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From Recession to Growth in Post-Communist Economies: Expectations versus Reality

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The post-communist economy is an economy in which an irreversible process of transformation from planned allocation mechanism to a market-type one is going on alongside the development of a democratic, pluralistic society. These processes have already spread across more than 20 states, including the former Soviet Union. The remarks and conclusions that will be formulated here include, in principle, the whole group of those countries, although in many cases empirical data, sufficiently reliable to draw up some generalizing judgements, are not yet available. What is more, the process in question is still *in statu nascendi* and therefore any too far-reaching generalizations would be fraught with risk. In addition, the experience of transformation in the post-Soviet Asian republics is quite different from that of Poland and Hungary. For example, in the former case the market transformation process is still at the very beginning and the point of departure has been a rather traditional Soviet economy, though one largely disintegrated and entangled in an extremely vast political, institutional, and structural upheaval. In the latter case, the market-oriented transformation process is to a large extent already qualitatively advanced and the starting point of the process was considerably different because of the previous significant progress in market-oriented reforms of the centrally planned economy in those countries; irrespective of how those reforms are assessed, there is no doubt that they facilitate the process of transition to a market.[1] Keeping in mind these and many other differences, it is nevertheless worth while attempting to answer questions about the general conditions, interrelations, prospects for stabilization, and causes of severe output collapse in the post-communist economies. While, from the spatial point of view, the scope of the transition economy has been widening in the course of the last few years, from the historical perspective this widening can be referred to the period beginning with 1990, though not in every case. Thus, the considerations in this paper refer to that period of time with respect to East and Central European countries.

Economic Stagnation in the Late Centrally Planned Economy

Before posing questions about the current situation, let us have a look at the indicators illustrating the dynamics of past development in the centrally planned economics. This is necessary, among other things, because at present we often suffer from a kind of amnesia, forgetting the fact that over most of the period of so-called real socialism there was a rather high - by contemporary international standards - rate of economic growth. The present views are, on the one hand, formed under the impression of the low rate of economic growth during the decline phase of real socialism and, on the other hand, they arc deliberately formulated out of the political and ideological motives.[2] The downgrading and negation of past economic growth can put the contemporary processes and their political assessment in a different context. While the effect of such a psychological manoeuvre can last for a long time; nevertheless it has been frequently used-from Warsaw to Ulan Bator.

[1] D.M. Nuti, "Lessons from the Stabilization Programmes of Central and Eastern European Countries, 1989-91," *Economic Papers,* European Economic Community, Brussels, 1992.

[2] One must be aware, of course, of the errors and methodological unreliability of the official statistical data representing the economic growth in 1950-1989, but the resulting revisions are not qualitatively significant.

One of the characteristics of economic growth in the centrally planned economy was its cyclical character, understood as endogenous oscillations of the growth rate around a long-term ascending trend.[3] So, as illustrated in Table 1, periods of higher and lower dynamics alternately followed each other.

A distinct deceleration in economic growth in the late 1980s was an undisputed fact. What is more, it was accompanied by an increasing dcstabilization expressed, among other things, in price inflation, growing shortages, and deepening external disequilibria. It is understandable that a negative feedback among those processes took place and its results are still felt today. The decreasing economic activity strengthened the destabilization trends, and the growing destabilization, in turn, bolstered the trend towards growth slowdown and, finally, contributed to stagnation.[4] However, a decline in output had not taken place in those countries until 1989 (Table 2). Except for the Romanian and, to a lesser extent, Hungarian case, the fall in global product has appeared only since the beginning of 1990.[5] A clear collapse was visible in that and the two following years, parallel with a simultaneous decline in growth dynamics in the developed market economies.

The fact is that the recession has appeared only with entry into the phase of systemic transformation. This could lead to the conclusion that the decline in economic activity was directly connected with systemic transformation. Therefore, the question arises as to whether it was really so and to what extent the fall in output in the post-communist economy was a function of the transformation and its three components, i.e. macro-economic stabilization, institutional changes, and micro-economic restructuring of production capacities. To what degree can that decline be explained by other factors?

Before answering these two questions, it is worth posing one more question: Can the various processes in the post-communist economies in the early 1990s be defined as a recession? There are authors who deny the suitability of this definition to describe the nature of the phenomena in which we are at present entangled in Central and Eastern Europe, while stressing their specific, or even unique character. With such an approach the notion of recession is, in principle, exclusively reserved for a specific phase of a business cycle typical of a market economy. The post-communist economies - by their very nature - are not market economics. Neither are they any longer planned economies.

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[3] G.W. Kolodko, "Economic Growth Cycles in the Centrally Planned Economies: A Hypothesis of 'Long Cycle'," *BEBR,* Faculty Working Paper, No. 1228, University of Illinois at Urbana-Champaign, February 1986.

[4] G.W. Kolodko, "Reform, Stabilization Policies and Economic Adjustment in Poland," *WIDER,* Working Papers, WP 51, World Institute for Development Economic Research of the United Nations University, Helsinki, 1989.

[5] Strictly speaking, in some cases the turn took place already in 1989. For example, in Poland the industrial production, that is the basic macro-economic aggregate determining the GDP level, was declining in absolute terms beginning in May, 1989. Therefore, it may be assumed that the GDP was already falling in the second half of that year.

Table 1. Economic Growth Cycles in Socialist Countries (Average Yearly National Product Growth Rates)

Country	Periods[a] Growth rate (%)									
Bulgaria	1950-1952	1953-56	1957-59	1960-63	1964-67	1968-71	1972-75	1976-80	1981-85	1986-88
	…	6.5	14.0	6.0	9.1	7.4	8.3	6.4	3.5	5.2
		-	+	-	+	-	+	-	-	+
Czechoslovakia	1950-52	1953-56	1957-61	1962-65	1966-69	1970-75	1976-78	1979-84	1985-88	
	10.0	6.5	7.4 +	0.8	7.2 +	5.3	4.7	1.8	2.4	
		-	+	-	+	-	-	-	+	
GDR	1950-52	1953-56	1957-59	1960-63	1964-69	1970-75	1976-86	1987-88		
	18.0	6.7	8.7	2.2	5.0	5.7	4.4	3.3		
		-	+	-	+	+	-	-		
Hungary	1951-53	1954-56	1957-60	1961-65	1966-69	1970-74	1975-78	1979-85	1986-88	
	9.3	2.0	11.0	5.4	7.2	6.2	5.0	0.9	1.6	
		-	+	-	+	-	-	-	+	
Poland	1950-53	1954-57	1958-63	1964-68	1969-70	1971-75	1976-78	1979-82 -	1983-85	1986-88
	9.8	9.1	5.4	7.1	3.7	9.8	4.9	6.5	4.9	3.9
		-	-	+	-	+	-	-	+	-
Romania	1951-53	1954-56	1957-59	1960-62	1 963-66	1967-70	1971-76	1977-79	1980-84	1985-88
	17.0	5.0	10.6	7.6	10.5	7.0	11.5	7.7	4.0	5.4
		-	+	-	+	-	+	-	-	+
USSR	1950-51	1952-53	1954-56	1957-63	1964-68	1969-73	1974-78	1979-88		
	16.0	8.2	11.6	6.0	8.2	6.5	5.0	3.3		
		-	+	-	+	-	-	-		

[a] "... = data not available; + = acceleration; - = slow-down.
Source: Rocznik Statystyczny (Statistical Yearbook), Warszawa: GUS (different years) and author's calculation.

