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Chapter 1 : Documentos e RelatÃ³rios - Lista de documentos | Banco Mundial

Ronald I. McKinnon is professor of economics at Stanford University. The author thanks Mikhail Bernstam, Yingyi Qian, and Christine Wong for generously sharing data and ideas. From to China experienced gradual liberalization with a fairly stable price level. The more rapid liberalizations.

Soviet-type economic planning The economic malaise affecting the Comecon countries â€” low growth rates and diminishing returns on investment â€” led many domestic and Western economists to advocate market-based solutions and a sequenced programme of economic reform. It was recognized that micro-economic reform and macro-economic stabilization had to be combined carefully. Price liberalization without prior remedial measures to eliminate macro-economic imbalances, including an escalating fiscal deficit, a growing money supply due to a high level of borrowing by state-owned enterprises, and the accumulated savings of households " monetary overhang " could result in macro-economic destabilization instead of micro-economic efficiency. Unless entrepreneurs enjoyed secure property rights and farmers owned their farms the process of Schumpeterian " creative destruction " would limit the reallocation of resources and prevent profitable enterprises from expanding to absorb the workers displaced from the liquidation of non-viable enterprises. A hardening of the budget constraints at state-owned enterprises would halt the drain on the state budget from subsidization but would require additional expenditure to counteract the resulting unemployment and drop in aggregate household spending. Monetary overhang meant that price liberalization might convert "repressed inflation" into open inflation, increase the price level still further and generate a price spiral. The transition to a market economy would require state intervention alongside market liberalization, privatization and deregulation. Rationing of essential consumer goods, trade quotas and tariffs and an active monetary policy to ensure that there was sufficient liquidity to maintain commerce might be needed. The strategy was strongly influenced by IMF and World Bank analyses of successful and unsuccessful stabilization programmes which had been adopted in Latin America in the s. The strategy incorporated a number of interdependent measures including macro-economic stabilization; the liberalization of wholesale and retail prices; the removal of constraints to the development of private enterprises and the privatization of state-owned enterprises; the elimination of subsidies and the imposition of hard budget constraints; and the creation of an export-oriented economy that was open to foreign trade and investment. The creation of a social safety net targeted at the individual to compensate for the removal of job security and the removal of price controls on staple goods was also part of the strategy. Policy-makers were persuaded that political credibility took precedence over a sequenced reform plan and to introduce macro-economic stabilization measures ahead of structural measures that would by their nature take longer to implement. The "credibility" of the transition process was enhanced by the adoption of the Washington Consensus favoured by the IMF and the World Bank. Western advisers and domestic experts working with the national governments and the IMF introduced stabilization programmes aiming to achieve external and internal balance, which became known as shock therapy. It was argued that "one cannot jump over a chasm in two leaps". They favoured free trade and exchange rate convertibility rather than trade protection and capital controls, which might have checked capital flight. They tended to support privatization without prior industrial restructuring; an exception was to be found in Eastern Germany where the Treuhand Trust Agency prepared state-owned enterprises for the market at considerable cost to the government. It had been expected that the introduction of current account convertibility and foreign trade liberalization would force a currency devaluation that would support export-led growth. Consumers reacted by reducing their purchases and by substituting better quality imported goods in place of domestically produced goods. Falling sales led to the collapse of many domestic enterprises, with personnel lay-offs or reduced hours of work and pay. This further reduced effective demand. As imports grew and exporters failed to respond to opportunities in world markets due to the poor quality of their products and lack of resources for investment, the trade deficit expanded, putting downward pressure on the exchange rate. Many wholesalers and retailers marked prices according to their dollar values and the falling exchange rate fed inflation. The central banks in several countries raised interest rates and tightened credit conditions, depriving state agencies and enterprises of working capital. These in turn found it impossible to pay wages on time, dampening effective demand further. Economic output declined much more than expected. The decline in output lasted until for all transition economies. By , economic output had declined across all transition economies by 41 percent compared to its level. The Central and Eastern European economies began growing again around , with Poland, which had begun its transition programme earliest emerging from recession in The Baltic States came out of recession in and the rest of the former Soviet Union around Inflation remained above 20 percent a year except in the Czech Republic and Hungary until the mids. Across all transition economies the peak annual inflation rate was percent percent in the CIS. Labour force surveys undertaken by the International Labour Organization showed significantly higher rates of joblessness and there was considerable internal migration. Local-manufactured higher quality consumer goods became available and won market share back from imports. Stabilization of the exchange rate was made more difficult by large-scale capital flight, with domestic agents sending