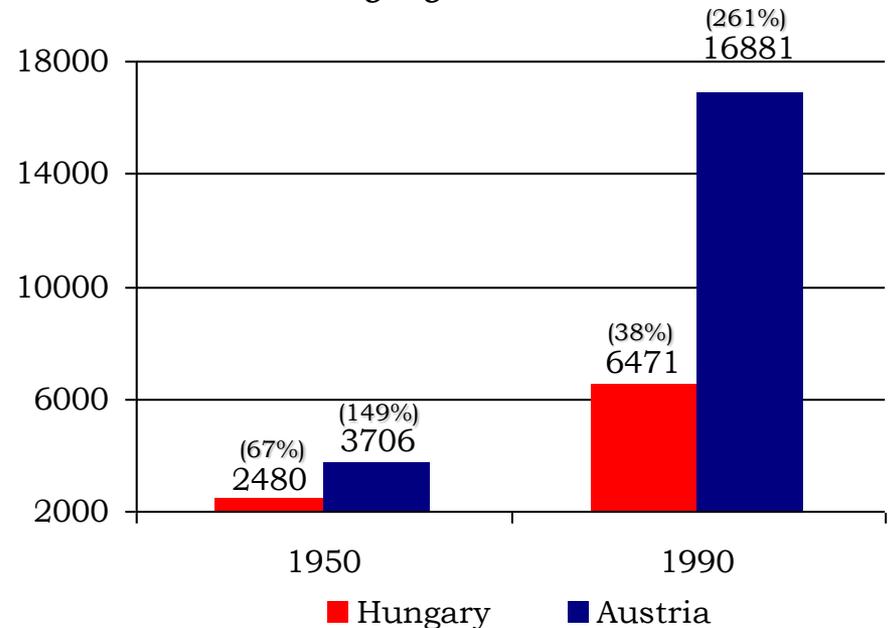
- **Countries under socialism lost a lot of distance to Western European economies.**

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

Poland vs. Spain



Hungary vs. Austria.

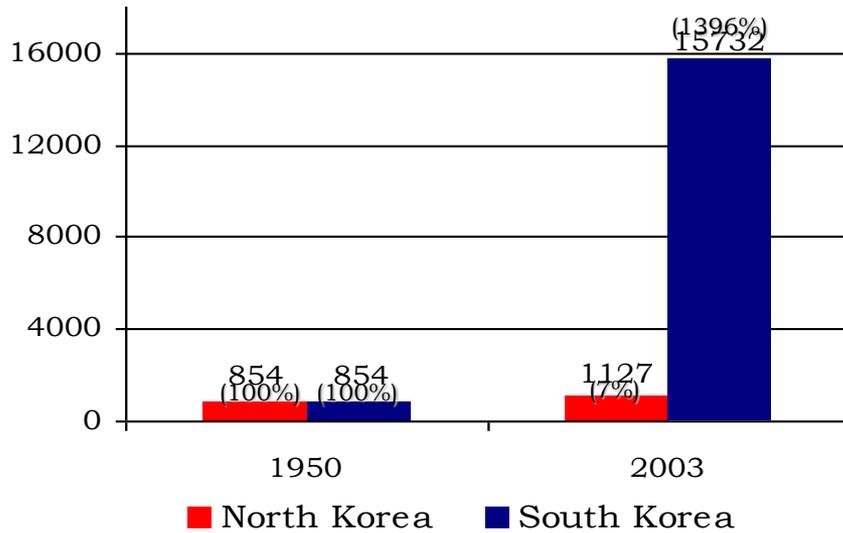


Source: The Maddison-Project, <http://www.ggdc.net/maddison/maddison-project/home.htm>, 2013 version.

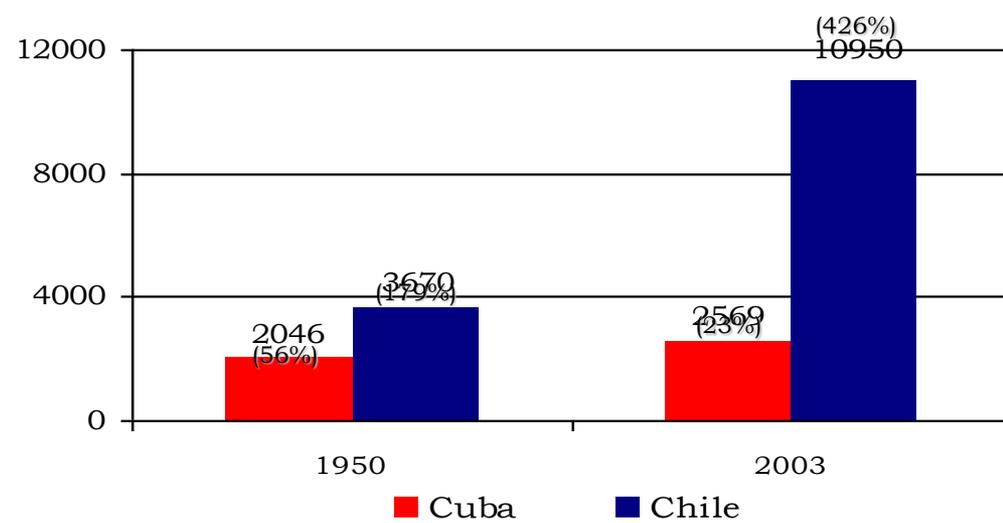


Per-capita GDP (in 1990 international dollars) in 1950 and 2003:

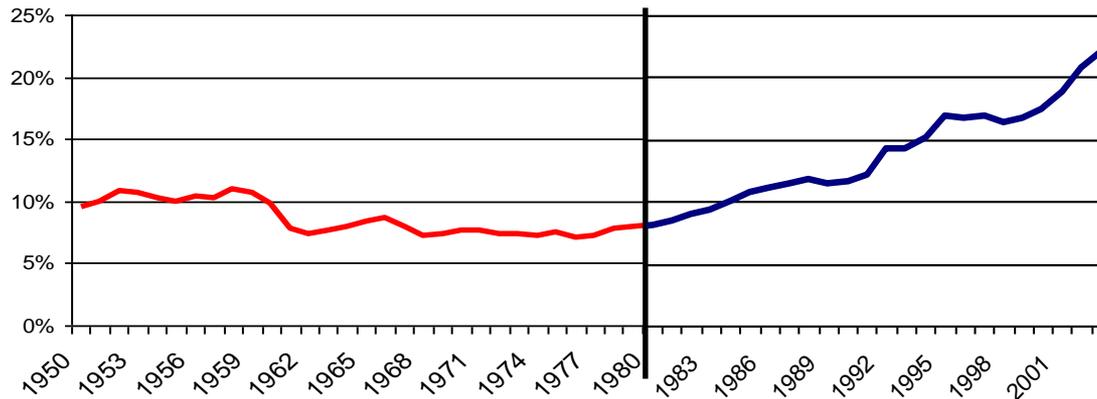
North Korea vs. South Korea



Cuba vs. Chile



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



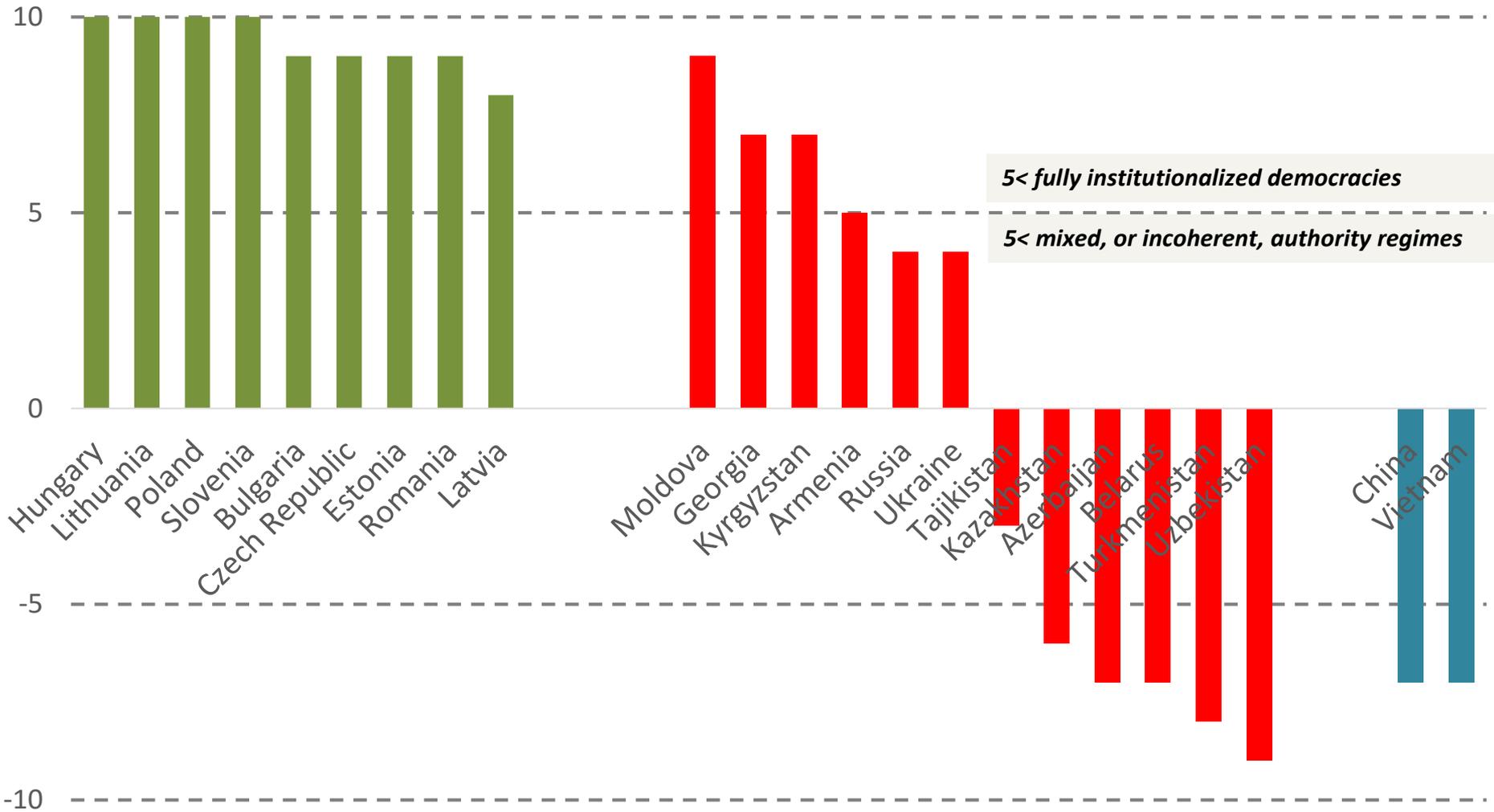
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Political Freedom 2014 (Polity IV)



Source: Polity IV Project



Freedom of the Press 2015 (Freedom House)

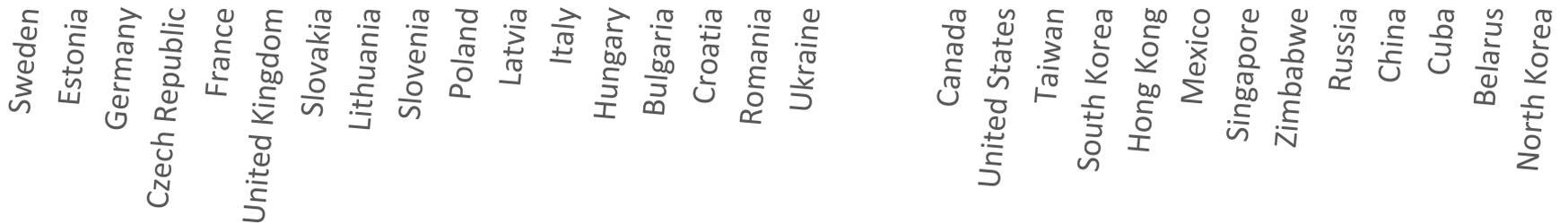
120
100
80
60
40
20
0

Degree of pressure placed on the flow of objective information and the ability of media platforms to operate freely and without fear of repercussions.

61-100 Not Free

31-61 Partly Free

0-30 Free



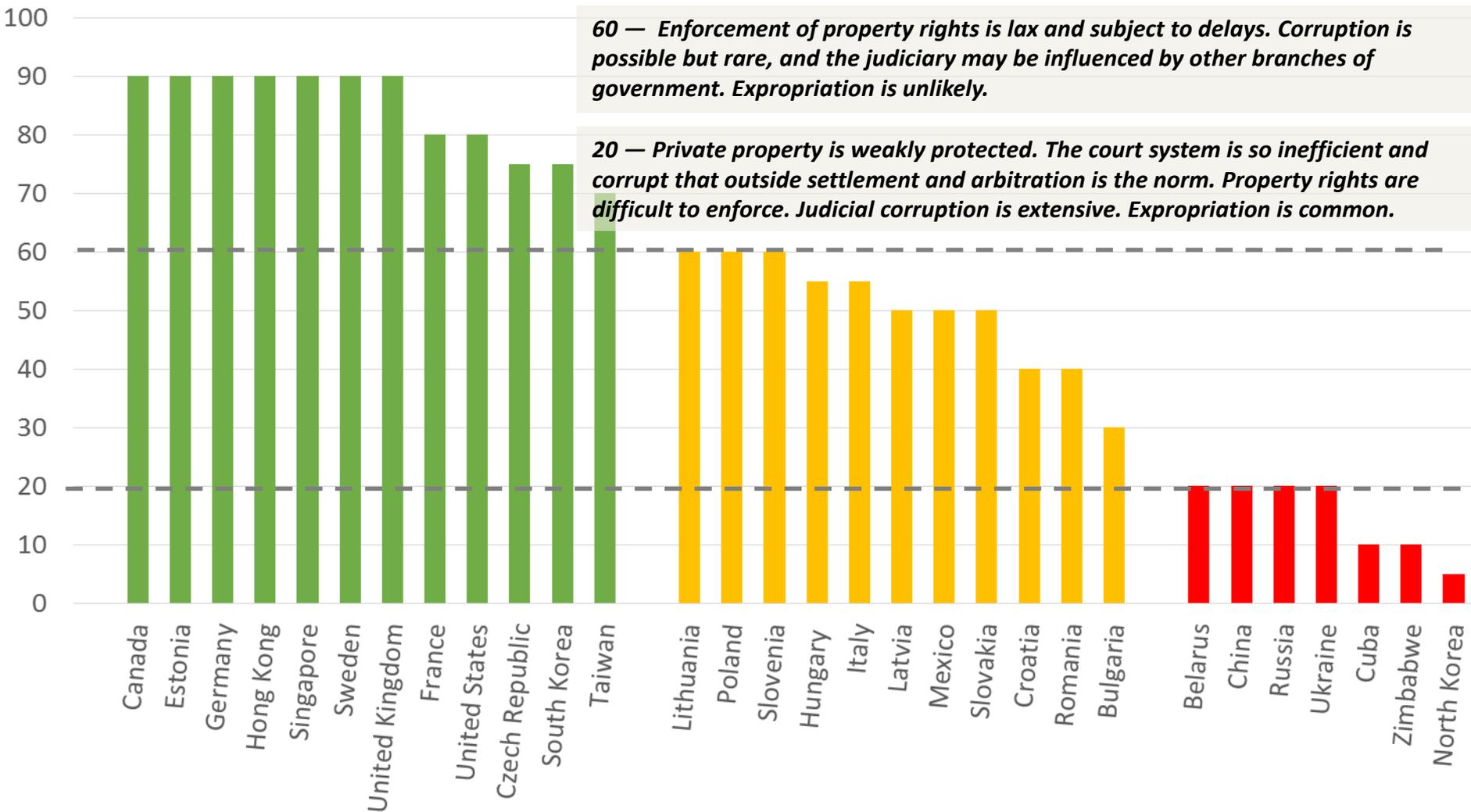
Source: Freedom House Freedom of the Press 2015 report