Table 2. Growth of National Product (NP) and Gross Domestic Product (GDP) in Selected Countries in 1981-1992 (%)

		Rate of changes						
		Annual average			Preceding year = 100			
		1981–85	1986–88	1989–91	1989	1990	1991	1992
Poland	NP	–0.8	3.8	7.86[a]	–0.2	–14.9	–	–
	GDP	–0.2	3.4	6.6–7.2	0.2	–11.6	–7.5	–1.6
Bulgaria	NP	3.7	4.2	–11.0	–0.4	–11.5	–22.9	–
	GDP	–	–	–	–	–11.8	–22.9	–4.0
CSFR	NP	1.7	2.3	–5.0	1.3	–3.5	–	–
	GDP	–	–	–	–	–4.1	–15.9	–8.5
Romania	NP	4.4	5.1	–11.0	–5.8	–11.0	–	–
	GDP	–	–	–	–7.9	–15.0	–13.0	–5.0
Hungary	NP	–	–	–	–	–	–	–
	GDP	1.7	1.8	–4.5	–2.0	–3.3	–8.0	–12.3
USSR	NP	3.2	2.8	–5.7	2.4	–4.0	–15.0	–
	GDP	–	–	–	–	–	–17.0	–
Yugoslavia	NP	0.4	0.2	–10.4	1.0	–11.0	–20.0	–
	GDP	–	–	–	–	–	–	–
USA	GDP	3.0	3.6	1.0	2.5	1.0	–0.5	2.2
Japan	GDP	3.9	4.2	4.9	4.7	5.6	4.5	2.4
FRG[b]	GDP	1.2	2.6	3.8	3.8	4.5	3.2	1.8
France	GDP	1.5	2.7	2.7	3.9	2.8	1.4	2.1
Italy	GDP	1.5	4.0	2.0	3.0	2.0	1.0	2.0
UK	GDP	1.9	4.2	0.4	2.3	0.8	–1.9	2.2
Spain	GDP	1.4	4.6	3.6	4.8	3.7	2.5	2.9
Portugal	GDP	0.8	4.2	4.0	5.4	4.2	2.7	2.6
Finland	GDP	2.8	3.8	0.1	5.4	0.4	–6.2	–0.4
OECD	GDP	2.3	3.5	2.3	3.4	2.6	ca–1.0	ca–2.0
EEC	GDP	1.4	3.1	2.5	3.5	2.9	1.3	2.1

[a]2 years 1989-1990; [b] without former GDR.

Source: Sytuacja (1992) and author's calculation. Data for 1992 - preliminary evaluation.

By recession, then, we understand a phase of reduced economic activity during which the absolute GDP level declines. Accordingly, in the classical or modified (modern) business cycle, that phase follows the boom (prosperity) or the recovery, respectively. In turn, it precedes the depression phase in the classical cycle or the recovery phase in the modern cycle. From such a perspective, the emphasis is put on a certain regularity of the process. However, more important than the relative regularity is the mechanism of shifting from one phase to another. In the business cycle this mechanism has an unambiguously endogenous character.[6] Already in the recovery phase, the prerequisites of future economy overheating and a relative or absolute decline in output level are inherent. Inversely, in the recession phase, the prerequisites of a transition to the recovery phase are present which in the classical cycle was preceded by a depression phase.

In the case of post-communist economies such a sequence does not occur, although a comparison with the classical cycle may to a certain extent arise. The most important statement to be made at this point is that in the post-communist economies the business cycle is not the same as in a market economy. As mentioned earlier, the post-communist economies - by their very nature - are neither market nor planned economies.

[6] The situation is similar in the above-mentioned growth cycles typical of the centrally planned economies.

The Specific Features of Post-Communist Recession

The recent output contraction in economies in transition to a market is characterized by the features that make this phenomenon somehow different from the very well known typical recessions in a market system. First, it follows a phase of low economic activity (with propensity for stagnation) characteristic of the cyclical character of growth in the socialist economy. Second, it manifests itself, among other things, in an absolute decline in output and investment level (though not necessarily in other macro-economic aggregates, e.g. exports). Third, in this case, the mechanism of automatic transition to the post-recession recovery phase does not work. Fourth, the sequencing of phases that follow the recession is not predetermined. It sometimes may be a sequence rather similar to that of modern business cycles in a developed capitalist economy, which means that immediately after the decline in output the economy enters the recovery phase. It also may happen - which is more probable and its symptoms are already visible in at least some post-communist countries - that recession will be followed by a depression that, after passage through recovery, will lead to prosperity. It is only then that growth will follow and its course will more or less follow the modern business cycle in capitalism.

One may expect that the events will follow - and in principle already are following - the latter scenario, which is supported by a number of facts. In some Central and Eastern European countries, e.g. Bulgaria, Czechoslovakia, and Poland, the very low production activity has already persisted long enough to permit talk about the appearance of the post-recessionary depression phase. The latter is characterized both by the lack of any clear trend toward a further output decline and the absence of signs of growth trends. In other words, there is stagnation on a very low level accompanied by further growth in unemployment. This has already become a specific feature of depression in post-communist economies, distinguishing this phenomenon from its classical course.

However, the sequencing and intensity of particular phases will be ultimately decided by the economic policy pursued in individual countries, especially by the systemic transformation policy in all its three components. In this case the fundamental importance of both macro - and micro-policies of the state is to be stressed, since the recession appearing in the post-communist economies cannot be overcome without the state's active interference with that process. This is illustrated, among other things, by the experience of the 1990-1992 period.

The very severe recession in the transition economies is a fact. The scale of that slump is so spectacular that there is often talk about the collapse of the economy. The decline in output was so drastic that even in its optimistic forecast of the future the World Bank assumed that the output level prior to that collapse would not be regained earlier than in 1996 for the so-called northern part of the region (Czechoslovakia, Hungary and Poland) and in 2000 for its so-called southern part (Bulgaria, Romania, and Yugoslavia).[7]

One can notice that when assessments of this kind are made, the more long-lasting the recession turns out to be and the more difficult it is to overcome. Initially, the adequacy of official statistical data, reflecting the scale of decline in industrial output that determined the national product level, was questioned, suggesting that the "sold output" category was

[7] The Transformation of Economies in Central and Eastern Europe: Issues, Progress and Prospects (The World Bank, Washington, D.C., April, 1991).

inadequate.[8] Later, the compensating effect of the second economy on the production level was emphasized. At the beginning, and more precisely while a prompt appearance of positive trends in the production was still expected, the small significance of the parallel sector, not registered by official statistics, was stressed. The International Monetary Fund rightly stated that "In all the countries, output losses were concentrated in the state sector; activity in the private sector, which is not adequately reflected in official output statistics, expanded rapidly, notably in Hungary, Poland, and Yugoslavia, but it is estimated that this had little impact on the overall level of activity given the small size of the sector.[9] Even on the assumption that at the starting-point the private sector was twice as large as shown in official statistics and was growing twice as rapidly as stated in those statistics, it would not qualitatively change the picture. Evidently, in Hungary's and Poland's cases the private sector already played a not trifling role at the point of departure into the systemic transformation phase, but even in those two cases the highly positive trends in this sector would not be able to compensate for the huge output fall in the public sector. In some other post-communist economies the private sector has been marginal, as reflected in photographs of women selling pullovers in the streets of Moscow, illustrating the emerging market economy in Russia.

