## Creating Capitalism

Transitions and Growth in Post-Soviet Europe

Patricia Dillon

Scripps College, Claremont, California, USA

Frank C. Wykoff

Pomona College, Claremont, California, USA

## Contents

List	of figures .	X	
List of tables		xi	
	Preface		
D. 1	DEL ENTE OPERAGA L'EQUIDITATIONS		
PAI	RT I THEORETICAL FOUNDATIONS		
1	The withering away of communism	5	
	The end of an idea	5	
	Economic analysis of institutional change	6	
	The book's objectives: from models to reality	12	
	Two historic views of the industrial revolution	13	
	Lessons from the collapse of the Soviet Union	19	
	The new world order	21	
2	The political economy of reform	24	
	New political and economic challenges	24	
	Political impediments to economic reform	27	
	Transition to what?	31	
	Problems in political economy	34	
3	Why private markets work	37	
	Why these reforms?	37	
	Price liberalization	38	
	Property privatization	41	
	Macroeconomic stabilization	44	
	Industry restructuring and deregulation	47	
	Trade liberalization	49	
	An active role for government	49	
	Failure: markets versus plans	52	
4	Growth models for assessing reforms	57	
	Reforms lead to growth	57	
	Growth modelling: description, purposes and limitations	59	
	The structure of growth models	66	
	The workings and outcomes of growth models	69	
	Saving: the essential ingredient	72	

5	How each reform promotes growth	76
	The economic channels of reform	76
	Price liberalization	78
	Property privatization	79
	Macroeconomic stabilization	81
	Industry restructuring and deregulation	82
	Trade liberalization	85
	Summary: reforms and growth	86
6	Challenges facing reformers	91
	Why a political model is important	91
	Interaction of political and economic systems	93
	A model of elections and politics	95
	Common problems facing reformers	102
	Unique local conditions	106
PAI	RT II COUNTRY CHAPTERS	
7	Bulgaria: impatient but indecisive	115
	History before communism	116
	History under communism	117
	Political transition, economic changes	120
	Economic reforms: three steps forward and two back	123
	Conclusions and recommendations	130
8	Are the Czechs capitalist superstars?	133
	History before communism	135
	History under Soviet rule	137
	The Velvet Revolution	139
	Economic reforms	144
	Economic performance and the future	151
9	Estonia is headed West	155
	Estonia before the Soviets	157
	History under Soviet rule	159
	Political transition and the birth of Estonian reforms	162
	Attitudes to reforms since independence	164
	Economic reforms: how complete, how successful?	165
	Sustainability of reforms and the future	173
10	, A taste of Hungarian goulash	177
	History before communism	178
	History under communism	183
	The political transition	186
	A question of political will	189

	•
Contents	1X

Conclu	sions and outlook	194
11 Can Russ	ia make it?	196
History	before communism	197
•	under communism	199
-	litical transition	200
-	nic reforms	201
Econor	nic performance	213
Conclu	sions and recommendations	214
12 Will the S	Slovaks stay the course?	220
Slovak	ia before the Soviets: years of foreign domination	222
The So	viet years	224
	elvet Revolution and Divorce, 1988-1993	226
Econor	mic reforms '	227
, The fu	ture looks better than the past	234
Conclu	isions and questions	236
13 The long	and winding road	238
PART III A	PPENDICES	
Appendix A.	Reforms in growth models	251
	1. The corn economy	252
	2. The public fisc and private budgets	262
	3. Endogenous technological change and technology transfer	266
	4. Technology transfer	269
Appendix B.	Political influence, economic performance and reform efforts: an	
	econometric analysis of six newly independent countries, 1989-1999	273
	1. Reforms and the growth model	273
	2. Voting behavior and the growth model	276
	3. Simultaneous equation system	277
	4. Allowing for not voting pocketbook issues	279
	5. Econometric results and the data	282
	6. Votes, reforms and performance: dummy variable models	287
	7. Votes, reforms and performance: percentage of votes and reform	
	indexes	292
	8. Conclusions and recommendations	303
Bibliography		305
Index		323