Protection of property rights 2015 (Heritage)

60 — Enforcement of property rights is lax and subject to delays. Corruption is possible but rare, and the judiciary may be influenced by other branches of government. Expropriation is unlikely.

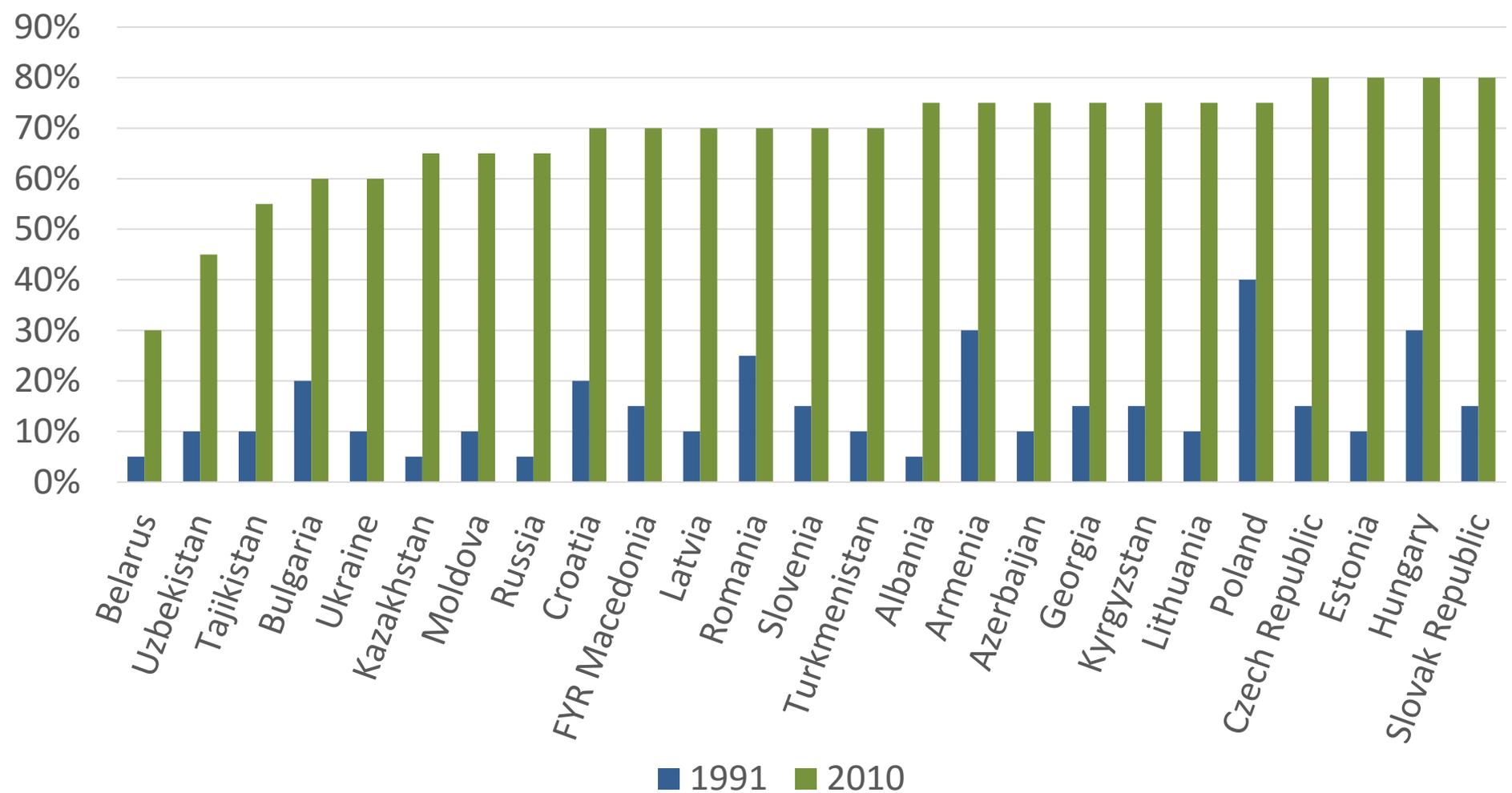
20 — Private property is weakly protected. The court system is so inefficient and corrupt that outside settlement and arbitration is the norm. Property rights are difficult to enforce. Judicial corruption is extensive. Expropriation is common.



Source: Heritage Foundation Index of Economic Freedom 2015 report



Private sector share in GDP in % (1991 and 2010)

