Political and economic transformation in Central and Eastern Europe

Glass half-full

or

half-empty?

Agenda

WORKSHOP 1: Transition or transformation– points of view

WORKSHOP 2: Case studies of V4 (politics, economics, social life, foreign policy) – common problems, different attitudes

WORKSHOP 3: Transformation as a process - The V4 in after the EU accession

WORKSHOP 4: Lessons for the future

Main lessons from Postcommunist Transition

1) Speed is important
2) People's behaviour cannot be changed, so the people in charge have to change
3) The dominant economic problem after the initial transition was rent seeking or corruption
4) The early, short period of *extraordinary politics* is critical

Main lessons from Postcommunist Transition

5) Leadership matters most in the early transition
6) The state is more difficult to reform than enterprises
7) The secret police represents the worst part of the old elite
8) Democracy is vital for successful market economic reforms

Main lessons from Postcommunist Transition

9) It is nearly impossible to know when serious reforms can become possible
10) The main force of reform must be national
11) The worse the situation is, the more radical of reforms must be, but the more difficult they are to carry out
12) Reversals of structural reforms have aroused new concerns

Three pathways

- State-crafted neoliberalism (Baltic states)
- Embedded liberalism (Visegrad countries)
- Neocorporatism (Slovenia)

Transformation approaches

1) Transition from above
2) Negotiated transition
3) Collapse
4) Fragstruction (fragmentation and reconstruction)

Dilemma of synchronicity

Shock therapy

vs

gradualism

The routes of divergence

- Internationalization/transnationalization
- Character of transformative state power
- Patterns of industrial transformation

Common challenges

- Homogenous pressure of international monetary organizations on rapid privatization
- Remarkable share of informality of the market
- Bias of economic reforms at the expense of women
- High labour migration and brain drain
- Weakness of trade unions
- Econ. integration with the effect of peripheralization
- High unemployment and…

Common challenges

peripheralization

The new political elites?

Table 2.2

	Exclusion of old elites	Inclusion of old elites
'investive' use of new space of action	GDR Czech Republic (1)	Poland Hungary (2)
'consumptive' use of new space of action	Czechoslovakia Slovakia (3)	Romania Bulgaria (4)

Privatization

- Czech Republic – 3 rounds
  - Return of confiscated properties
  - Direct sell of SOE (80%)
  - Voucher-system
- Slovakia – anullation of voucher system after 1994
- Poland – direct sell under value, but slower than in Czech Republic
- Hungary – restitution, voucher, but mainly spontaneous privatization through insiders (joint ventures)

Privatization

Table 5.1 Distribution of Enterprises as a Function of Privatization Methods, 1997 (%)

	Sales to Foreign Investors	*Sales to Domestic Investors*	*Equal Access Voucher*	*Insider*	*Other*	*Still State Property*
Czech Rep	10	10	40	5	5	30
Hungary	45	12	—	3	20	20
Lithuania	12	2	43	9	—	43
Poland	10	—	6	—	44	40
Romania	5	5	20	10	—	60
Slovakia	7	3	25	30	5	30
Slovenia	1	8	18	27	21	25

„Alongside the path of spontaneous privatization at the very beginning of the transformation, **which was akin to barely disguised theft**, the management buyout path was the most likely to be attended by corruption, for reasons of the slowness of the procedure, the power of the civil service, the absence of an independent oversight body, and the lack of transparency of the transactions." (Bafoil, 2009: 111)

Macroeconomic indicators

Table 5.6. *GDP (real) annual change in percent, 1989 – 1995*

	1989	1990	1991	1992	1993	1994	1995[P]
Bulgaria	0.5	–9.1	–11.7	–7.3	–2.4	1.4	2.5
Czechoslovakia	1.4	–0.4	–	–	–	–	–
Czech Republic	–	–	–14.2	–6.4	–0.9	2.6	4.0
Slovak Republic	–	–	–14.5	–7.0	–4.1	4.8	5.0
Hungary	0.7	–3.5	–11.9	–3.0	–0.9	2.0	3.0

Note: [P] projection.
Source: EBRD 1995: app.11.1.

