About the Economic Transformation in the Post-Communist Countries of Central Europe

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Abstract: The article describes the initial stage of economic transformation, with the analysis of conditions in which the post-communist countries of Central Europe were in 1989. The basic source factors affecting the dynamics of socio-economic development in these countries are shown too. The method of comparative analysis of the countries of the former socialist bloc considered various factors that may affect the pace of economic transformation. It was found out that there was the faster process of recovery of the market economy in the countries with the objective historical background of the economic decentralization. It has been observed that the rate of nationalization of the economy during the Soviet occupation in different countries was different, and in the countries where nationalization of the economy took the longest time, the standard of living, in particular, GDP per capita was the highest. The influence of the country's population on the pace of economic transformation confirmed.

Keywords: Economic Decentralization, Transition Economy, Central European Economies, Post-Communist Countries, Market Economy.

1. Introduction

1989 was one of the most historically determinative dates of the second half of the XX century. In the countries influenced by the Soviet Union «the velvet revolutions» were held. They were called «velvet», because in all the countries except Romania were proceed without any blood.

R.Pipes explained this process by the conflict among the productive forces and the industrial relations (Pipes, 2003). His point of view coincided with K. Marks’s theory: the technical revolutions, economic progress, the process of globalization were decelerated by the outdated authoritarian and totalitarian bureaucratic regimes in the countries (Marks and Engels, 1959).

After the fall of the socialistic bloc the destinies of the included countries were different. It can be mostly explained by the various initial conditions by the beginning of the economic transformation. This paper shows the reasons why the transition to the market economy was easier in the Central Europe.

2. The Views on the Question.

The economic transformation in the post-communist countries was held with different vectors. One group of the countries including the Central Europe quickly integrated with the Western European countries; another group had its own strategy of development (Manning, 2004). Many scientists researched the issue of the factors influencing the rates of the economic transformation.

O.I. Shkaratan associated the predisposition to the market economy with presence or absence of the etacratic regime in these countries (Shkaratan, 2010). This regime includes the monopolization of the means of production by the government for the long period of time. Referring to G.A. Yastrebov, he reviewed the scheme of the historical spread of the etocratic regime, showed on picture 1. It can be seen that the countries without this regime had a greater tendency to the development of the market economy. Historical background of these countries played the great role in the economic transformation. In the paper this fact will be taken in account and will be seen as the precondition of the economic decentralization.
In some articles we can find the fact that the transfer of the Western technologies in state management stimulating the development of the market economy wasn’t the simple modernization process. The ideology and the political values should be taken into account (Dolowitz and Marsh, 1996; Drechsler, 2005).

L.J. Cook examined the role of the government in the social sphere of the post-communist countries in the Central and Eastern Europe including the post-Soviet Union countries. The difference in the initial conditions in the social sphere of these countries and the results were shown in her research (Cook, 2010).

Various scientists pointed out the different factors influencing the rates of the economic transformation. The constant factor is the population, because the economy of countries with small population greatly depends on the export. They haven’t enough consumers to orient their economies to the internal market. At the beginning of the transformation the post-communist countries had some difficulties with export causing by the exchange of currency, inflation and the discrepancy in quality standards.

3. Economic Situation at the Beginning of the Transformation

Being in the Eastern bloc for a long time affected the economy of the Central European countries. The most demonstrative difference can be seen in GDP per capita among the countries that used to be one state for a long historical time.

For instance, it can be seen in Austria and Hungary, East Germany and West Germany. It showed on pictures 2 and 3. East Germany had the highest living standard of all the post-socialistic bloc countries. According to the United Nations, East Germany took the 21 place in the world by the HDI index of human development. The nearest socialistic country Czechoslovakia took the 25 place, USSR – the 26 place (UNDP, 1990). The probable reasons for economic success of East Germany will be shown later.
In the Czechoslovak socialist republic protests had the big influence on the living standard. The same situation was in Hungary and Poland (Cook, 1993; Haggard and Kaufman, 2008; Inglot, 2008).

In East Germany automobile industry (Trabant, IFA, Robur, Wartburg, etc.), electronics (Robotron), chemical industry, instrument engineering were developed. The country differed from the others by the high standard of living. By the time of its establishment the country had had serious problems. First of all, after the Second World War there were large human loss of men, who could work in different industries. Secondly, there was the loss of production capacities as the result of payments of reparations and after bombing the cities in the war years (bombing of Dresden in February 1945, bombing of Berlin in April 1945).

