

Introduction to Part III

The appendices contain detailed analysis of reforms in the context of growth models and an econometric application of the political-economy model to data from ten years of experience in six countries. To the extent that this book contains assertions that are problematic or controversial, these appendices constitute our technical defense.

Appendix A develops the growth models explained in the text, but in greater mathematical and technical detail. We formally incorporate each of the five basic reforms into the growth framework to show specifically how each reform promotes economic growth. Each reform is shown to operate on economic outcomes through a specific set of behavior channels. The result is a model that can be used to anticipate responses to reforms by different social groups.

Appendix B presents the technical analysis that underlies Chapter 6 wherein politics and economics are shown to interact. Political candidates propose economic reforms and use campaigns to try to sell their programs to the public. The voters assess the potential effects of alternative reform proposals relative to current rules that govern the economy. They assess the consequences for their personal prospects of each proposal based on the behavioral channels through which reforms operate. Each person votes according to her personal analysis of the implications for her personal prospects of each candidate's proposed regime. Appendix B employs the model to test empirically the connections between reform proposals, election results and economic performance.

The results of various hypothesis tests are reported. We find, for example, that voting for politicians who favor liberalization does in fact lead to reforms being implemented, whereas voting for former communists or socialists tends to retard or even set back reform efforts. We also find that reforms have not greatly improved economic performance. This was especially true in the early 1990s. Some countries' voters have been more willing to support reform programs than others. In Russia under Yeltsin, for instance, reform progress was very sensitive to elections for members of the Duma.