Tabble 5.7. *GDP (real), 1989–1994 (1989=100)*

	1990	1991	1992	1993	1994	1995[P]
Bulgaria	90.9	80.3	74.4	72.6	73.6	75.5
Czech Republic	99.6[a]	85.5	79.4	79.3	81.3	84.6
Slovak Republic	99.6[a]	85.2	79.2	76.0	79.6	83.6
Hungary	96.5	85.0	82.5	81.7	83.4	85.9

	GNP per capita, 1995	Private sector share of GDP, 1995	GDP 1997 (1989=100)	Estimated GDP 2007 (1989=100)	Cumulative FDI inflows per capita, US$, 1989–2007
Baltic states					
Estonia	2,860	65	77.9	155	5,756
Latvia	2,270	60	56.8	125	3,447
Lithuania	1,900	55	42.8	116	2,284
CEE States					
Czech Republic	3,870	65	95.8	136	6,128
Hungary	4,120	60	90.4	135	4,915
Poland	2,790	60	111.8	169	2,572
Slovakia	2,950	60	95.6	154	4,325
Slovenia	8,200	45	99.3	149	1,381
Bulgaria and Romania					
Bulgaria	1,830	45	62.8	107	3,824
Romania	1,480	40	82.4	120	1,984
States involved in wars					
Bosnia	765	na	na	86	1,135
Croatia	3,250	70	73.3	111	3,932
Montenegro				80	3,535
Serbia				68	1,599
Peripheral economies					
Albania	670	60	79.1	152	834
Macedonia	860	40	55.3	96	1,103
Moldova	920	30	35.1	51	502

Macroeconomic indicators

Table 6.1. *Registered unemployment as a percentage of the labor force (1990–1994, end of year)*

Country	1990	1991	1992	1993	1994
Bulgaria	1.5	11.1	15.3	16.4	12.8
Czech Rep.	0.8	4.1	2.6	3.5	3.2
Hungary	2.5	8.0	12.3	12.1	10.4
Slovakia	1.5	11.8	10.4	14.4	14.8

Macroeconomic indicators

Table 5.1. *Inflation rates (consumer prices, annual average), 1989–1995*

	1989	1990	1991	1992	1993	1994	1995[P]
Bulgaria	6.4	26.3	333.5	82.0	73.0	96.3	68
Czechoslovakia	2.3	10.8	–	–	–	–	–
Czech Republic	–	–	56.7	11.1	20.8	10.0	10
Slovak Republic	–	–	61.2	10.1	23.1	13.4	11
Hungary	17.0	28.9	35.0	23.0	22.5	18.8	29

Note: [P] projection.
Source: EBRD 1995: app.11.1.

Table 5.2. *Average gross monthly wages (real), annual change in %, 1990–1994*

	1990	1991	1992	1993	1994*
Bulgaria[a]	5.3	–39.0	5.7	–8.7	–23.9
Czech Republic[b]	–5.7	–24.5	9.8	3.7	6.5
Slovak Republic[c]	–5.9	–25.1	8.7	–3.6	3.0
Hungary[d]	–3.7	–7.0	–1.4	–3.9	7.0

Macroeconomic indicators

Table 5.3. *Average gross monthly wages (real), 1989–1994 (1989=100)*

	1990	1991	1992	1993	1994*
Bulgaria[a]	105.3	64.2	67.9	62.0	47.2
Czech Republic[b]	94.3	71.2	78.1	81.0	86.2
Slovak Republic[c]	94.1	70.5	76.6	73.8	73.0
Hungary[d]	96.3	89.6	88.3	84.8	90.7

Table 5.4. *General government expenditure, 1989–1995 (% of GDP)*

	1989	1990	1991	1992	1993	1994	1995[F]
Bulgaria[a]	58.4	65.9	45.6	45.4	50.8	43.8	na
Czechoslovakia	64.5	60.1	54.2	52.8	–	–	–
Czech Republic	–	–	–	–	48.5	49.0	na
Slovak Republic	–	–	–	–	49.1	40.7	na
Hungary[b]	61.0	57.5	58.3	63.4	60.5	na	na

Macroeconomic indicators

Table 5.5. *Budget deficits/surpluses, 1989–1995 (% of GDP)*

	1989	1990	1991	1992	1993	1994	1995[p]
Bulgaria[a]	–1.4	–12.8	–14.7	–15.0	–15.7	–7.0	na
Czechoslovakia	–2.8	0.1	–2.0	–3.3	–	–	–
Czech Republic	–	–	–	–	1.4	1.0	0
Slovak Republic	–	–	–	–	–6.7	–3.7	–3.0
Hungary[b]	–1.4	0.5	–2.2	–5.6	–6.4	-8.2	na