part of their earning abroad to destinations where they believed their capital was more secure. Some economists have argued that the growth performance of the transition economies stemmed from the low level of development, decades of trade isolation and distortions in the socialist planned economies. They have emphasized that the transition strategies adopted reflected the need to resolve the economic crisis besetting the socialist planned economies and the overriding objective was the transformation to capitalist market economies rather than the fostering of economic growth and welfare. Although the foundations had been laid for a functioning market economy through sustained liberalization, comprehensive privatization, openness to international trade and investment, and the establishment of democratic political systems there remained institutional challenges. Liberalized markets were not necessarily competitive and political freedom had not prevented powerful private interests from exercising undue influence. Growth in the transition economies had been driven by trade integration into the world economy with "impressive" export performance, and by "rapid capital inflows and a credit boom". But such growth had proved volatile and the EBRD considered that governments in the transition economies should foster the development of domestic capital markets and improve the business environment, including financial institutions, real estate markets and the energy, transport and communications infrastructure. The EBRD expressed concerns about regulatory independence and enforcement, price setting, and the market power of incumbent infrastructure operators. Poverty re-emerged with between 20 and 50 percent of people living below the national poverty line in the transition economies. The UN Development Programme calculated that overall poverty in Eastern Europe and the CIS increased from 4 percent of the population in to 32 percent by , or from 14 million people to million. In other words, it took nearly 20 years to restore the level of output that had existed prior to the transition. The slowdown hit government revenues and widened fiscal deficits but almost all transition economies had experienced a partial recovery and had maintained low and stable inflation since Some nations have been experimenting with market reform for several decades, while others are relatively recent adopters e. In some cases reforms have been accompanied with political upheaval, such as the overthrow of a dictator Romania , the collapse of a government the Soviet Union , a declaration of independence Croatia , or integration with another country East Germany. In other cases economic reforms have been adopted by incumbent governments with little interest in political change China , Laos , Vietnam. Some countries, such as Vietnam, have experienced macro-economic upheavals over different periods of transition, even transition turmoil. Mr Tanzi stated that these spending programs must be financed from public revenues generatedâ€”through taxationâ€”without imposing excessive burdens on the private sector. These outcomes had not yet been achieved by and progress in establishing well-functioning market economies had stalled since the s. Price liberalization, small-scale privatization and the opening-up of trade and foreign exchange markets were mostly complete by the end of the s. However economic reform had slowed in areas such governance, enterprise restructuring and competition policy, which remained substantially below the standard of other developed market economies. The highest inequality of opportunity was found in the Balkans and Central Asia. In terms of legal regulations and access to education and health services, inequality of opportunity related to gender was low in Europe and Central Asia but medium to high in respect of labour practices, employment and entrepreneurship and in access to finance. In Central Asia women also experienced significant lack of access to health services, as was the case in Arab countries. These gains had been driven by sustained growth in productivity as obsolete capital stock was scrapped and production shifted to take advantage of the opening-up of foreign trade, price liberalization and foreign direct investment. The report acknowledged that the academic literature was divided on whether economic development fostered democracy but argued that there was nonetheless strong empirical support for the hypothesis. It suggested that countries with high inequality were less inclined to support a limited and accountable state. Those countries with large natural resource endowments, for example oil and gas producers like Russia and Kazakhstan, had less accountable governments and faced less electoral pressure to tackle powerful vested interests because the government could rely on resource rents and did not have to tax the population heavily. Countries with a strong institutional environment â€" that is, effective rule of law, secure property rights and uncorrupted public administration and corporate governance â€" were better placed to attract investment and undertake restructuring and regulatory change. Open-up trade and finance, which made reform more resilient to popular pressure "market aversion" and meant that countries could access the EU single market either as member states or through association agreements such as those being negotiated with Ukraine, Moldova and Georgia ; Encourage transparent and accountable government, with media and civil society scrutiny, and political competition at elections; Invest in human capital, especially by improving the quality of tertiary education. There are countries outside of Europe, emerging from a socialist-type command economy towards a market-based economy e. Moreover, in a wider sense the definition of transition economy refers to all countries which attempt to change their basic constitutional elements towards market-style fundamentals. Their origin could be also in a post-colonial situation, in a heavily regulated Asian-style economy , in a Latin American post-dictatorship or even in a somehow economically underdeveloped country in Africa.