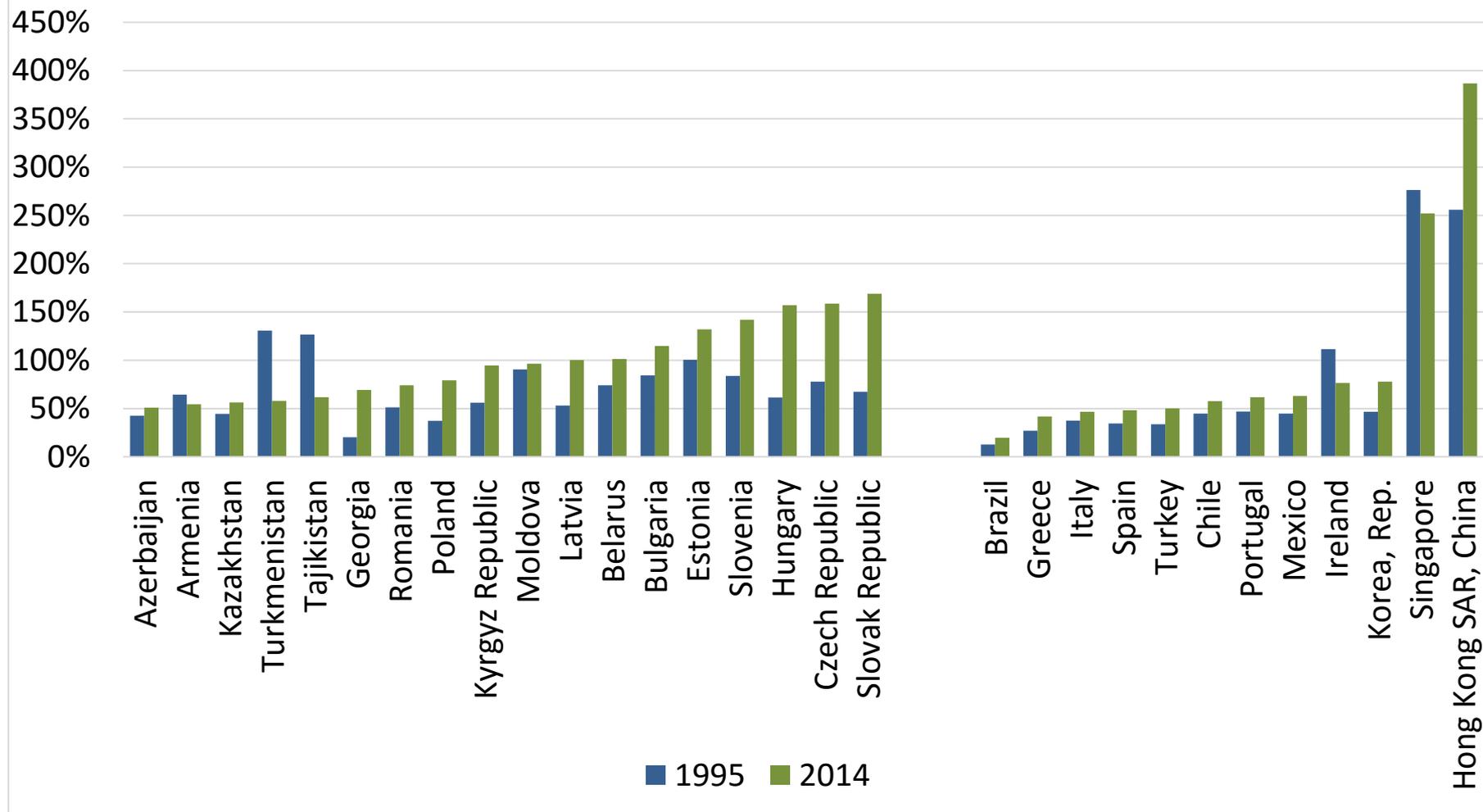


*The "private sector shares" of GDP in 1991 represent rough EBRD estimates, based on available statistics from both official (government) sources and unofficial sources

Source: Transition Report 2000; www.ebrd.com/downloads/research/economics/sci.xls



Trade openness (merchandise trade as % of GDP)



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)



Observations

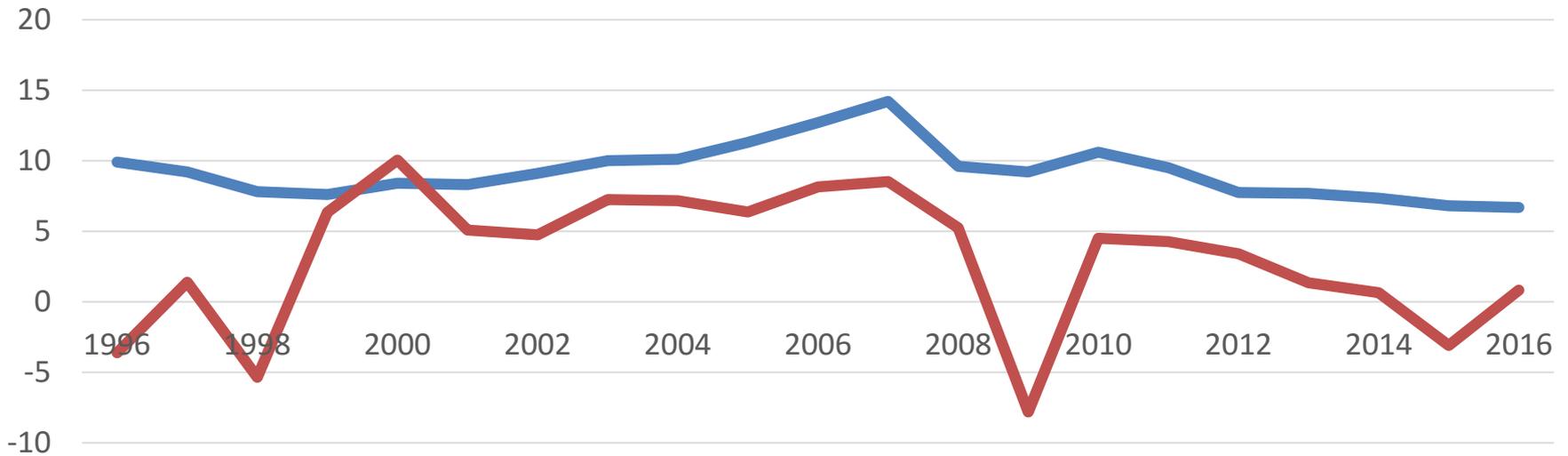
- Democracy was introduced and maintained in the countries which introduced capitalism (CEE)
- Non-democratic political systems co-exist with:
 - quasi-capitalist economies (e.g. Russia)
 - quasi-socialist economies (e.g. Belarus, Central Asia)
- Important questions regarding the variation of the economic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



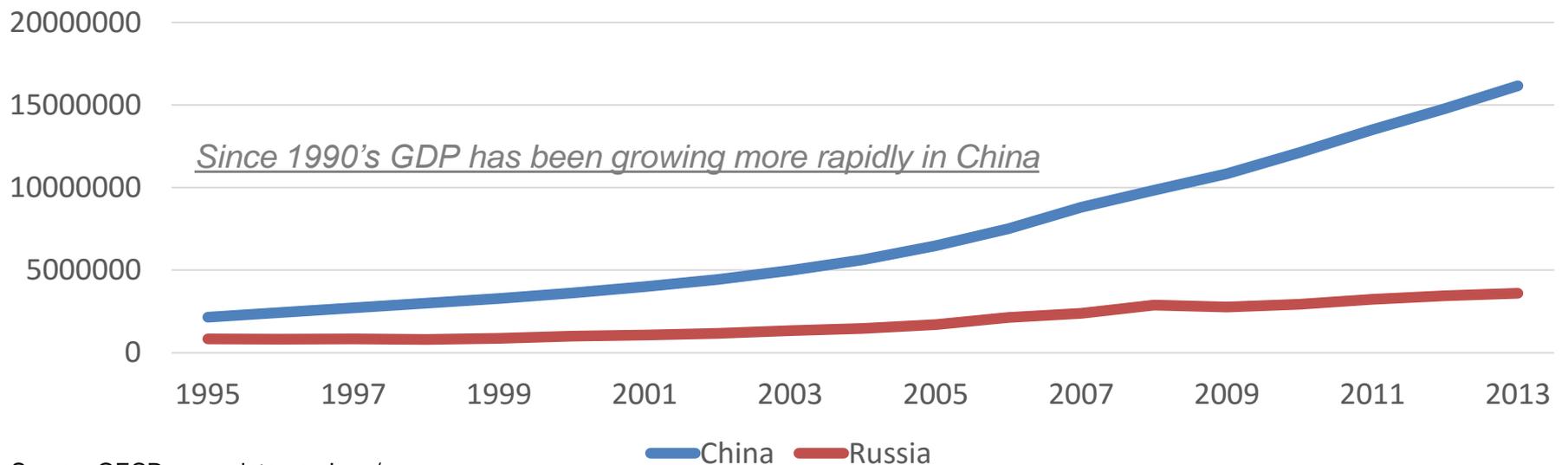
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Total, Annual growth rate (%), 1996 – 2016