Economic regime	Centralized. Reformed in 1960, 1970	Centralized Failed reform in 1968	Reformed in 1970, failed reform in 1981, and the 1980s	Reformed in 1968 "Neither plan nor market"	Centralized	Centralized Reform in 1960, 1970, 1980
Agriculture 1990	12%	8%	22%	18%	25%	25%
Public sector contribution to GNP (NMP)[d]	99%	91%	83%	93%	98%	99.3%
1989/1990	Round Table	Low	Round Table	Gradual (88)	High	High
Successor to the Communist parties[e]	PDS	CP	Reformed SDL (Democratic Left Alliance)	Reformed MSZP	Reformed	Reformed
Debt (billions of $)		4.6	35.3	15.8	4	8
Inflation		Average	Very high	High	Very high	Very high
Minorities 1990 (the 2 largest)	1% (Sorbian)	3% Hungarian, Roma	0.8% Ukrainian 0.8% Byelorussian 0.1% German	5.6 % Roma	4.5% Roma 6.6% Hungarian	3.7 % Roma 9.5% Turkish

Table 1.4 Synoptic Table of the Countries of Eastern Europe, Prewar, Postwar, Post-1990 (Excluding the Baltic Countries)

	GDR	*Czechoslovakia*	*Poland*	*Hungary*	*Romania*	*Bulgaria*
1919–1939						
Ethnic Composition		51% Czech 23% German 16% Slovak 5% Hungarian	65% Polish 16% Ukrainian 10% Jewish 6% Byelorussian 2% German	87% Hungarian 6% German 5% Jewish	75%, Romanian 6% Jewish 4% German	87% Bulgarian 10% Turkish 1% Jewish
Per capita industrial GNP 1938[a]		60%	23%	34%	11%	19%
Direct foreign investment[b]		30%	40%	24%	59%	18%
Agriculture in 1930[c]		35%	68%	55%	70%	72%
Fewer than 2 hectares		26.3%	30.3%	71.5%	52.1%	27.0%
2–5 hectares		43.8%	33.4%	21.5%	22.9%	36.1%
5–10 hectares		29.0	36.0%	15.1%	24.2%	36.8%
More than 100		0.9%	0.3%	0.9%	0.8%	0.1%
1945–1989						
1945	Destroyed	Victorious	Victorious	Defeated	Defeated	Defeated
Insurrections	1953	1968	1956; 1968; 1970; 1976; 1980; 1981	1956	—	—

Table 6.2. Reorientation of Trade: Share of Central and Eastern Europe's Trade with Western Europe by Year

	Imports				Exports			
Country	1928	1989	1995	2002	1928	1989	1995	2002
Bulgaria	61.6	13.7	38.4	51.3	64.5	7.8	38.6	55.6
CZ/SL	54.8	15.4	45.4	62.0	43.9	16.5	45.7	64.2
Hungary	32.4	30.9	61.5	57.5	25.0	24.2	62.8	73.5
Poland	54.5	27.7	64.7	67.5	55.9	30.5	70.1	67.3
Romania	50.2	7.8	50.9	63.9	53.9	17.5	54.5	68.0

Table 3.2. Cumulative FDI per Capita, 2008 (In USD)

Country	FDI
Estonia	10,727
Czech Republic	7,285
Hungary	7,010
Croatia	5,092
Slovakia	5,005
Slovenia	4,877
Montenegro	4,464
Latvia	4,221
Bulgaria	3,792
Poland	3,529
Lithuania	3,357
Romania	2,785
Serbia	2,046
Bosnia	1,753
Macedonia	1,648
Albania	1,119
Ukraine	915

Source: IHS Global Insight

Table 3.3. GDP per Capita, 2000–2009

Country	2009	2006	2004	2000
Slovenia	86	91	86	80
Czech Republic	80	80	75	68
Slovakia	72	72	57	50
Croatia	64	63	56	49
Hungary	63	64	63	55
Estonia	62	67	57	45
Poland	61	56	51	48
Lithuania	53	62	50	39
Latvia	49	57	46	37
Romania	45	47	34	26
Montenegro	43	43	n.a.	n.a.
Bulgaria	41	41	34	28
Serbia	37	36	n.a.	n.a.
Macedonia	35	34	27	27
Bosnia and Herzegovina	30	31	n.a.	n.a.
Albania	27	26	n.a.	n.a.