It can be seen that as long as an insignificant recession was expected, a minor role was attributed to the second economy but once the recession proved to be both deeper and more prolonged, there was a shift in emphasis and the size and role of the non-registered economy was excessively magnified.[10] There is no doubt that its proportion is considerable, but - by its very nature - not fully known; some authors, therefore, cannot avoid the temptation of painting the reality in more optimistic colors than it really deserves.

Thus, efforts continue to be made to downplay the scale of production decline, often by means of far-fetched estimates and dubious methodological assumptions. For example, Berg and Sachs suggest a much smaller than in reality fall in GDP in Poland in 1991 (3.8 per cent instead of 7 - 8 per cent). In addition, these authors explain it mainly as a result of the decline in output previously exported to the Soviet Union.[11] Such an approach is unambiguously apologetic, since it is intended to embellish the reality for political and even ideological reasons. There arc individuals and institutions who are interested in exaggerating the favorable results of the transformation and its accompanying processes and - at the same time - downgrading their costs. In extreme cases they talk about the so-called "perception error", implying that the situation is better, but that the people in the countries involved in the transition process are incapable of perceiving it.

There are also individuals and institutions who make assessments which are distorted the other way around. Accordingly, because the whole process of systemic transformation is entangled in a huge redistribution both of resources (wealth) and flows (incomes), the whole hitherto existing network of political and economic interests has been affected by it. These interests, it is asserted, exert influence on the various assessments, which means that such assessments are often of a political rather than a scholarly character.

The above remarks touch upon a key issue which has already been mentioned, namely the causes of the recession and of the depression accompanying the market-oriented

[8] J. Rostowski, "Popyt kontrolowany," (Controlled Demand) *'Zycie Gospodarcze,* No. 25 (1990).

[9] *World Economic Outlook,* International Monetary Fund, Washington, D.C., May 1991, p. 27.

[10] *Poland. Economic Transformation at a Cross-roads,* The World Bank, Washington, D.C., February 1992.

[11] A. Berg and J. Sachs, "Structural Adjustments and International Trade in Eastern Europe: The Case of Poland," *Economic Policy,* No. 14 (April 1992), pp. 117-155.

transformation of the post-communist economy. These causes are very complex indeed. Initially, some specific phenomena were excessively emphasized as alleged sources of the unexpected recession. From another perspective, the emphasis was laid on a certain regularity of the process. However, more important than the relative regularity is the mechanism of shifting from one phase to another. In the business cycle this mechanism has an unambiguously endogenous character. Because of that, it is difficult to explain the output decline in 1992 in Romania or Albania *(nota bene,* the latter was for almost 30 years outside CMEA) as being the result of the dissolution of CMEA that occurred a dozen-or-so months earlier or of the disintegration of the USSR, rather than as the effect of an ill-prepared transition to convertible currency settlements in mutual trade relations.[12]

The partial recognition of the considerable output decline reflected in official statistics is often accompanied by a suggestion that this has no negative significance. Here, a particularly unconventional or odd explanation is that because of the existence of over-industrialization of the centrally planned economies, there was a need for its rather drastic de-industrialization at the beginning of the post-communist era.[13] This process has to take place not so much through a more rapid development of the service sector as through a drastic decline in industrial output and a shift of resources to the service sector. In the light of such an approach, the recession is not a negative phenomenon but, above all, an "economy-clearing" process, improving the overall economic structure of the country in question.

Finally, according to another interpretation - and its equally apologetic character is absolutely clear - the basis from which the decline in output fall was calculated had been permanently exaggerated in the past, hence the real decline in output was allegedly less than that shown by statistical data. Similarly, where the output had fallen, this was allegedly caused by the elimination of production that should not have been undertaken in the first place because of its unprofit-ability.[14]

The Causes of Output Collapse in Transition Economies

Although for methodological reasons it is to some extent difficult to be precise, it is clear that some parts of the lost production do not necessarily mean a real reduction in national wealth and, particularly, in the standard of living.[15] Two phenomena are involved here.

First, part of the output decline in the post-communist economies is the result of moving out of the so-called shortage economy. The mechanism of this decline works in such a way that the elimination of shortages requires such a control of the aggregated demand that the

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[12] Most frequently, the dissolution of CMEA is presented as an external shock. Such an approach is not fully justified, since the organization has been dissolved as a result of the free will of the countries concerned. It probably was the worst possible scenario, as was illustrated, among other things, by the fact that soon afterwards the problem of regional co-operation arose once again. There were many proposals at that time concerning the future of CMEA, unfortunately ignored by the politicians. J. van Brabant, *Remaking Eastern Europe - On the Political Economy of Transition* (Boston, Dordrecht, London: Kluwer Academic Publisher, 1990); D.K. Rosati, "Problems of Post-CMEA Trade and Payments," in *The Economic Consequences of the East* (London: Centre for Economic Policy Research, 1992).

[13] Berg and Sachs, *op. cit.,* note 11.

[14] J. Winiecki, "Costs of Transition That Are Not Costs: On Non-Welfare-Reducing Output Fall," *Rivista di Politica Economica,* No. VI (June 1991), pp. 85-94.

[15] This is still more complicated since, during the transition, a certain decline in consumption takes place as a result of economic recession but, at the same time, the country gets out of the shortage economy. So, there are two processes, with opposite impacts on the standard of living, but in the short run the overall result is negative.

latter would ultimately fall below the level that would hypothetically balance the demand and supply flows. As a rule, in this phase, on the eve of the entry into systemic transformation an emerging inflationary overhang (biggest in Poland and Russia, and smallest in Czechoslovakia and Hungary) must be neutralized through a stock-balancing operation. That operation requires a larger reduction in demand than is necessary for closing the inflationary gap through a flow-balancing operation. As a result, the aggregated demand falls to such a degree that a part of the existing production capacities is not utilized, since their potential product cannot be sold in the market because of the reduced level of effective demand.[16]

Secondly, a part of the output loss results from the elimination of negative value-added production. Here, two different cases are possible. In the first one, the decline in output takes place after withdrawal of subsidies that have supported the output at a certain level. If a product was produced and sold only because its low price was subsidized by the state, under the new conditions caused by the elimination or reduction of subsidies its price has been set on a level at which a part of the output (and in certain cases even the whole output) cannot find buyers, so that it is obvious that production is bound to fall, freeing some resources. If the available resources are used within a short time for other, more effective, purposes, the result is a positive re-allocation effect and the output loss at one place is compensated for by the appearance of output (or increase in its hitherto existing level) elsewhere. This, after all, is the aim of the changes that are taking place during the transition to a market system. The difficulty is that the desired re-allocation effect comes neither immediately nor automatically, thanks to the still underdeveloped market allocation mechanism.

