Preface

On 4 June 1989 I was in China, perhaps the only place in the world where the Polish election was the news headline. In most places the Tiananmen massacre was top of the news on that day, in Iran the death of the Ayatollah Khomeini – but the Chinese newscasters may have got it right. The June elections, the first open elections in eastern Europe for 40 years, showed the total lack of support for the Communist regime and set in motion an amazing 30-month period in which Communism disappeared from central and eastern Europe, and then the USSR was replaced by 15 new non-Communist countries (Table 1.1). The map was also changed by the reunification of Germany in 1990, the dissolution of Yugoslavia, which began in 1991, and the velvet divorce in Czechoslovakia in 1993.

The abandonment of central planning was the economic counterpart of the momentous political changes of 1989–91. Experiments with reform had taken place in eastern Europe and the USSR before 1989, but they were minor tinkering compared to the wholesale change envisaged by the new governments. The goal everywhere was to replace central planning by a market-based economy, although it quickly became apparent that the goal had many variants. The systemic change became known as ‘transition’, although this inherently comparative static term had no firm time horizon.[1]

The largely unanticipated and almost simultaneous introduction of a market economy in some two dozen countries provides the closest approximation we are ever likely to see of a natural experiment in establishing a new economic system. The number of countries is even larger when we include China and the countries of Indo-China which embarked on major reforms of their centrally planned economies in the late 1970s and during the 1980s. These countries have not undergone dramatic political changes, and the still-Communist governments talk of adapting the socialist economy rather than overturning it. Recognition of differing destinations is explicit in the Chinese government’s refusal to accept the transition label as a description of China’s reform process. Nevertheless, the economic transformation has been dramatic in China and Vietnam.

Novel questions have been raised by these systemic changes. What are the key prerequisites for successfully fostering a market economy? What policies work best during the transition and how can priorities be ordered? Who gains and who loses, and how can losers be compensated, especially those plunged into poverty? Answering such questions is not only of historical interest with respect to the transition economies of the 1990s, but may also help to guide future policy in lagging transition economies or assist our wider understanding of how market economies work anywhere.

This book is written from the perspective of 2001, a dozen years after the disintegration of central planning in central and eastern Europe and a decade after the dissolution of the Soviet Union. A decade or so of data and case studies permits some empirically-based answers to the above questions, although still too few data points for convincing comparative econometrics. Even for China, where serious reforms dating back to the late 1970s have fundamentally and irreversibly transformed the centrally planned economy installed after 1949, debates about the nature of the transition strategy and the degree of success or failure remain unsettled, and warn against definitive conclusions. When asked his opinion on the 1789 French Revolution, Zhou Enlai, Communist China's long-serving premier and no shrinker from determined views, responded, 'It's too early to judge'. This book offers a provisional judgement on the abandonment of central planning and on the varied transition strategies adopted during the 1990s.

NOTE

1. The further away from 1989 our standpoint, the more anachronistic and constraining the term 'transition' becomes. Its usage has become so universal, however, that replacement by more precise but more cumbersome terms would still be pedantic.