Note: Calculated in PPS terms: EU-27 = 100. PPS is purchasing power standard, which calculates GDP by taking into account differences in prices across countries.
Source: Eurostat, June 2010

Table 3.4. Public Finance Deficit, 2006–2009, as a Share of GDP

Country	2006	2007	2008	2009
EU-27	-1.4	-0.8	-2.3	-6.8
Estonia	2.5	2.6	-2.7	-1.7
Bulgaria	3.0	0.1	1.8	-3.9
Hungary	-9.3	-5.0	-3.8	-4.0
Slovenia	-1.3	0.0	-1.7	-5.5
Czech Republic	-2.6	-0.7	-2.7	-5.9
Slovakia	-3.5	-1.9	-2.3	-6.8
Poland	-3.6	-1.9	-3.7	-7.1
Romania	-2.2	-2.5	-5.4	-8.3
Lithuania	-0.4	-1.0	-3.3	-8.9
Latvia	-0.5	-0.3	-4.1	-9.0

Source: Eurostat, April 2010

Table 3.1 Total of East European Populations and Projections for 2015 (in Million)

	1980	*1990*	*2001*	*2015 (projections)*
Bulgaria	8.846	8.767	8.191	6.8
Czech Republic	10.316	10.362	10.267	10.0
Estonia	1.472	1.572	1.367	1.2
Hungary	10.709	10.324	10.005	9.3
Latvia	2.509	2.613	2.366	2.2
Lithuania	3.404	3.708	3.693	3.5
Poland	35.413	38.038	38.644	38.0
Romania	22.133	23.211	22.431	21.4
Slovakia	4.963	5.288	5.403	5.4
Slovenia	1.893	1.996	1.990	1.9

Conclusions

1. Due to the political context there was probably no alternative for the transformation in the CEE in the early 90. (rapid privatization, turbocapitalism, inclusion of old elites, etc.), so:
2. The CEE transformation might be (official narrative says must be) assessed as a success, but we have to be aware of many failures which led i.a. to the weakness of the state (process of loosing power), informal economy, brain drain, peripheralization, etc.

Conclusions

3. The V4 countries diverged substantially (economy competitiveness, income, level of „communisation”, foreign debt) so similar political strategies often led to the different effects (one size does not necessarily fit all), but:
4. There definitely exists V4 model of transformation (embedded liberalism) which might be considered as a best practice for some (which?) EaP countries, but its success depends the most on the political and economic situation/context

Conclusions

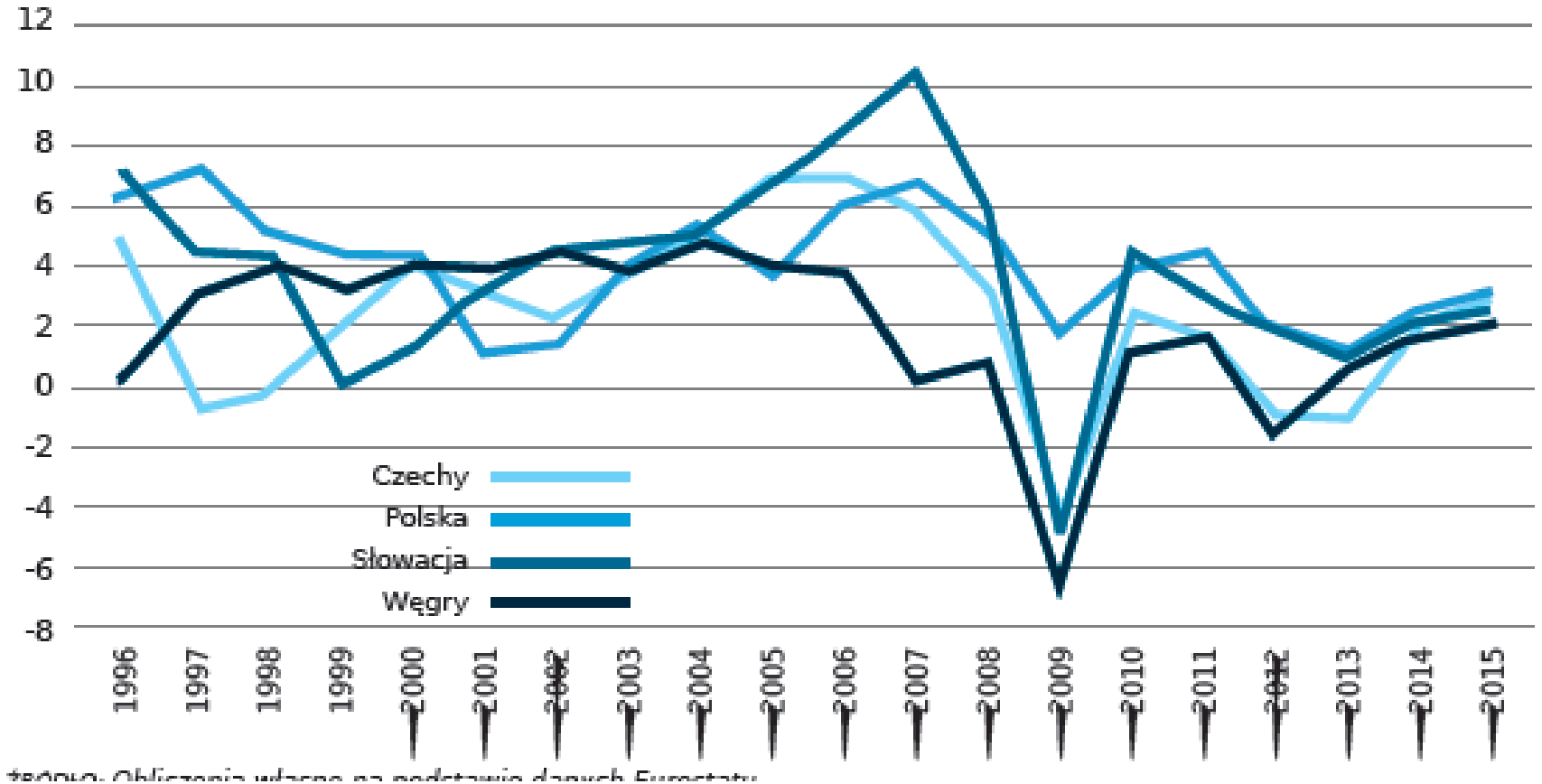
5. The situation of V4 in 1989/1990 in many aspects (globalization, power of financial markets and rating agencies, return of geopolitics, EU integration stage=willingness for enlargement, foreign policy and potential of Russia, leading economic ideology, economy structure, etc.) was completely different from the situation of EaP countries in 2015, but:
6. There is still a window of opportunity for EaP countries, but the task is much more challenging and the V4 answers are not satisfactory, especially having in mind the process of economic and political peripheralization of the region