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Chapter 2 : How History Matters in Post-Socialist Economies â€“ Developing Economics

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The Berlin Wall fell in and by the end of the Soviet Union disintegrated bringing down the entire socialist institutional edifice. Newly independent nation-states emerged across Europe, the Caucasus, and Central Asia. Despite the independence premium in national policy and in parallel with evidence suggesting recent strong economic growth the post-socialist economies are yet to achieve the ideals announced at the outset of market reforms. Ironically, the most unfortunate economic plan was the s script of transition from planned economy to free market in the EE and FSU. By , this same group barely claimed 6 percent of the global output share. The largest economy in the group, Russia, averaged 3 percent of the global share in , with remainder going to the smaller FSU and EE economies. On a macro scale GDP levels across majority of countries would only rise back to the levels by late In many cases this would not occur until the mids e. Armenia, Bulgaria, Croatia, Romania, and others. And as of measurements, for some countries such as Georgia, Moldova, Serbia and Montenegro, and Ukraine, broad GDP levels are yet to come back to pre-reform levels. The macroeconomic trinity reforms of liberalization, privatization, and stabilization were the tangible triggers of the change. The choice was made to reform quickly, abruptly severing all ties from the socialist past. The adopted macroeconomic policy packages called for rapid dismantling of the existing economic and political system paving the way to the rise of private enterprise and competitive market institutions. The collapse of the socialist common market Council for Mutual Economic Assistance or CMEA led to a breakup of established supply lines across the region, most severely affecting the smaller FSU and those in Southeast Europe economies. At the same time, macroeconomic research analyzed the timing, sequence, and intensity of reforms e. Fischer and Gelb, The reality There is hardly any need to re-tell the known story. While the early declines in industrial growth and productivity might have been expected, hardly anyone foresaw the massive economic and social degradation at the time. Despite the general negative trend, there were some notable exceptions. For example, Belarus, instead, saw an increase of More concretely, only a handful of countries reached the per capita income levels as of as can be inferred from Figure 2 contrasting GDP per capita levels of and to the pre-reforms, , level. Interestingly, economies either strong European Union integration or relying on other development transfers have performed better. For some countries, Ukraine, Georgia, Tajikistan, etc. Per capita numbers are adjusted for population changes. Considering large scale migration out of these countries, the macroeconomic landscape outside of the large central city becomes loses some of its gloss. What is not obvious in this contrast, often portrayed as the success of shock therapy, is the factor of initial economic conditions, in particular in some Eastern European countries. For example, the Czech Republic, Hungary, and Poland would be the most industrialized in the group, as evidenced in monumental archival work by Wlodzimierz Brus in larger study by M. Post-World War II investments into heavy machinery and consumer products industries reached close to 50 percent and in some places more of the total, with remainder going to agriculture and services. Finally, majority of the EE economies were able to tap international capital markets, mustering some investment in upgrading their capital funds and technology, despite getting into debt and eventually opting for International Monetary Fund bailouts e. Desperate to flee from jobless growth conditions a term used by the World Bank to describe situation of growth in the region without creating new jobs , military conflicts, migration, led by temporary labor migration , climbed to recent history highs, exacerbating population losses from Bulgaria, Moldova, to Armenia, and to Tajikistan. For some of these countries remittances, the small monetary transfers that migrants send back home to support their families, have become instrumental to every day survival, averaging up to 20 and more percent of annual GDP levels. These transfers continue to play an important financial supporting role across mostly rural communities in countries lacking institutional structures channeling remittances towards economic development initiatives though some proposals suggest a migration development bank to serve the purpose. Institutions will come along Continuing with the concept of initial conditions there is a duality: As mentioned above, the economic footing of the region varied, more favorably for the industrialized EE economies