Another case of reduction and/or elimination of negative value-added output is related to the degree and pace of the given economy's opening-up and the extent of its exposure to foreign competition. Enterprises which under the previous conditions were capable of exporting for profit, in the new reality face the necessity of reducing their production, since they are not sufficiently competitive and can no longer find outlets abroad. Previously, such enterprises produced, as measured in world prices, a negative value-added. Owing to the considerable subsidies, especially with regard to the prices of energy and many raw materials (which was rather typical of a centrally planned economy), these enterprises were able to produce goods that were sold abroad at prices lower than those which their producers would have been able to gain if they had directly sold at world prices the raw materials they had consumed in that production.[17] It is understandable, therefore, that with simultaneous far-reaching liberalization of prices and trade, in some cases these hitherto profitable products had to be abandoned. In the long run, on a macro-economic scale, this process will eventually bring gains rather than losses. However, in the short run, the losses cannot be avoided.

Thus far four separate sources of recession in the post-communist economies have been identified. First, the systemic and structural legacy of the economy of real socialism that was gradually losing its momentum until the appearance of stagflation trends in its decline phase. It may be assumed, though it can hardly be proved, that if the countries of Central and Eastern Europe had not entered the systemic transformation phase, they would have ended up in a recession anyway, although its nature and above all its depth and duration would have been considerably milder.

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[16] G.W. Kolodko, "Inflation Stabilization in Poland: A Year After," *Rivista di Politica Economica,* No. VI (June 1991), pp. 289-330.

[17] R. McKinnon, "Liberalising Foreign Trade in a Socialist Economy: The Problem of Negative Value Added," mimeo, 1991; G. Akerlof, A. Rose, J. Yellin, and H. Hessinus, *East Germany in From the Cold: The Economic Aftermath of Currency Union,* Brookings Paper on Economic Activity, Fall 1991.

Second, there were the external shocks, some of which were of a specific character in that they were not exogenous in the full sense of the word but, at least partly, self-imposed by political decisions. Third, there were the effects of macro-economic stabilization and of getting rid of the economy of shortages. Every stabilization effort tends to be accompanied by a decline in economic activity because of the suppression of the aggregate demand.[18] This decline was unavoidable during a stabilization policy oriented not only toward reduction in the rate of inflation but also toward the elimination of shortages and the introduction of a market-clearing price system. Fourth, there was the elimination of the negative value-added output as a result of the reduction and/or withdrawal of subsidies to unprofitable production as well as through trade liberalization and opening-up of the economy to external competition.

There is also a fifth cause - in my opinion the most important one - which in some countries has proved to be the most momentous factor contributing to recession and depression. This cause is the economic policy pursued and, more precisely, the errors in that policy, consisting above all in the false sequencing of measures and overshooting of the macro-economic stabilization as well as mismanagement of the state sector at the early stage of transition.[19] If it can be shown that countries having a "correct" economic policy develop twice as rapidly,[20] one can venture an opinion that countries with an "incorrect' economic policy plunge into a recession that is twice as deep as it should be and that they remain in that depression for longer than is necessary.

The Roots of Excessive Optimism

There is a strikingly large gap between the expectations of various processes occurring during a systemic transformation and the reality. According to most frequent expectations, a minor and short-lasting recession was to be followed by a quick entry into a dynamic growth phase. Such an error was committed by some very important institutions - such as the World Bank and the International Monetary Fund as well as by a number of individual scholars and experts. In all such cases one can talk about the errors of excessive optimism. Where did it stem from?

Here too, causes are complex and at least five of them can be distinguished. The first one pertains to the excessive official optimism on the part of the new elites and their governmental bureaucracy. After all, it was the respective governments as well as parliaments which drew up often absurd plans and forecasts dominated by wishful thinking and a lack of a sufficient dose of realism. Insufficient professionalism, and a lack of imagination and responsibility, together contributed to a formulation of unattainable goals such as an assumption of a mere 3.1 per cent decline in national product and a 5 per cent reduction in industrial output in Poland for 1990, or an expectation of an entry into the recovery phase as early as the end of 1992 in Russia. The record shows that politicians in those countries, often knowingly, proclaimed quantitative goals, the attainment of which was at least in doubt. These claims were made for tactical reasons and for political strategy, and it was to a certain extent understandable, but nonetheless hardly justifiable. It is understandable that the government of a given country, even if it could have foreseen it, would not be willing or able to declare that its policy will within two years lead to a GDP decline of 20 per cent with a 40

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[18] M. Bruno, G. DiTella, R. Dornbusch, and S. Fischer, *Inflation Stabilization. The Experience of Israel, Argentina, Brazil, Bolivia and Mexico* (Cambridge, MA, London: The MIT Press, 1989).

[19] G.W. Kolodko, *From Output Collapse to Sustainable Growth in Transition Economies. The Fiscal Implications,* International Monetary Fund, Washington, D.C., December 1992.

[20] *Development and the Environment,* The World Bank, Washington, D.C., May 1992.

per cent scale of reduction in industrial output and the emergence of a dozen or so percentage rate of unemployment. The announcement of such economic programs would result in an overthrow of the governments well before they were able to put their program to a test.

The second group of causes underlying the erroneous forecasts and unrealistic expectations stems from an incorrect identification and diagnosis of the realities of a post-communist economy. Today that situation is incomparably better explored, described, and identified than two or three years ago, when estimates concerning the future were based on preconceived notions and conventional wisdoms rather than on solid analysis and diagnosis. Here, it is worth mentioning such simplifications as comparing the state of affairs in post-communist Central and Eastern Europe with the situation in post-war Western Europe,[21] with its expectations of a rapid growth based on an apparent analogy with the recovery from the devastation caused by World War II. Echoes of such an approach, though becoming weaker and weaker, still persist, especially in some Western circles.

However, greater significance is to be attributed to the approach that treats the post-communist economies in transition to a market as having a system and structure typical of the developing countries. To a large extent, such an approach influenced the attitude toward the transformation processes adopted by the World Bank, the International Monetary Fund, and the US government, as well as by the experts sent by them to Central and Eastern Europe, the majority of whom were entering this part of the continent for the first time in their lives. While it might be understandable that in official documents of international financial organizations this group of countries has passed from the dwindling category of "planned economics" to the category of "European developing countries," doubts or even objections must be raised to the treating of those countries as not differing much in their socio-economic characteristics from the so-called less developed countries (LDCs). In accordance with this approach - and it is to that approach that ultimately the whole transformation policy has been subordinated - the structural and institutional problems to be solved by the post-communist world resulted only from quantitative differences with respect to price distortions and underdevelopment of market institutions, in particular the financial ones.