Question

Taking into account the process of peripheralization and exploitation of political and economic growth mechanisms (EU, technology immitation strategy, middle income trap, etc.) do the V4 countries need the second wave of transformation?

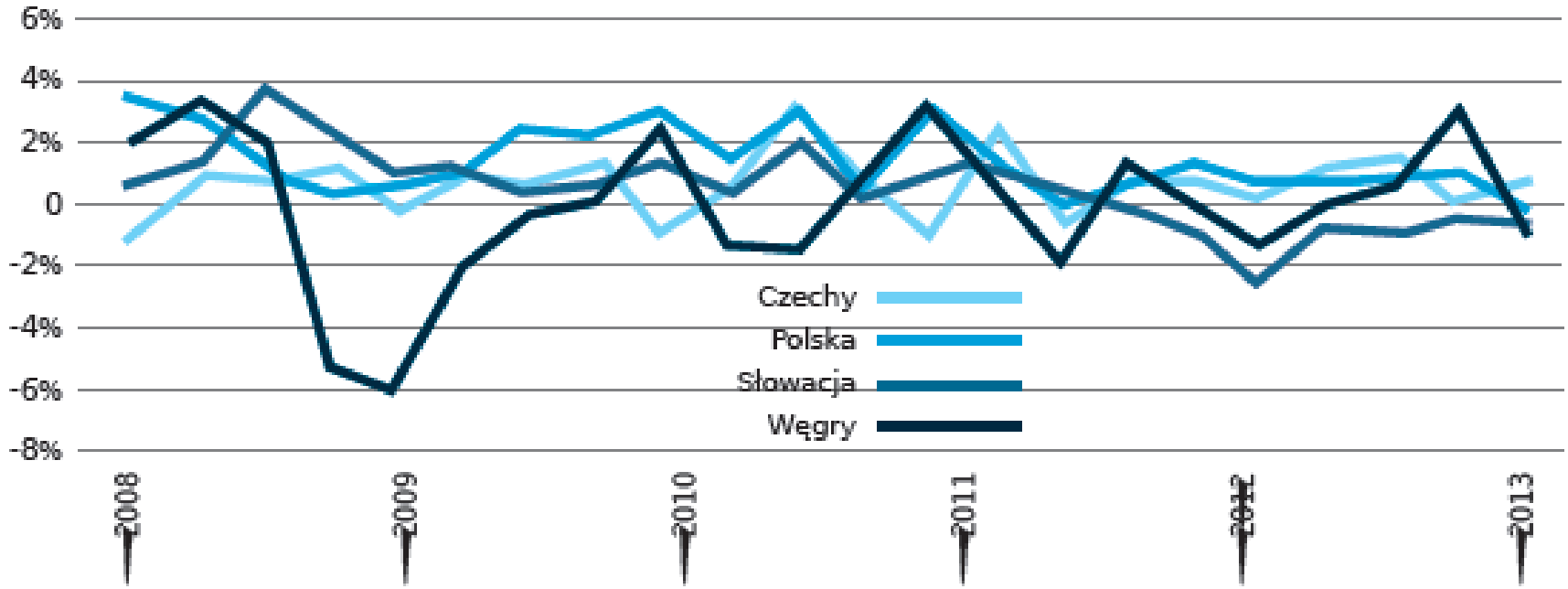
If so, would the Hungarian case be the good practice?