and less so for the CMEA dependent FSU, other than the larger commodity exporters in the group. A similar argument is found in an earlier study by Vladimir Popov finds the lack of financial and technological upgrade of the fundamental industrial capacity of the Soviet Union by by the early s as a major critical factor worsening the subsequent s recession. Both observations, could be argued to be in parallel with the Kondratieff cycles concept, which has recently resurfaced as a possible conceptual framework in the post crisis analytical and policy work. Of course, the unexpected element in the s reforms was the dominance of the evolutionary and transformative nature of institutional development. This leads to the other side of the mentioned duality. There is no lack of relevant research in the problem of institutional change e. In the post-socialist context, the problem of the s transition policies was standardization across macroeconomic and evolving institutional change, in absolute dissonance with country specifics. Jackson and Deeg, and Vonnegut, More substantially, Yegor Gaidarâ€"the architect of the s economic transformation in Russiaâ€"offered a sober analysis in one of his last contributions Gaidar, , recognizing the socially disruptive nature of the s institutional vacuum. This necessarily implies gradual institutional emergence and adaptation to the new social norms and business practices, as the dynamic self-regenerating process of economic development takes over. Complementing the debate, Puffer et al. The former approach may help explain better the diversity of post-socialist economic models. Certainly, the question of the final destination must be openly discussed. And still, in a recent update to the World Economic Forum , Eshe Nelson raised much concern about sustainability of strong economic growth and progressive social change in the region. Strikingly, perhaps to some observers, the reference is in to the top EE performing economies. For example, the author draws attention to unsustainable government spending in Romania or rise of populist business people in Czech Republic elsewhere; often disconnect between policy intentions of Poland e. From Southeast Europe to Caucasus and Central Asia, the smaller is the country the stronger is the challenge of securing broader economic activity, attracting competitive foreign direct investment, avoiding underdevelopment, and sustaining social inclusion; all without falling into dependence on the earlier mentioned expatriate remittances feeding into consumption cycles or significant levels of debt pile-up. Why is this important now? Still, there can be no doubt, today post-socialist societies of Eastern Europe and the former Soviet Union live in a more open cultural, political, and economic environment. However, analysis of the causes of the s massive economic losses and degradation of the living standards must necessarily be connected with the dynamic history of the region. In broader context, the market liberalization reforms were the signals triggering a more systemic disruption, in turn exacerbated by the disparities of the preexisting conditions of the socialist economic model of the time. Perhaps one of the difficulties for a nation is to become content with its own history. This is less so about repeating history but more about ability to objectively settle the past discontents to seek pragmatic balance of the present. These challenges are visible across the post-socialist geography, from Central Europe to Caucasus and Central Asia. As for the future, it is by definition bright, progressive, and prosperous, which seems to be a unifying end goal here as it naturally should be, perhaps. And so while the past remains debatable and difficult to accept, while the future is full of promise, the present remains important as ever. History teaches that to move forward, much attention should be given to the complexity of country specifics, regional dynamics, and, unsurprisingly, history itself. This, perhaps, would be the most critical lesson one is to draw from the late 20th century massive transformation of the societies and economies of Eastern Europe and the Former Soviet Union as it is relevant to contemporary macroeconomic and institutional processes. It is tempting to find salvation in a rapid action. Perhaps, under certain conditions it may even be the right approach. Yet, from a social dialectic a more evolutionary approach might be more prudent instead. Transformation, Development, and Society in Eastern Europe and the Former Soviet Union is available via Routledge for purchase as well as for editorial reviews and via Amazon.

Chapter 3 : Money Demand and the Potential of Seigniorage in China. - CORE

than in the Asian socialist economies, the possibility of, and the immediate gains from, returning to smallholder agriculture were more limited. 66 Gradual versus Rapid Liberalization in Socialit Economies.