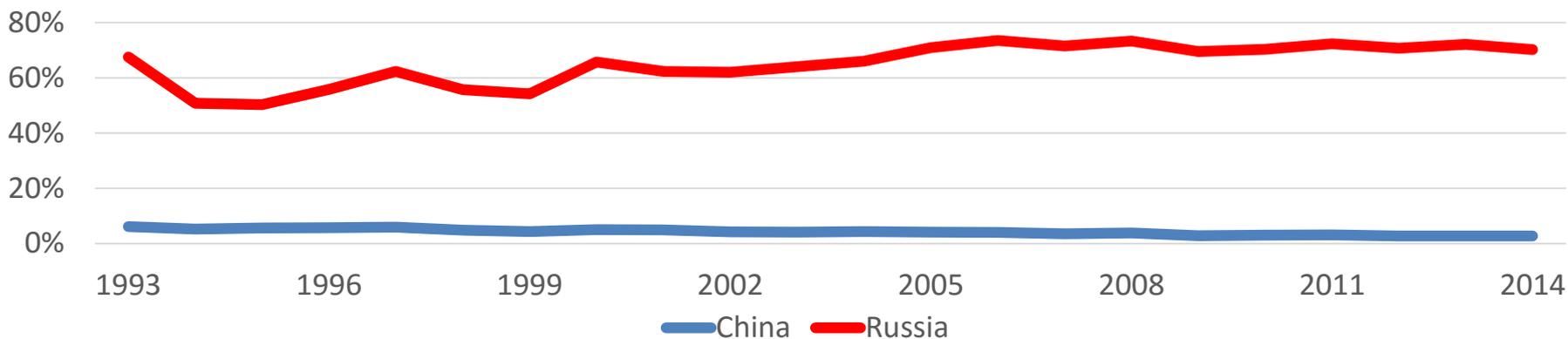
Gross domestic product (GDP) Total, Million US dollars, PPPs, 1995 – 2013



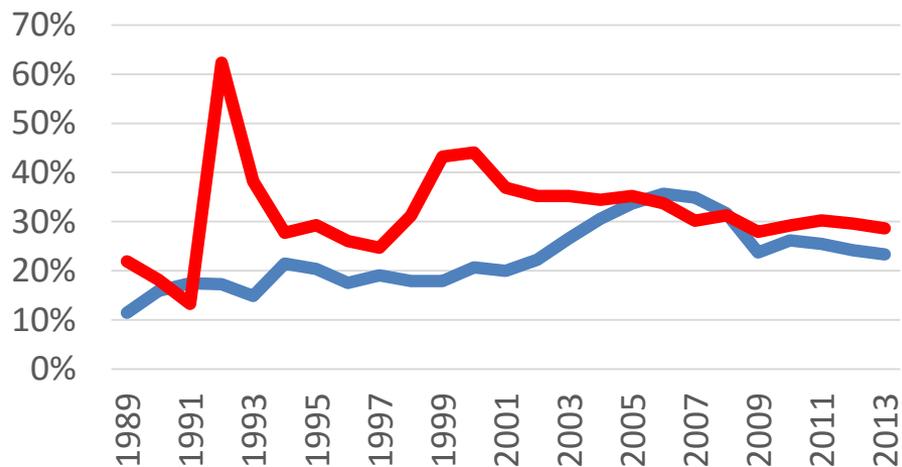
Source: OECD, www.data.oecd.org/



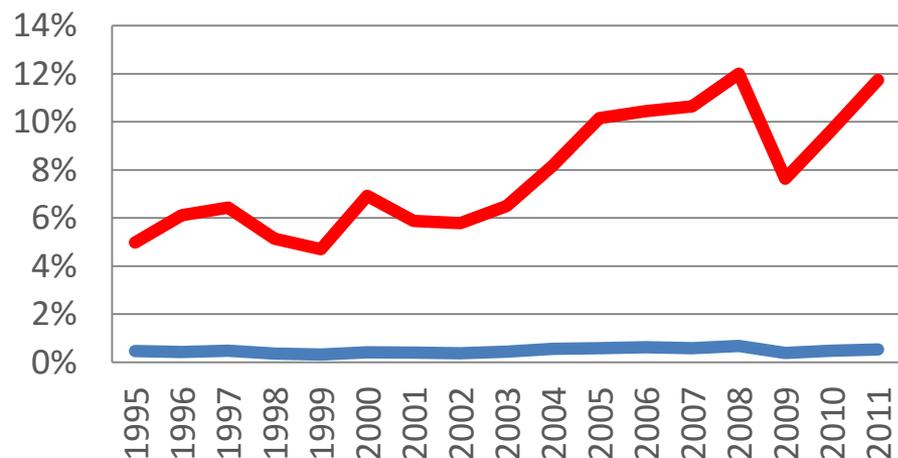
Fuels and mining products as % of total merchandise trade



Exports of goods and services (% of GDP)