WYKRES 1. **Dynamika PKB (wzrost PKB w %).**



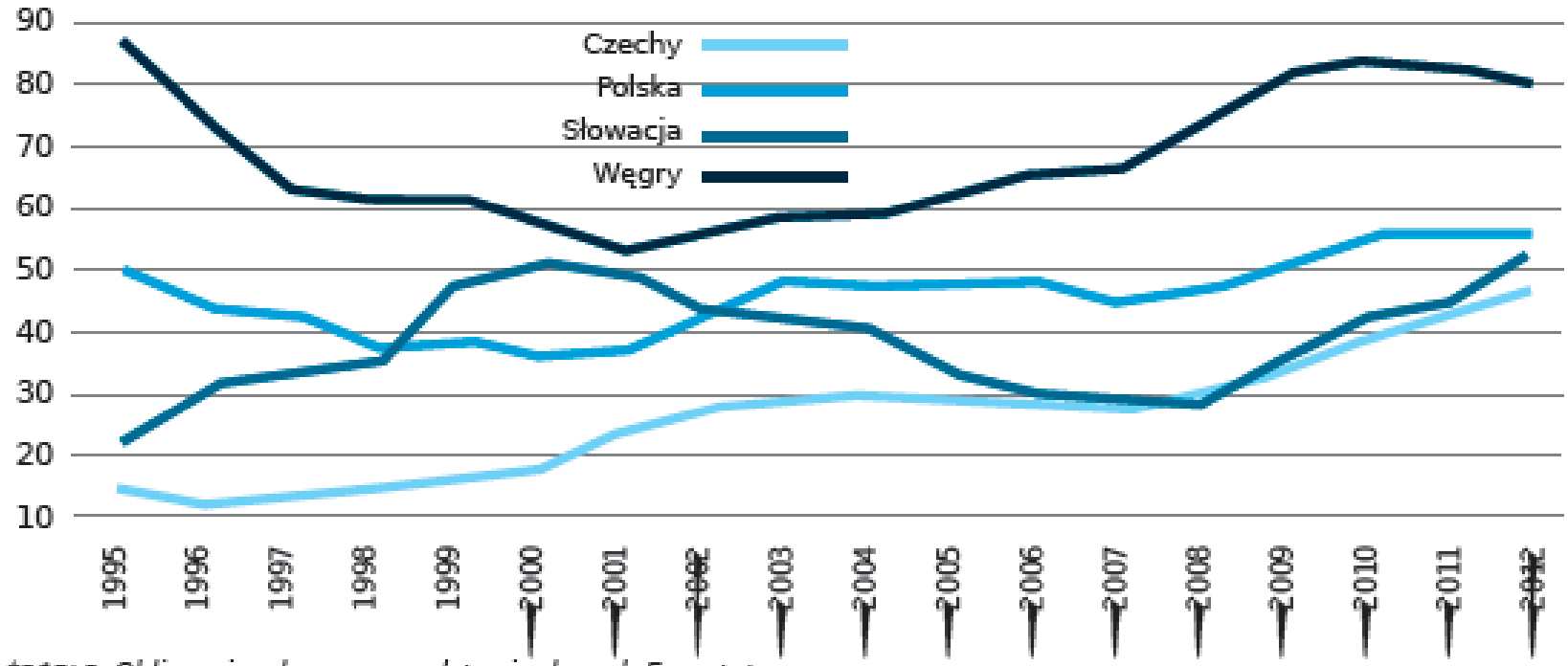
źródło: Obliczenia własne na podstawie danych Eurostatu

