
From Communism to Capitalism

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Four Empires of CEE



- └ Communism in Europe
- └ First Communist in Europe

Soviet Union (and Nazi Germany)



Border Instability lasted till WWII

COMECON



Communism (as exercised)

- ▶ Communism vs. Socialism
- ▶ Private vs. Public vs. Common
- ▶ Parties and Five-year Plans
 - ▶ Bureaucracy, and lack of incentives

‘ Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery. – Sir Winston Churchill

Communism (as exercised)

- ▶ Excellent achievements in 50s up to mid-60s
 - ▶ (leap-frogging?)
- ▶ Stagnation afterwards
 - ▶ Shortages

- ▶ Uprisings (Georgia, Hungary, Czechoslovakia)

Communism (as exercised)

- ▶ Gorbachev
 - ▶ Perestroika
 - ▶ Chozrasčot (Commercialisation)
 - ▶ Law on Coöperatives
- ▶ Poland
 - ▶ Solidarność
- ▶ Czechoslovakia
 - ▶ Intensification
 - ▶ Velvet Revolution

‘The communist experiment proved to be a failure.

– Gérard Roland

Transition

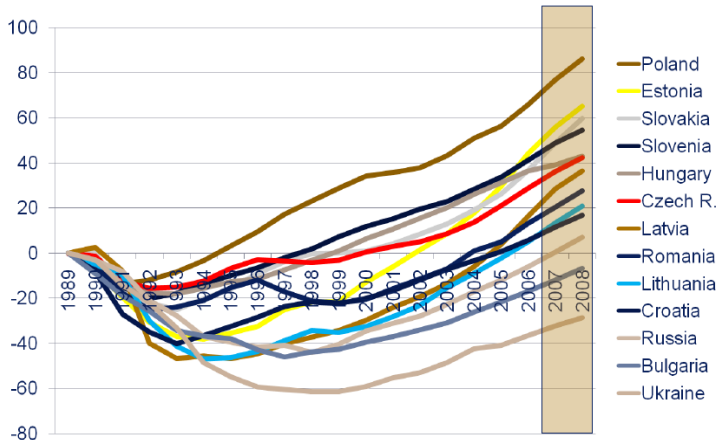
- ▶ Property rights
- ▶ Price deregulation
- ▶ Activity deregulation
- ▶ Markets shall self-generate

Transition

- ▶ Property rights
 - ▶ Privatisation
- ▶ Price deregulation
 - ▶ Inflation
- ▶ Activity deregulation
 - ▶ Loss of usual markets

- ▶ Markets in chaos

The Surprise



By 2001 gap between West and East was larger than in 1989.

- ▶ Macroeconomic strategy
 - ▶ conservative fiscal and monetary policies
 - ▶ wage controls
 - ▶ mostly fixed exchange rate
- ▶ Micro strategy
 - ▶ liberalising prices and opening up to international trade
 - ▶ commercialising, breaking up and privatising SOEs
 - ▶ creating new (private) firms
 - ▶ creating new legal and banking systems

Unemployment and Inflation

- ▶ Unemployment is still a major problem
 - ▶ Social, political and macro economic problem
 - ▶ Slows down the rate of increase in wages
 - ▶ Problem of 'overeducation'
- ▶ Many countries started with high or even hyperinflation
 - ▶ Destroys the middle-class
 - ▶ Now most in middle to low single digits

Foreign Direct Investment

- ▶ EU accession countries are a focal FDI point in the world
- ▶ Czech and Slovak republics the largest regional recipients on a per capita basis

- ▶ FDI drives productivity and exports

EU Enlargement

- ▶ EU rules already in place
- ▶ Moderate short run effect on the accession countries
- ▶ Tariffs and other protection measures limited
- ▶ Banking sector competitive and increasingly efficient

The Financial Crisis

- ▶ CEE countries hit by secondary effects of the crisis
 - ▶ Financial systems 'quite sound'
 - ▶ Low exposure to international derivatives
- ▶ CEE countries were hit by
 - ▶ Decreased demand from Western Europe
 - ▶ Decreased inflows of foreign capital

Kornai's generalisations

- ▶ Marketisation
- ▶ Evolution of Private sector
- ▶ Macro-disequilibria
 - ▶ shortage, inflation, budgetary deficit, foreign debt
- ▶ Development of Constitutional State
 - ▶ legislation, law enforcement, mentality
- ▶ Development of Democratic Institutions
- ▶ Unequal Increase in Welfare