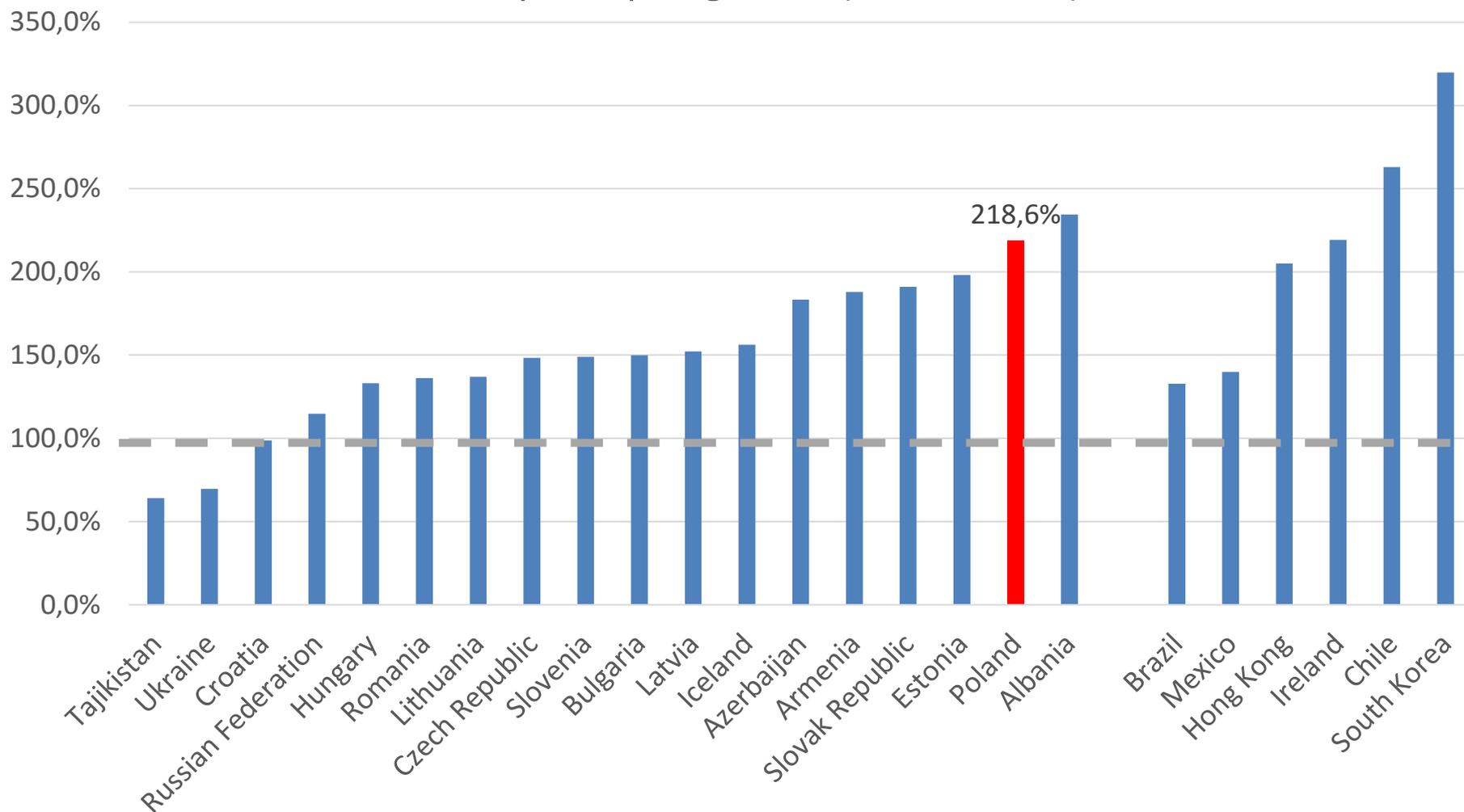
Fuels and mining products – export (% of GDP)



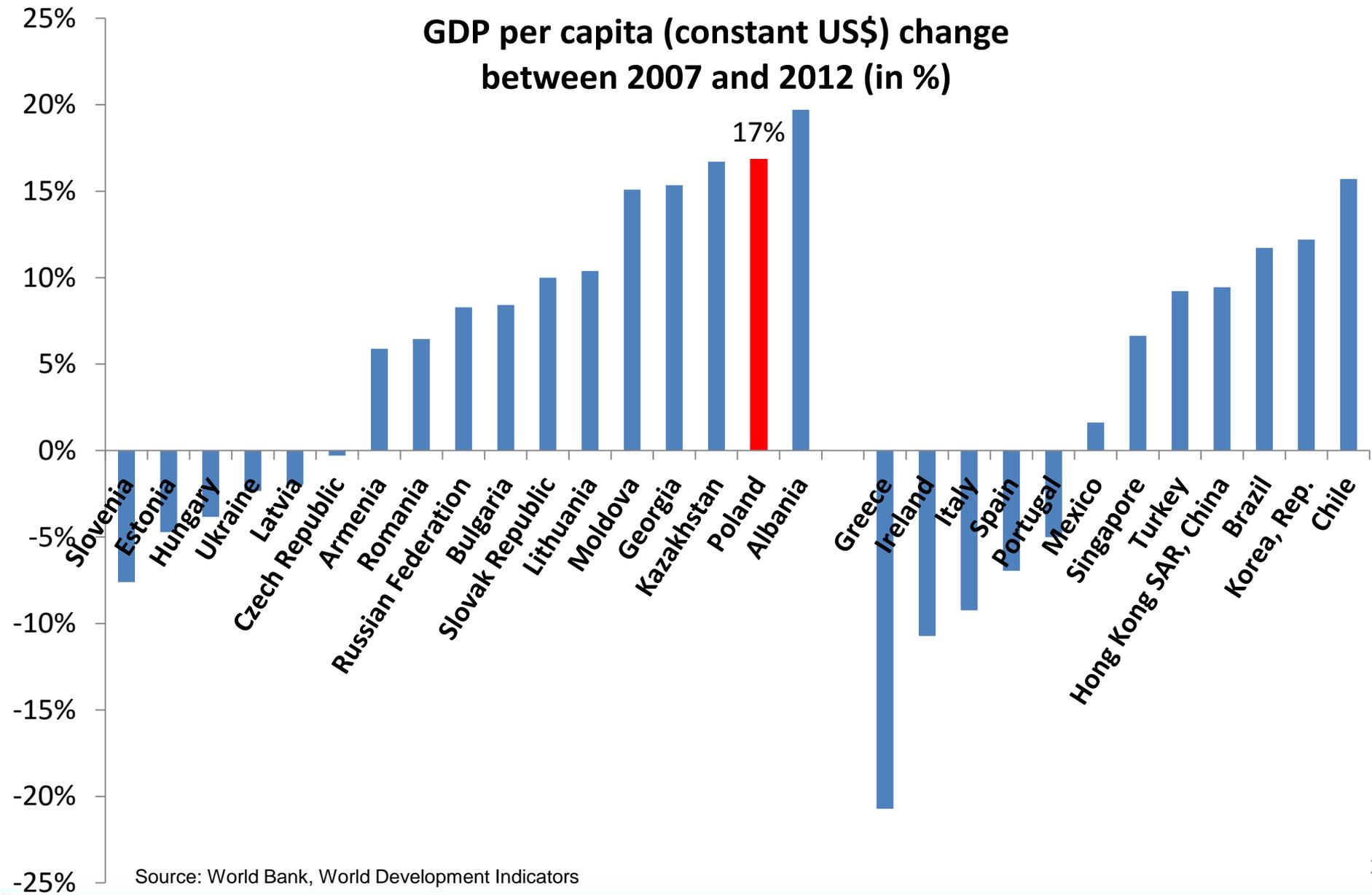
Source: World Trade Organisation and OECD, www.data.oecd.org/



GDP per capita growth (1989= 100%)



GDP per capita (constant US\$) change between 2007 and 2012 (in %)