WYKRES 2. **Saldo na rachunku finansowym (bez sektora publicznego, w relacji do PKB).**



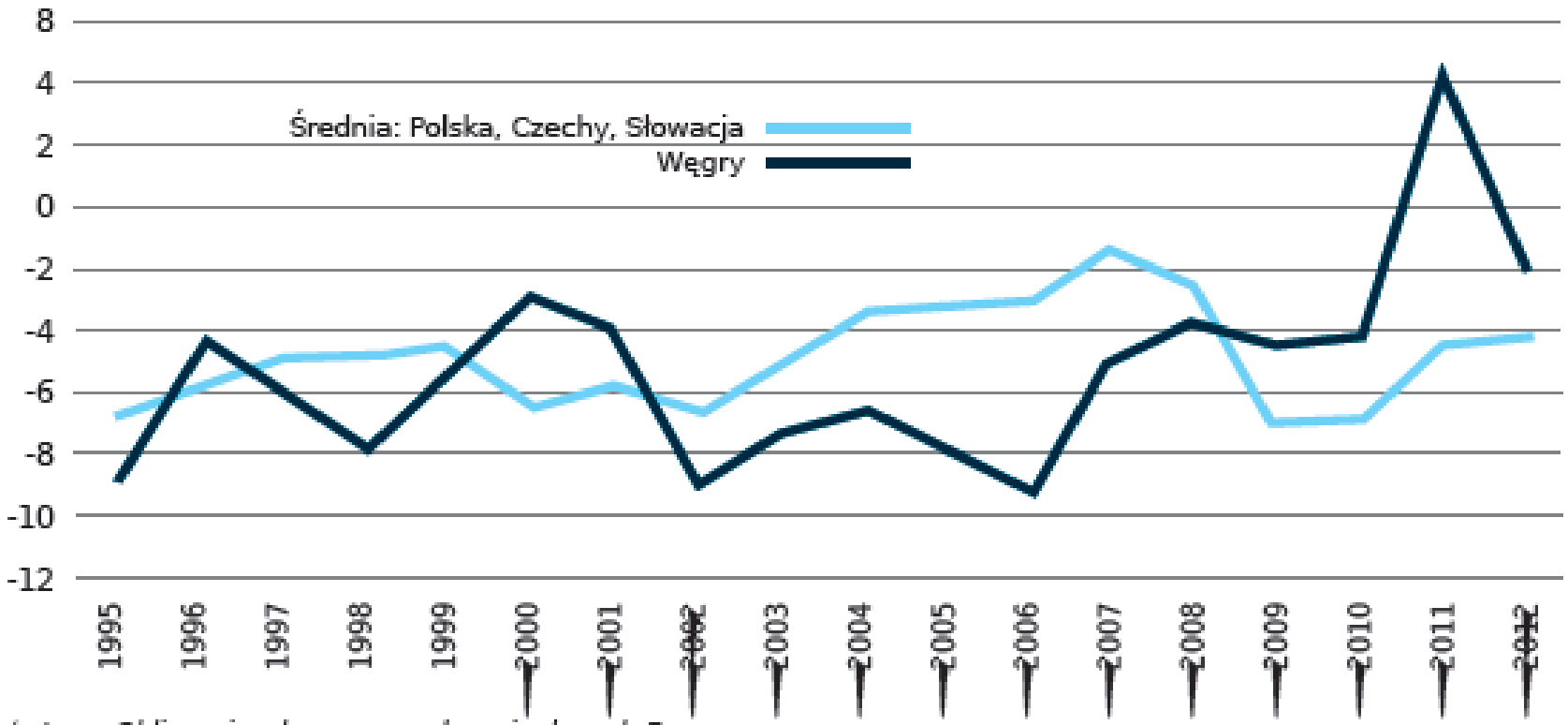
ŹRÓDŁO: Obliczenia własne na podstawie danych Eurostatu.

