

Preface

The economic and political progress of newly independent Central and Eastern European states has been a popular subject for research since the early 1990s, generating a steady flow of articles and new magazines, journals and books. Why should you, the reader, be interested in another book on transition from planning to markets?

We think that some key issues are underrepresented in the literature and have been virtually inaccessible to the general interest reader. Ultimately it is economic growth that indicates whether transitions are working. Yet little has been done to apply growth analysis, a powerful implement in the economist's toolbox, to evaluate economic performance. Furthermore, we have ten years of evidence telling us that efforts to transplant Western economic reform measures without careful political analysis does not work well. Political and social structures in post-Soviet states have not adapted easily to economic reform programs. Some countries continue to vacillate between liberalization toward markets and reversion to various forms of socialism.

This book integrates growth theory with a public choice approach to explain why each potential reform is necessary and why reforms nevertheless encounter so much resistance. Our framework can assist those interested in the transformation of poor economies anywhere. Many nations, not only former Eastern bloc countries, want to enjoy the fruits of both decentralized market systems and democratic political systems.

ORGANIZATION OF THE BOOK

This book has three parts: the first six chapters make up the theoretical foundations; the next seven chapters are case studies of individual countries (Bulgaria, Czech Republic, Estonia, Hungary, Russia and Slovakia) and a concluding chapter; the book ends with two technical appendices.

Part I: Technical Foundations

The conceptual analysis may be read on one of three levels. For those with only a passing interest in the material in any of the first six chapters, there is a brief overview on the first page of each chapter. One can move on from these without loss of continuity.

Chapters 1 to 3 are readable by everyone and they contain no esoteric economics language that is not defined and explained. Chapters 4 and 5 will be more challenging for many readers, as they contain heuristic descriptions of how we integrate reforms into an economic growth model. We have tried to write this material for a general audience, for readers without formal training in economics. For those who want to study our growth theory

analysis in greater detail, we provide Appendix A. It requires some formal economics training. Chapter 6 integrates economics into a political model. One can read only the brief chapter overview, the chapter itself, or Appendix B, depending on the desired level of study.

Part II: Country Chapters

Chapters 7 to 12 each deal with one of our sample countries. The earlier theory chapters inform our analysis of each country, which reflects forces common to all of them. The format of each chapter is roughly the same: it includes a compact history of two periods that set the stage for prospects of success in transition – the period before the Soviets and the period under their rule. The sections that follow include analysis of the political transition, progress in adopting reforms, economic performance and political developments, and recommendations and prognosis for success.

Part III: Appendices

Appendix A consists of detailed analysis of growth modeling, including evaluation of exogenous and endogenous models. While the models are standard in the growth field, we link each reform to specific parameters of a growth model. Based on these linkages, we assume that economic agents are able to assess the implication for their own self-interest of any reform. This sets the stage for the econometric work in Appendix B.

Appendix B contains a formal model, developed in Chapter 6, wherein economics and politics interact. Pooled data covering ten years in the six countries are used in an econometric analysis that tests the connections between reforms, economic performance and elections. The results tell us something about the pace and patterns of reform.

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