In reality, there are some fundamental qualitative differences between the two sets of countries. First of all, property structure is quite different. It must be stressed that the problem of a 50 per cent reduction in the share of state ownership where that share is to be reduced from an initial 100 per cent level (which has been the departure point in the majority of the post-communist countries) is quite different from a situation where a similar 50 per cent reduction is to be carried out but from an initial 60 to 30 per cent level. In the latter case, there existed already at the starting point an institutional market-type infrastructure, even if insufficiently developed. A different set of problems has to be solved by a society that attains - byway of example - a 16 per cent unemployment level within two or three years having started from zero, than where the unemployment reaches the same rate after doubling from the 8 per cent level. In the former case, an appropriate social security system must be created out of nothing, while in the latter case such a system - even if imperfect - already exists. Differences regarding the size of enterprises and the concentration of production in them are huge. The socialist countries were famous for big enterprises which employed thousands of people and in this regard, indeed, Russia always outpaced the United States, Poland outpaced

[21] *The Transition to a Market Economy,* vol I: *The Broad Issues',* vol II: *Special Issues,* Organization for Economic Co-Operation and Development, Paris, 1991; H. Wolf, "Miracle Prescriptions - Post-war Reconstruction and Transition in the 1990s," in *The Economic Consequences of the East,* Centre for Economic Policy Research, London, 1992.

Germany, and Czechoslovakia was running ahead of Austria. This, obviously, represents qualitatively different challenges in restructuring production capacities than was the case in Western Europe and Japan in the post-war period or, contemporaneously, in South America.[22]

Many more quantitative differences might be mentioned here without affecting the overall picture.[23] It is only to be stressed that the post-communist economies had their own specific character which must be understood before economic policies aimed at their improvement can be formulated. Otherwise, and such a process is advanced already, we will be faced with the so-called latinization of the post-communist economies, with the result that the mentioned differences between the post-communist countries and the LDCs will actually become less and less, although this will not, however, help reduce the problems to be solved. To sum up, such an analytical approach had a substantial impact on the economic policy being pursued, mainly with respect to structural adjustments and its consequences. These adjustments were supposed to manifest themselves in a quick passage to economic growth resulting from improved effectiveness in allocation achieved chiefly through a rapid and far-reaching economic liberalization.[24]

The third cause of false expectations and unfulfilled forecasts stems from their methodological and substantive weaknesses. Many forecasts, especially the econometric ones, were based on dubious and often hardly justifiable assumptions. For example, Borensztein and Montiel, using regression analysis, claimed that as much as 75 per cent of investment in the planned economy had been ineffective.[25] The unreality of such an assumption seems as obvious as it is obvious that with the same investment level in conditions of market allocation, a higher effectiveness would have been achieved.[26] The magnitude of this difference is

[22] K. Kiyono, "Post-war Industrial Policy of Japan: A Brief Economic Perspective," paper presented to the conference on Industrial Policy, Ministry of Industry and Trade (MITI) and Japanese External Trade Organization (JETRO), Vienna, May 25-26, 1992.

[23] Sometimes those differences manifest themselves in a rather unexpected way. In developing countries the ratio of salaries of the ruling bureaucratic elites to global product per head reaches 130:1, for example, Nigeria. The US ratio is 8:1 [D.B. Abernethy, "Bureaucratic Growth and Economic Stagnation in Sub-Saharan Countries," in S.K. Gommins, ed., *Africa's Development Challenges and the World Bank* (Boulder, Co.: Westvicw Press, 1988)]. This fact contributes to the movement of well-educated personnel from the private sector to the state administration. In the post-communist economies the situation is quite opposite. Income ratios are such that the developing private sector simply attracts the professionals from the government sector (and from the universities and research think-tanks as well), with all the adverse implications of this fact for the effectiveness of the social services sector and, in the longer run, for economic growth. On the other hand, this may bolster the development of the private sector and favorably influence the economic growth. The short-term results of those countertrends are not easy to assess.

[24] It seems that such a point of view is dominant in Western economic thought with respect to growth prospects following stabilization. [R. Dornbusch, "Policies to Move from Stabilization to Growth," in *Proceedings of the World Bank Annual Conference on Development Economics, 1990,* The World Bank, Washington, D.C., 1991, pp. 19-48]. At the same time, there is some justified criticism which points to the specificity of political institutional and structural environments that sometimes require a different course of action. [M. Selowsky, "Comment on 'Policies to Move from Stabilization to Growth,' " in *Proceedings of the World Bank Annual Conference on Development Economics, 1990, ibid,* pp. 49-52].

[25] E. Borensztein and PJ. Montiel, "Savings, Investment, and Growth in Eastern Europe," in G. Winckler, ed., *Central and Eastern Europe Roads to Growth,* International Monetary Fund and Austrian National Bank, Washington, D.C., 1991, pp. 153-187.

[26] At the same time, it is being suggested that, in conditions of the new system, a better allocation of resources should favor exportable consumer goods, while leaving the investment mainly to foreign firms and those enterprises which use the imported capital goods whenever it is economically justified. [J. Hemming, "Eastern Europe in the Year 2000," in *The Economic Consequences of the East* (London: Centre for Economic Policy Research, 1992)]. The above opinion is controversial, since there are not sufficient arguments to support such a distribution of tasks between the domestic and foreign capital. In certain situations, the former can prove more

difficult, if at all possible, to estimate. However, the basic reasoning is correct. The more waste there was in the past, the quicker the growth can be expected in the future. The error lies in the incomplete understanding and appreciation of the conditions necessary to release the efficiency-oriented growth factors. They are so numerous that the transition to a growth phase turns out to be much more long-lasting than is often assumed. The growth comes neither quickly nor automatically. Elimination of inefficiencies typical of the centrally planned economy does not completely remove such inefficiencies, but merely changes their character during the process of systemic transformation. It is only in the longer run that they can be radically reduced and, again, the time horizon must not be curtailed. This has, however, been reduced, among other things, out of naive assumptions regarding the possibility of rapid privatization of the post-communist economies and the revitalizing impact of such property transformation on the production sphere. Neither in the case of the pace of privatization nor in the case of the scope of privatization have those assumptions been fulfilled. Recently, however, more scepticism or perhaps realism regarding the expectations in that particular sphere can be seen.[27]

As to the fourth cause of excessive optimism, it has often been the naive hope of the sheer magnitude of foreign (i.e., Western) economic aid and its salutary, stimulating impact on production in post-communist economies. Curiously enough, this naive belief consisted not so much in groundless expectations as to the absolute size of foreign aid, in all its forms, as in illusions about the absorptive capacity of the economies obtaining foreign aid and about the effectiveness of that aid.[28] It should be pointed out that until 1992 the scale of Western aid to European economies in transition (except the former Soviet Union, which is not included in this evaluation)[29] had already exceeded the aid granted by the United States to Western Europe under the Marshall Plan after World War II.[30] However, the impact of that aid is still insignificant and this fact can hardly be explained without understanding the mechanics of distribution of that aid and the policy pursued in that regard by the respective countries.