Thus, there are some logical questions: What is the difference among East Germany and other socialistic countries? What helped the country to recover the economic capacities? How did it influence her transition to the market economy?

4. The Initial Conditions, Influencing the Tempos of Economic Transformation in Central Europe

As obvious precondition of East Germany development the following factor can be pointed out: the geographic nearness to the western countries (West Germany, Austria, Denmark, France) and the fact of the transmition of factories formally taken as reparation by the Soviet Union.

But there was one more important factor typical for this country. The nationalization of factories in East Germany took longer time than in other countries. It was ended in 1972. And in some sector, for example, in food industry the private companies were kept. Comparing to the other countries, the process of nationalization was slower than in other post-socialistic bloc. For instance, in Poland the fact that its industry was destroyed by 70% in the Second World War helped a lot the nationalization, because the country saved small part of its factories. Bulgaria by the time of entry soviet troops the most part of property (87% coal, 73% of electricity, 75% of the credit and banking companies, etc.) had belonged to the government (Zhidkov and Krasheninnikova, 2003). So, the important factor was the tempos of nationalization after the imposition of socialistic regime that had a great impact on the economic development. In the countries, were the nationalization was held slowly, the accumulated experience in entrepreneurship was kept and the competition stimulated innovations in different industries to implant the new technologies arising in the technological revolution.

The other factor, influencing the tempos of economic transformation, was population of the country. If the population is quite small, the economics will depend on the external trading (for example, in Hungary and in the Baltic states). It was difficult to form the high level of export because of the problems with currency exchange and the low quality of products compare to West European standards. In Poland, where the population was 38 million people by the 1989 that was four time more than population in Hungary or Bulgaria (Data base of the World Bank), there was the opportunity to orient the industry to the internal market. It gave the advantage in the transformation. Swiftly developing China had the same experience.
The fact that should be discussed is the objective historic preconditions to decentralization of economics. To develop the regional economics and business competition it was necessary to effectively realize the decentralization of economics. It was easier to do it in the countries with the long term experience of existence with decentralized economics. Especially it could be seen in East Germany. For many centuries Germany consisted in many princely states with their own policy. And in spite the fact that they were united into the Holy Roman Empire, the power of the emperor was weak. The reunion and centralization of Germany finished in 1871, but the industrial centers were in different cities (for instance, in East Germany they were Berlin, Leipzig and Dresden). The other example is Poland. It was decentralized for a long time since her commonwealth with Lithuania because in this country there was strong parliament and elected monarchy. The nobility elected the king by the Diet.

East and South-East Europe hadn’t the same experience or it was insignificant. In Russia the tendencies of centralization have been existed from Ivan the Third up to now.

One more initial condition was the support of Western European countries, the United States and global international organizations (Roaf et al., 2014). In institutional level the post-communist countries aimed to adopt the experience of the developed western countries. It was shown in R. Rose research (Rose, 1993). The Central Europe had the benefit, comparing to other regions, for example, to the Baltic states, that had little contact with the western countries (Randma-Liiv, 2005).

It should also be mentioned the size of the territory, the volumes of energy resources for export as the initial conditions. The USSR practice showed that the big amount of these resources didn’t give any advantages. But in the countries without enough primary products and big territories the question of production intensification was the question of existence. It explains why Czechoslovakia had the first velvet revolution: the conflict between the new productive forces, that needed the new technologies and the old industrial relations built with the authoritarian bureaucracy. This conflict was unavoidable after the reducing of influence of the Soviet Union on this country. In Central European countries with small and modest resources there wasn’t opportunity to hold the extensive production. That’s why the question of structural economic transformation and reformation of political institutions was the most pressing: it was necessary to develop the competition and intensification of economics.

5. Conclusions

Thus, the following factors can be linked to the initial conditions determining the dynamic of transition to the market economy in post-communist countries in Central Europe: Firstly, it is the tempos of economic nationalization after the setting of socialistic regimes that can be seen in East Germany.

Secondly, it is the population of the country that makes it possible to orient the economics to the internal market.

The third and the most important factor was the historical preconditions to decentralization of economics, that in Central European countries were noticeable comparing to the post-communist countries in other regions.

Such factors as the support of foreign countries and global international organizations, the reserves of natural and energetic resources and the size of territory are also important.

6. Literature