WYKRES 3. **Zadłużenie sektora publicznego (% PKB).**



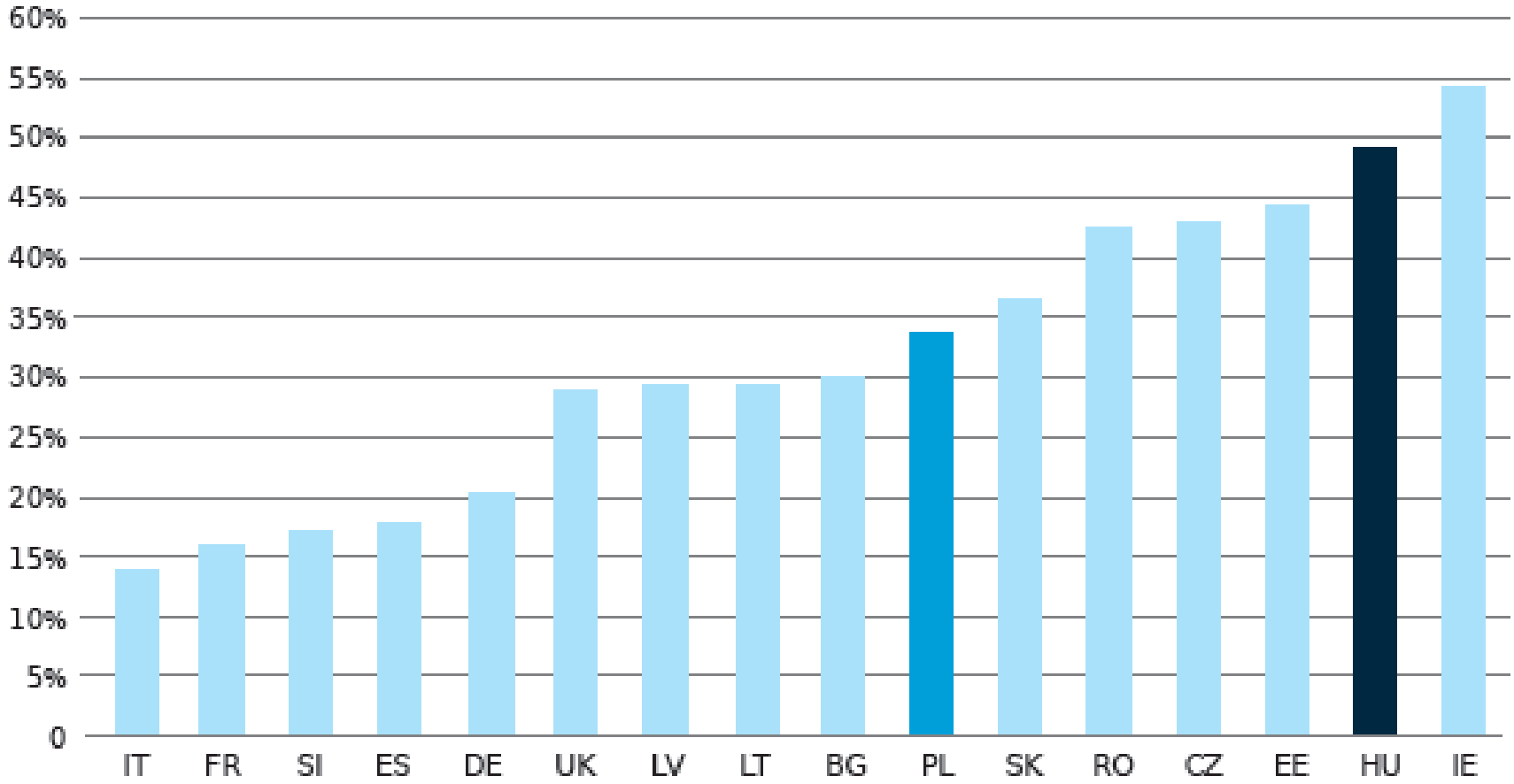
ŹRÓDŁO: Obliczenia własne na podstawie danych Eurostatu.

WYKRES 4. **Saldo budżetowe sektora publicznego (% PKB).**



ŹRÓDŁO: Obliczenia własne na podstawie danych Eurostatu.

WYKRES 7. **Udział firm zagranicznych w tworzeniu WDB w sektorach rynkowych.**



ŹRÓDŁO: Obliczenia własne na podstawie danych Eurostatu.

Orban's answers

1. New constitution, reshape of the institutions (but 80% remained unchanged), but no radical reform of the institutional setup
2. New narrative (cost the crises distributed more equally, also on foreign capital)
3. Non-orthodox economic policy

Hungarian economic policy after 2010

- Nationalization of pensions fund (and to some extend other sectors)
- Revision of agreements with IMF (finally cut off), rapid repayment of foreign debt
- New taxation on foreign entities
- Linear tax (polgarok)
- Lower CIT for SME's
- Fiscal sustainability (Fiscal Council), avoiding the procedure of exceeded public deficit
- Reduction of the maintenance cost