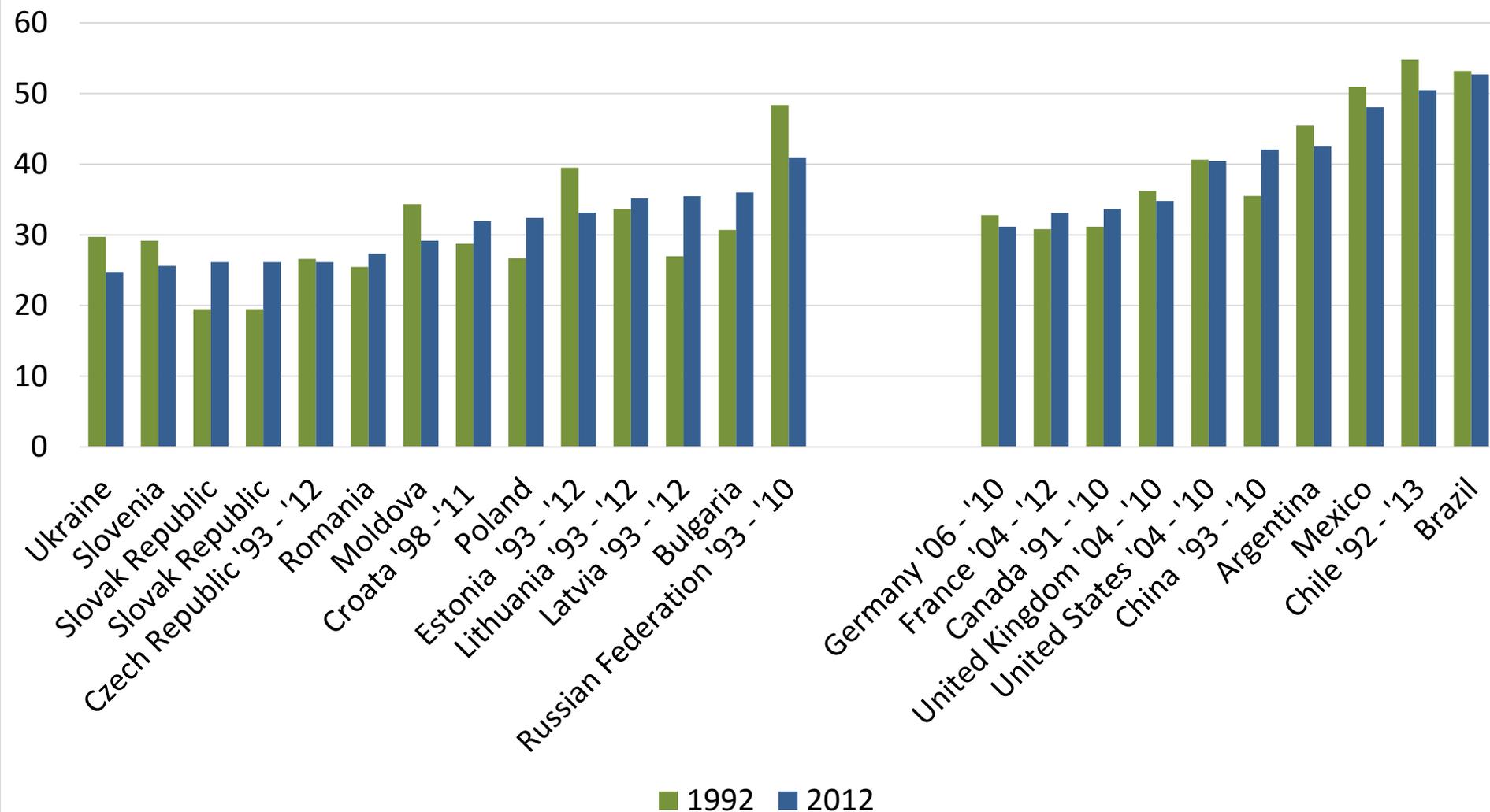
Source: World Bank, World Development Indicators



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GINI index -World Bank estimate (1992 - 2012)

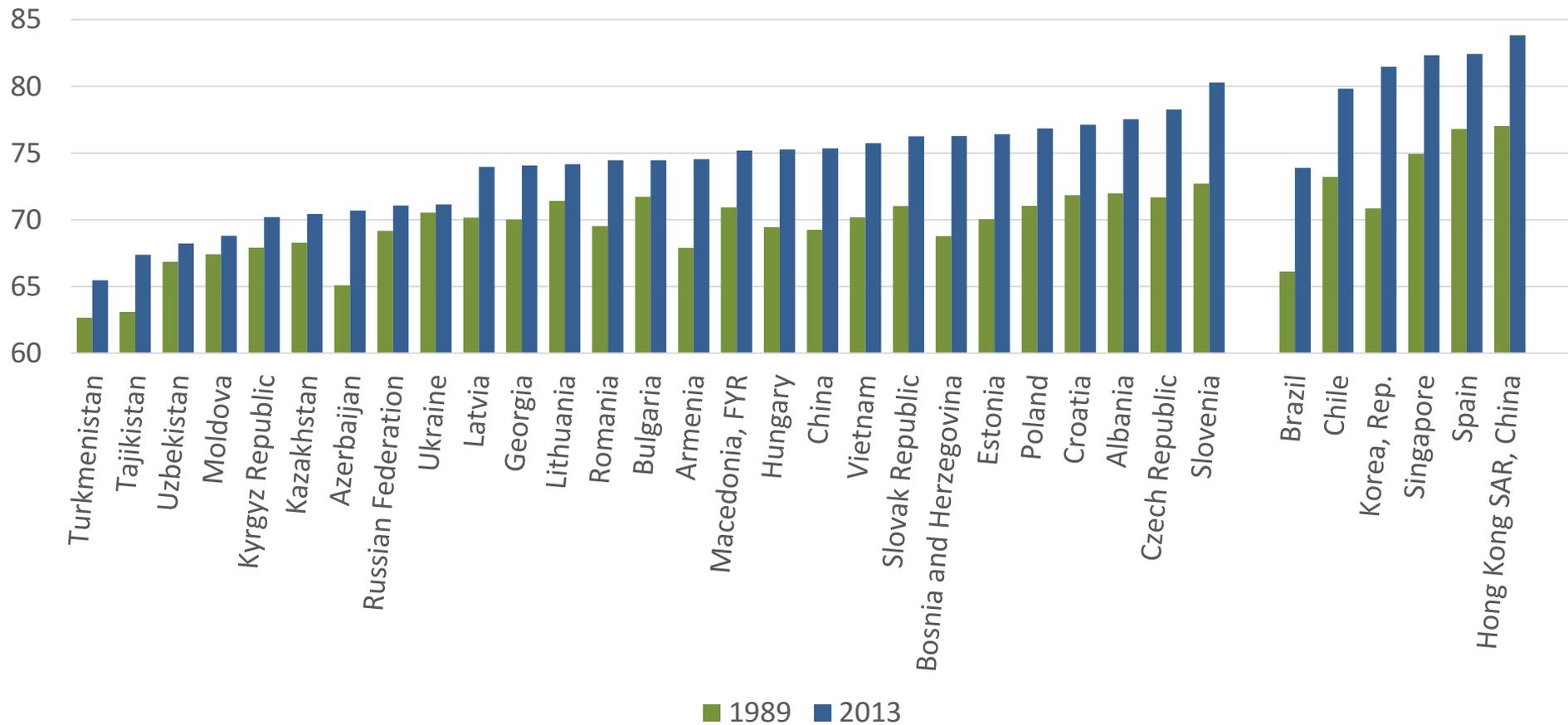


*GINI index -World Bank estimate (1992 - 2012) , based on available statistics from official (government) sources

Source: <http://data.worldbank.org/indicator/SI.POV.GINI>



Life expectancy at birth, total (years)