A general measure of inflation tax revenue, Central banks and seigniorage: A study of three economies in transition, Macroeconomic Stability in a Decentralized Cointegration and error correction: Representation, estimation, and testing, Development Challenges in the New Century, Washington: World Bank Country Study. Does it matter how seigniorage is measured? Economic reform and the demand for money Fiscal adjustment, financial liberalization and the dynamics of inflation: Some evidence from Zambia, World Development, Government revenue from monopoly supply of currency and deposits, Gradual versus Rapid Liberalization in Socialist Economies: Financial Policies in China and Russia Compared, Is there a long run demand for currency in China, Likelihood ratio tests for auto-regressive time series with a unit root, Measurement of repressed inflation in China, Modeling demand for money in China: An approach dealing with the small sample size, in Banking and Financial Control in Reforming Planned Economies, Monetization, economic development and the exogeneity of money, Monetization, financial liberalization and economic development, Money creation and financial liberalization in a socialist banking system: Tanzania, , World Development, Money demand and seignioragemaximizing inflation, World Bank Working Papers, Money demand in China: The effect of economic reform, Seigniorage and the case for national money, What is it and who gets it? The demand for money, The great crash, the oil price shock, and the unit root hypothesis, The monetary dynamics of hyperinflation in Studies in the Quantity Theory of Money, The monetization process in China during the economic reform, Towards estimating the demand for money in China, Urban credit cooperatives in China,

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Chapter 4 : What is the difference between Communism and Socialism? | Investopedia

What is the difference between Communism and Socialism? By David Floyd Updated January 5, â€" Communism and socialism are umbrella terms referring to two left-wing schools of economic thought; both oppose capitalism. These ideologies have inspired various social and political movements since the 19th century. As a system of government, communism tends to center on a one-party state that bans most forms of political dissent. Socialism can refer to a vast swath of the political spectrum, in theory and in practice. Its intellectual history is more varied than that of communism: Socialists can be pro- or anti-market. They may consider the ultimate goal to be revolution and the abolition of social classes, or they may seek more pragmatic outcomes: Social Security is a socialist policy that has been adopted in the unabashedly capitalist U. Socialists may run for election, forming coalitions with non-socialist parties, as they do in Europe, or they may govern as authoritarians, as the Chavista regime does in Venezuela. The document laid out a theory of history as a struggle between economic classes, which will inevitably come to a head through a violent overthrow of capitalist society, just as feudal society was violently overthrown during the French Revolution, paving the way for bourgeois hegemony the bourgeoisie is the class that controls the means of economic production. Following the communist revolution, Marx argued, workers the proletariat would take control of the means of production. After a period of transition, the government would fade away, as workers build a classless society and an economy based on common ownership. Production and consumption would reach an equilibrium: The Bolshevik revolution in overthrew the Russian czar and following a civil war established the Soviet Union, a nominally communist empire that collapsed in The Soviet Union was only "nominally" communist because, while ruled by the Communist Party, it did not achieve a classless, stateless society in which the population collectively owned the means of production. In , Premier Nikita Krushchev declared that the Soviet state had begun "withering away," though it would persist for another three decades. When it did collapse in , it was supplanted by a nominally democratic, capitalist system. No 20th- or 21st-century communist state has created the post-scarcity economy Marx promised in the 19th century. More often, the result has been acute scarcity: Socialism Socialism predates the Communist Manifesto by a few decades. Some called for the state to take a central role in production and distribution. Marxism emerged in this milieu. Engels called it "scientific socialism" to distinguish it from the "feudal," "petty-bourgeois," "German," "conservative" and "critical-utopian" strains the Communist Manifesto singled out for criticism. Socialism was a diffuse bundle of competing ideologies in its early days, and it stayed that way. Since the 19thcentury, a hard-left brand of socialism has advocated radical societal overhaul â€" if not an outright proletarian revolution â€" that would redistribute power and wealth along more equitable lines. Strains of anarchism have also been present in this more radical wing of the socialist intellectual tradition. On the other hand, socialism has acted as an incubator for movements that are generally labeled far-right.

Chapter 5 : Transition economy - Wikipedia

Gradual Versus Rapid Liberalization in Socialist Economies: Financial Policies in China and Russia Compared by Ronald I McKinnon starting at. Gradual Versus Rapid Liberalization in Socialist Economies: Financial Policies in China and Russia Compared has 1 available editions to buy at Alibris.