Finally, the fifth group of causes consists of false forecasts which are of a remarkably subjective character and include a purposeful manipulation of public opinion which tends to be uninformed and rather easily persuaded. At the same time, many economic charlatans present an utterly unrealistic vision of the future with respect to development prospects. It is otherwise difficult to explain the promise of a one-digit inflation rate one month after the introduction of the stabilization package or an assurance of economic growth after only six months. Such visions fall on a receptive breeding-ground and shape expectations that cannot

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competitive in the investment market as well.

[27] *The Economist,* for example, reminded us that "... even if the sell-off succeeds, its benefits will not be visible for months, perhaps years. Unmistakably, the first results of mass privatization will be bankruptcies, closed factories and lost jobs." *[Economist,* May 16, 1992, p. 13] That is a correct although for this journal a quite new and rather tardy view, since earlier *The Economist* has suggested that rapid privatization was a panacea which would almost immediately produce economic advantages, including growth in output.

[28] In the summer of 1989, the so-called Trzeciakowski Plan became well known in Poland: it assumed an inflow of US $10 billion over three years, inclusive of the reduction in external debt. At that time, this proposal was not sufficiently seriously treated - either at home or abroad - and was viewed as unrealistic. Three years have passed, and the scale of the foreign aid has been even greater, but its effects have been incomparably less than expected.

[29] It is worth emphasizing that granting aid to the former Soviet Union, comparable to that obtained by the former GDR in 1991, would cost about US $1 trillion. Obviously, even that amount of external resources would not prevent production collapse, as witnessed by the example of the more competitive economy of the former **GDR,** where the output contracted tremendously in 1990-1992.

[30] B. Eichengreen and M. Uzan, "The Marshall Plan: Economic Effects and Implications for Eastern Europe and the Former USSR," *Economic Policy,* No. 14 (April 1992), pp. 13-75.

be fulfilled. While the motives underlying those sometimes outright lies are manyfold, they can most frequently be attributed to political and ideological considerations. This might be understandable, but the difficulty is that this kind of demogoguery is not without influence on actual political choices. Thus, it is not simply a matter of voodoo economists witch doctors, but of the tribes that are to be healed by means of their prescriptions. That makes the problem very serious, indeed.

Expectations Versus Reality

The above discussion has attempted to characterize the causes of excessively optimistic expectations of growth in the post-communist economies. It must be remembered that some expectations were justified. In particular, the positive effects of certain institutional changes such as those relating to deregulation and competition-promoting policy as well as to the general liberalization and financial reforms and the efficiency-improving effects of macro-economic stabilization, could and should have been expected. The misperception was a result of an improper sequencing of institutional changes, on the one hand, and a distortion of the stabilization policy, at least in some countries of the region, on the other hand.[31]

Table 3. Eastern Europe and the USSR: Macro-economic Indicators, 1988-1996 (Annual Percentage Change, Unless Stated Otherwise)

	1988	1989	1990	1991	1992	1993-96
Eastern Europe[a] and USSR						
- Real GDP	4.3	1.9	-3.8	-4.1	-2.1	1.2
- Consumer prices	11.1	30.9	34.1	45.6	18.2	-
- Fiscal balance[b]	-8.0	-6.7	-6.5	-4.2	-	-
Eastern Europe[a]						
- Real GDP	1.2	-0.9	-8.6	-1.5	2.8	4.4
- Consumer prices	44.3	139.0	149.7	78.0	13.3	-
- Fiscal balance[b]	-0.2	-0.1	-1.8	-0.6	-	-
Current account balance[c,d]	6.7	3.0	-1.3	-10.0	-11.2	-
of which: Convertible currency	2.7	0.7	-2.8	-	-	-
Debt service ratio[d] (in % of exports)	19.2	18.5	14.9	18.5	16.8	-
of which: Convertible currency	34.7	29.2	18.1	-	-	-
External debt[c,d,e]	97.9	98.4	105.0	110.2	118.3	-

[a]Eastern Europe is defined to include Bulgaria, Czechoslovakia, Hungary, Poland, Romania and Yugoslavia. [b]In percent of nominal GDP. [c]In billions of US dollars. [d]Includes noncon-vertible currency data that are converted into US dollars at national transferable ruble (TR) US dollar rates. [e]Excluding liabilities to the Fund. *Source:* World (1991), p.28.

It is with this in mind that one should view the forecasts of the International Monetary

[31] Xuti, *op. cit.,* note 1.

Fund formulated in agreement with the respective governments in the spring of 1991, irrespective of the fact that they, too, were to a certain extent fraught with some of the above-discussed distortions. Selected macrocconomic indicators in those forecasts are shown in Table 3.

Subsequently, the International Monetary Fund has formulated more sceptical estimates, above all with respect to the economic growth rate. The reports of the World Bank, OECD, and EEC have similarly toned down their forecasts, drawing similar conclusions from the gradually accumulated experience.

Earlier on, some very optimistic forecasts were sometimes being offered. At the time when the IMF assumed for 1991 a GDP decline in six Central and Eastern European countries of 1.5 per cent only and then, for 1992, a growth of 2.8 per cent, Borensztein and Montiel predicted for Poland and Hungary a growth of 6 - 7 per cent and for Czechoslovakia a growth of 3.25 per cent.[32] Almost at the same time, the World Bank, using other forecasting techniques, also assumed a prompt entry into the phase of growth and its acceleration in the latter half of the decade.[33]

Table 4. Forecast of Gross Domestic Product (GDP Growth Rates in %)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Yearly average
Bulgaria	-10.8	-8.0	-0.2	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	1.1
Czechoslovakia	-3.5	-9.8	-4.8	1.2	3.4	4.0	4.3	4.9	4.9	4.9	5.0	1.3
Yugoslavia	-7.2	-3.5	0.3	0.7	1.1	1.3	1.5	1.8	2.1	2.5	2.9	0.3
Poland	-14.0	2.0	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	3.2
Romania	-10.2	-4.0	1.9	2.5	3.0	3.0	3.0	4.0	4.0	4.5	4.5	1.5
Hungary	-6.5	-3.0	1.5	3.1	3.5	3.8	4.2	4.4	4.5	4.5	4.5	2.2
Non-weighted mean:												
- all countries	-8.7	-4.4	0.8	2.6	3.1	3.3	3.4	3.8	3.8	4.0	4.1	1.4
- northern countries[a]	-8.0	-3.6	0.9	3.4	4.0	4.3	4.5	4.8	4.8	4.8	4.8	2.2
- southern countries[b]	-9.4	-5.2	0.7	1.8	2.1	2.2	2.3	2.7	2.8	3.1	3.3	0.6

[a]Czechoslovakia, Poland, and Hungary. [b]Bulgaria, Yugoslavia, and Romania. *Source:* World Bank.