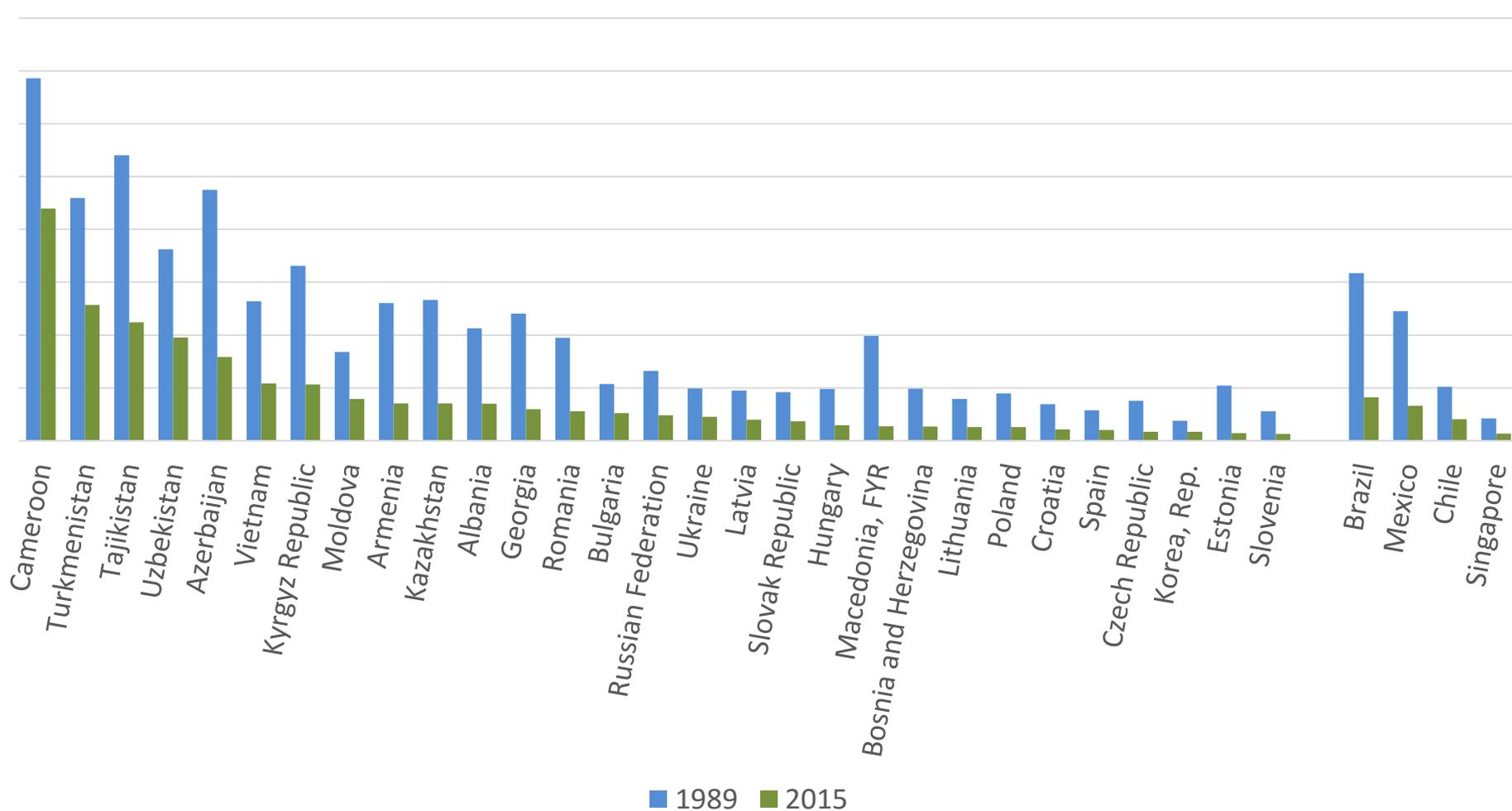


Source: World Bank, World Development Indicators

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)



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)



Improvement in social indicators in Poland have reached even higher level than that of economic growth.

Human Development Indicator	Education	Moderate Inequalities	Improving overall satisfaction
<ul style="list-style-type: none">■ 39th place in terms of the UNDP Human Development Index■ 47th place in terms of income per capita■ Index takes into account the results of education and life expectancy	<ul style="list-style-type: none">■ Polish students achieved very good results in international OECD PISA competency tests:<ul style="list-style-type: none">✓ 13th place in mathematics✓ 9 in life sciences✓ 10 in reading comprehension	<ul style="list-style-type: none">■ Since 1996 the Gini coefficient remained stable at around 33%■ And remains below the average for OECD countries and the EU	<ul style="list-style-type: none">■ In terms of the OECD Better Life Index Poland ranks 24th among 34 OECD countries■ In terms of income per capita occupies 29th place among OECD countries



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Explaining the differences in economic outcomes

- **Two main determinants of long-term economic growth (see slide 4):**
 - 1. The propelling institutions**
 - 2. The negative shocks, which mostly depend on domestic policies which in turn are the product of personality factors of the policy-makers and the constraining institutions.**

- **The economic growth after socialism was the stronger:**
 - 1. The more progress has been achieved in strengthening the propelling institutions (the extent of market reforms).**
 - 2. The less frequent were the strong negative shocks.**



• Finding no 1 is strongly supported by substantial empirical literature reviewing the experience of countries in transition.

Polanec, Sašo (2004)	<i>"(...) we find that in later stages of transition, measures of economic reforms matter for productivity growth, although with a lag, which is in our exercise equal to four years. This result confirms importance of reform efforts in enhancing the potential for growth."</i>
Krueger, Anne O. (2004)	<i>"(...) it is worth noting that those transition countries that experienced the most rapid structural reforms have, by and large, experienced more rapid growth. This is true, for example, of the Baltic States. In recent years, Russia has also seen higher rates of growth – a result, in large measure, of reforms that were implemented in the 1990s."</i>
Fischer, Stanley; Sahay, Ratna (2004)	<i>"The general conclusion was that the effect of initial conditions, while strong at the start of transition, wears off over time (...). Moreover, the importance of the fiscal policy variable (the budget balance) increases with the longer period data set. The coefficients on the reform indices (...) are significant throughout the period, irrespective of the time period considered."</i>
Falcetti, Elisabetta; Lysenko, Tatiana; Sanfey, Peter (2006)	<i>"During transition, a positive correlation between progress in market-oriented reforms and cumulative growth is observed for most countries. This is reassuring to those who have promoted the virtues of reforms; is also serves as a warning of the dangers that arise when 'reform fatigue' set in, as it appears to have done in parts of some region (...) We find that the importance of initial conditions as a determinant of growth has declined over time, but that fiscal surpluses remain positively associated with higher growth."</i>
Aslund (2012)	<i>The Baltic States and Central Europe have accomplished the best results. They pursued all major reforms together in a comprehensive, early, and radical package. There reforms were deregulation, macroeconomic stabilization, privatization, institutional reform and democratization. Nothing suggests that it would be advantageous to intentionally hold back on any reform, whereas many reforms were technically complex and could not possibly be done very fast. (...) The slower reforms were, the grater was the danger that rent-seeking interests would become entrenched and block democratization and the combat of corruption, of which they were the main beneficiaries."</i>



Why better economic results go hand in hand with better non-economic indicators (health, environment, etc.)?

Some crucial factors conducive to long-term economic growth are also conducive to environmental improvement and to favourable health-related developments, e.g.