According to those forecasts, presented in Table 4, the GDP was expected, for example, to grow in Poland by as much as 6 per cent in 1992 after a 2 per cent growth in 1991. In reality, it fell by almost 8 per cent in 1991 and rose by no more than 1 per cent in 1992. The magnitude of error was considerable, especially disqualifying both the applied forecasting techniques and the adopted assumptions. How otherwise can one treat a forecast of GDP

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[32] Borensztein and Montiel, *op. cit.,* note 25.

[33] L. Summers, "The Next Decade in Central and Eastern Europe," in Ch. Clague and G.C. Rausser, eds., *The Emergence of Market Economies in Eastern Europe* (Cambridge, MA and Oxford, UK: Black-well, 1992), pp. 25-34.

growth in Poland by nearly 14 per cent in the years 1991 and 1992 in a situation where GDP has actually fallen by almost 10 per cent in that period?[34]

It may be interesting to look at where some of the above mentioned development scenarios for post-communist economies would ultimately lead were they to be implemented. This may also be useful since it permits us to put into proper perspective the pathway and the distance that separate, and will continue to separate not over years nor even a generation, but over a whole lifetime, the countries of Central and Eastern Europe from the developed capitalist societies. Those differences and hypothetical indicators illustrating the national product levels for six Central and Eastern European countries and, for the sake of comparison, some chosen OECD countries are presented in Table 5. The forecasts are interesting also because they have anticipated for 1991 - 2000 a much quicker growth rate (non-weighted average) for the so-called northern countries of the region, i.e. Czechoslovakia, Poland, and Hungary (2.2 per cent yearly on average) than for the so-called southern countries of the region (Bulgaria, Yugoslavia, and Romania) which, at the starting point, were already less developed and whose GDP is assumed to grow at a modest annual rate of 0.6 per cent. On the one hand, a future economic growth rate contributing to a reduction of the differences in the economic levels between Eastern and Western Europe is assumed and even suggested. On the other hand, a further differentiation of those levels is foreseen even within the group of the European post-communist countries. Unfortunately, the latter prevision seems to be more realistic. The most obvious conclusion to be drawn from this exercise should be a reluctance to draw up forecasts concerning growth prospects in post-communist economies, since they are indeed rooted in quicksand.

Economic Populism and Future Threats

It is likely that the post-communist economies in transition to a market will start to grow after 1994. Some of these countries - for instance Poland and the Czech Republic - are enjoying increasing output already in 1993. However, serious obstacles against healthy economic growth will remain, even after the recession is over. As far as the costs and benefits of growth are concerned, it is the former that, unfortunately, are the more salient. To be sure, in a more distant time the latter seem to look more promising, but this does not mean at all that the obstacles for development processes will be removed. The pursuit of an enlightened and sophisticated economic policy aimed at a sustainable and balanced growth is difficult, while making errors that entail de-stabilization and economic stagnation is easy, the more so, the less professionally fit the new political elites and managerial staffs happen to be.

Theoretical considerations as well as the lessons learned from practical experience of other economic systems lead to a conclusion that the transition from stabilization to growth is not automatic. It requires a skilful economic policy to be pursued by the state and efforts to be made on the part of the society, as well as outside support. This also applies to the post-communist economies, but in that case the situation seems more difficult. Putting aside the greater than originally expected difficulties of macro-economic stabilization, the creation of a growth mechanism requires a greater effort in the area of structural adjustments than in the case of underdeveloped market economies.

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[34] S. Gomulka, "Stabilizacja i wzrost: Polska 1989-2000," (Stabilization and Growth: Poland 1989-2000) in *Politykafinansowa-nierownowaga-stabilizacja (II)* (Financial Policy-Disequilibrium-Stabilization (II)), Ministerstwo Finansow and Instytut Finansow, Wilga, May 30-31, 1990, pp. 303-321.

Table 5. Scenarios of Changes in Gross National Product (GNP) in 1991-2000

	GNP per head in US$ in 1990[a]			Hypothetical GNP level per head (in 1990 prices) on assumption of growth rates forecasted by the World Bank for 1991-2000									
Country	1	2		1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Bulgaria	2530		a	2328	2323	2376	2433	2491	2552	2613	2675	2740	2805
		5430	b	4996	4985	5100	5223	5348	5476	5608	5742	5880	6021
Czechoslovakia	2978		a	2686	2557	2588	2676	2783	2902	3045	3194	3350	3518
		7940	b	7161	6818	6900	7134	7420	7739	8118	8516	8933	9380
Yugoslavia	2460		a	2374	2381	2398	2424	2455	2492	2537	2590	2655	27321
		5140	b	4960	4975	5010	5065	5131	5208	5301	5412	5548	5709
Poland	1630		a	1663	1762	1868	1961	2060	2162	2270	2384	2503	2629
		3910	b	3988	4227	4481	4705	4940	5187	5447	5719	6005	6305
Romania	1530		a	1469	1497	1534	1580	1627	1676	1743	1813	1895	1980
		2950	b	2832	2886	2958	3047	3138	3232	3361	3496	3653	3818
Hungary	3028		a	2937	2981	3074	3181	3302	3441	3592	3754	3923	4099
		5920	b	5742	5828	6009	6219	6456	6727	7023	7339	7669	8014
France	18265			-	-	-	-	-	-	-	-	-	22 381
Germany	21298			-	-	-	-	-	-	-	-	-	28623
USA	21098			-	-	-	-	-	-	-	-	-	27007
UK	14844			-	-	-	-	-	-	-	-	-	19002

[a]1 — at national exchange rate (World Bank); 2 — at purchasing power parity (PlanEcon). *Source:* Author's calculation. For France, USA, and UK the estimates are based upon assumption of 2.5 per cent mean annual growth rate. For Germany 3 per cent average annual growth has been assumed.

Critics of the traditional approach to structural adjustments believe that its advocates accept as given the fact that the market by itself will secure the availability of the organizational, managerial, and technological skills necessary for an effective functioning of the private sector. That is not usually the case, and the arbitrary assumption of the existence of a basic factor of sustainable growth - the human capital with the desired skills - cannot be accepted, implying that it is the state which has to help develop that factor. It seems that in this regard the post-communist economics are in some cases in a better position and in some other cases in a worse position in comparison with the underdeveloped market economies. Very important is the fact that the education level of the post-communist societies is relatively high, but often ill-suited to the needs of a market economy. However, it is estimated that the adjustment process in this sphere is progressing rather quickly and that the general high level of education and training of the labor force should make it an important factor conducive to intensification of growth and utilization of the advantages of a market economy.

It may seem that economic populism is one of the serious threats to the efforts directed toward stabilization and the initiation of a sustainable growth. It is defined by Dornbusch and Edwards as "... an approach to economics that emphasizes growth and income redistribution and de-emphasizes the risk of inflation and a deficit finance, external constraints, and the reaction of economic agents to aggressive non-market policies."[35] According to these two authors there are four phases in a populist economic policy. During the first phase, the politicians are fully convinced of the correctness of their approach, diagnoses, and recipes. The output is growing, real wages are rising, employment is maintained on a high level. Inflation is kept under effective control and there are no shortages, above all due to the financing of imports with the existing foreign exchange reserves or to the deferment of foreign debt repayments. In the second phase, the economy develops numerous bottlenecks, both as a result of a strong expansion of the demand for domestic goods and because of the growing shortage of a convertible currency. While during the first phase the decline in stocks was a desired phenomenon, now it creates a problem. Price adjustments, devaluation of the exchange rate and re-introduction of its administrative control become indispensible. Inflation is intensifying and the budget deficit is deepening.

In the third phase, severe shortages and a drastic acceleration of inflation as well as a shortage of convertible currencies lead to a flight of capital and de-monetization of the economy. The condition of the budget is rapidly deteriorating as a result of a decline in real tax revenues and the growth of subsidies. Real wages experience, a substantial fall as a result of governmental stabilization efforts, which no longer bear any fruit. Finally, in the fourth phase, recourse to orthodox stabilization becomes necessary, mostly through the use of the IMF programs. Real wages must fall to a still larger degree, much below the level at the starting point of the whole sequence. Now, the situation is more difficult also because capital flight has taken place while the labor force remains at home. Obviously, the new orthodoxy is implemented by a newly elected or appointed government.

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[35] R. Dornbusch and S. Edwards, "The Macroeconomics of Populism," in R. Dornbusch and S. Edwards, eds., *The Macroeconomics of Populism in Latin America* (Chicago and London: The University of Chicago Press, 1991), pp. 7-13; p. 9.

Table 6. Latin American Governments Ranked According to Populist Tendencies[a]

Government	Political goals			Economic policies		
	Labor base	Business alliance	Anti-oligarchy, foreign capital	Budget deficits	Wage increase/ price controls	Overvalued exchange rate
Allende (1970-1973) Chile	++	+	++	++	++	++
Peron (1973-1976) Argentina	++	+	+	++	++	++
Garcia (1985-1990) Peru	++	+	++	+	++	++
Sarney (1985-1990) Brazil	+	++	+	++	++	+
Echeverria (1970-1976) Mexico	+	++	o	+	+	++
Perez (1974-1978) Venezuela	+	++	o	+	+	++

[a]++ -very important/large; + - moderately important/large; o - not important/large. Entries represent peak of populism during given presidential period.

Source: Kaufman and Stallings, 1991, *op. cit.,* note 37, p. 17.

From such a perspective, one may take a look at the history of economic populism in Latin America, where it has lasted for some time, but seems now to be coming to an end since it has been badly compromised. Table 6 identifies those political goals defined as populist and characterizes and evaluates the fiscal, income, and currency policies according to a three-point scale. What appears most interesting is the fact that conclusions have always been drawn from one's own errors, while the errors of others have been ignored. Will this happen once again? Should the future characteristics of the post-communist economies be sought in the Latin American past? While not inevitable, it is certain that such a threat exists. When studying the programs of certain often influential parties that claim the right to govern in Central and Eastern Europe as well as in the post-Soviet republics, one can see an almost ready-made scenario in which the republics advance on the trail blazed by the above-described first and second phases of economic populism. To be sure, in those programs there is usually no talk about the third and fourth phases, since both a vision and a political responsibility are lacking. However, those phases are bound to come, because such is the implacable logic of any policy based on economic populism. Here, too, sufficient and necessary preconditions for the fulfilment of the populist threat are present.

The problems resulting from a drastic fall in real wages and other incomes or from rapidly increasing unemployment arc severe. Unfortunately, the aversion to the inflow of foreign capital is not disappearing. As distinct from Latin America, there is no opposition to domestic oligarchy, since in the post-communist Europe the latter does not exist. Nevertheless, all this is not yet sufficient for economic populism to be the means of determining policy, since other necessary conditions would also have to be met. From that perspective, it is true that while populist movements, policies, and governments exist, a turn towards populism is still some distance away.[36] So, without ignoring the hazard of economic populism - and that, in the case of post-communist economies, is likely to be of a right-wing

[36] R.R. Kaufman and B. Stallings, "The Political Economy of Latin American Populism," in R. Dornbusch and S. Edwards, cds., *The Macroeconomics of Populism in Latin America, op. cit.,* note 36.

character - I believe that the available evidence points to the probability that common-sense pragmatism will prevail with regard to policies of economic growth. However, that is by no means assured.

The problem of economic growth, essentially an economic issue, is also strongly entangled in politics.[37] All the more it must be stressed that a sustainable and balanced economic growth in post-communist countries will not be possible if it is not supported by the sphere of institutions and political relations. In this field, too, the course of events will be determined by both the threats and the prospects for growth. Political polarization - so typical of economies undergoing transition to a market - increases the uncertainty about the future policy and even the system, including such key issues as property relations. In addition, in politically uncertain times, the politicians tend to shorten the time horizon within which they can evaluate the effects of their decisions. That works against economic growth, since it is a factor that discourages long-term investment. Finally, an excessive political differentiation or outright inter-party conflict delays the making of the indispensable adjustment decisions. For example, in Poland, the state budget could not be voted on during the first half of 1992. In countries that emerged from the disintegration of the USSR - and a more spectacular case can hardly be imagined-the lack of coordination of political measures and the protracted constitutional crises make the prospects for macro-economic stabilization and growth even more distant.

Conclusion

Finally, six conclusions can be formulated which emerge from the whole debate on the determinants and implications of stabilization, recession, and growth in the post-communist economies in transition to a market system. First, the time perspective must not be reduced, since the processes in question arc, by their very nature, long-term ones, and the errors in economic policy which have been unfortunately committed make these processes still more protracted.

Second, one must not expect too much or, what is more important, make extravagant promises. If favorable and desired effects sometimes appear, as they are bound to, it is better they should surpass the expectations rather than painfully deceive the population.

Third, one must rely on oneself in the first place. A permanent increase in the propensity to save in societies engaged in market-oriented transformation is necessary, as is an intensification of the investment effort which can be assisted only on a limited scale by external sources of financing the growth.

Fourth, one must learn as much as possible from others, since most of the errors which arc committed, have already been committed somewhere else. So, learning from one's own failures should be minimized, and appropriate conclusions should be drawn from other people's errors. Unfortunately, evidence of such a learning process is in short supply.

Fifth, in spite of the fact that we are talking about the post-communist economies as a kind of subsystem of the world economy, a uniform course of events must not be expected within it - neither with respect to macro-economic stabilization nor *vis-a-vis* sustained economic growth. Some countries will be more successful, others less, and in the foreseeable future the state of affairs within the whole group may become still more differentiated.

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[37] A. Alesina, "The Political Economy of Latin American Populism. Comment," in R. Dornbusch and S. Edwards, eds., *The Macroeconomics of Populism in Latin America, op. cit.,* note 36.

Finally, the future should be optimistically perceived in the long run. Available evidence points to a success of the transformation process as a whole, providing an opportunity for a balanced and sustainable economic growth, above all, on a given state's enlightened, imaginative, active, and responsible economic policy and strategy.