The economic strength of the country was intensified constantly. Meanwhile, East European countries and Baltic States advocated radical reforms and rapid transformation. So, it is difficult to say which is better between Shock Therapy and Gradualism. According to different views, this essay will explain the debate in detail. A substantial amount of state property has been privatised and most markets for goods and services are now liberalised. In the transition process, Central and Eastern Europe CEE opened to Western business in expecting a positive contribution to the transition process. Meanwhile, East European countries and Baltic States advocated radical reforms and rapid transformation, i. Unfortunately, the result was these countries suffered 2 to 3 years fall in output, while their CIS counterparts were doing much worse. Now China is called the fastest developing country in the world. Why can China avoid recession and get high growth rates? Some people argued that the reason is China takes the step-by-step approach gradualism to economic transformation. So most people think that the Chinese model of economic reform represents a gradual two-track approach, which is different from the radical "Big-Bang" Shock therapy approach pursued in Central and Eastern Europe and the former Soviet Union. The result is in a recent debate about relative merit of gradual versus shock therapy approaches to the transition, the gradualist view was overwhelmingly dominant Roland, and Sachs and Woo, Now, it is time to finish the debate: Shock Therapy Versus Gradualism. This essay will present an explanation from another completely new scale to analysis the reason why CIS countries and China have the different results during the transition process. This essay will demonstrate it with a special explanation in detail. Why will be the debate finished? More than a decade ago, on the eve of transition, there was a famous debate between shock therapists and gradualists. In fact, some East European countries, Baltic states and CIS counterparts suffered nervous recession, even several countries were doing much worse then expectation. So many economists thought gradualism was better than shock therapy; however, some economists argued that the reason that shock therapy failed was those countries did not fulfil the shock therapy carefully and completely. However, there is an exception is Vietnamese reformers introduced Polish style shock therapy treatment. Comparing with China, these two countries shared a lot of similarities in initial conditions and achieved basically the same results immediate growth of output without transformational recession despite different reform strategies. How to explain the series of phenomena? Not only shock therapy but also gradualism cannot simply analysis the examples mentioned above. So here it is necessary to give several explanations from another scale to finish the debate. Other new explanations Since the shock therapy and gradualism cannot explain the above complex phenomena. It is necessary to explain this phenomenon from another scale. Kornai thought that any generalization about Eastern Europe and the former 17 Vol. One cannot put them all in one basket. It depends on what component of the economy you are looking at. Therefore, next sections will analysis it from different aspects. One of them surveyed by Dewatripont and Roland , McMillan , Blanchard , Qian , Maskin and Xu , and Roland , uses formal models of endogenous transaction costs to analyze economic transition. But, the formal models are too simple to capture the complexity of institutional. The core of transition is a large-scale shift of constitutional rules Sachs and Pistor. So, economic transition i. Due to the lack of constitutional thinking among economists, some economists easily jump to the conclusions by looking only at the short-term economic effects of different approaches to the transition. Now according to Vladimir. From the exception of the success of gradual reforms in China and shock therapy in Vietnam, it is clear that strong institutional framework does work very well. Furthermore, for the relative success of radical reforms in East European, especially in Central European countries, strong democratic regimes and new market institutions emerged quickly. In addition, comparing Gorbachev reforms with Yeltsin reforms in

Russia, the former reforms failed not because they were gradual, but due to the weak of the state institutional capacity leading to the inability of the government to control the flow of evens; the later forms as well as failed not because of the shock therapy, but due to the collapse of the institutions needed to enforce law and order and carry out manageable transition. In all, when the vacuum in the rule of law via authoritarian regimes including communist is filled by gradually building property rights and institutions, the transition process tends to success. However, without the newly developed democratic mechanisms needed to guarantee property rights, contracts and law and order, these countries deemed to have a devastating impact on output. In a sense, the process of the collapse of output in transition economies is best described by the strength of institutions. However, as mentioned before, there are many differences during the transition economy among the transition countries. So this paper not only focuses on the institution but also concentrates on the initial conditions and distortions in industrial structure and trade patterns to illustrate the collapse of output. Because the worse initial conditions for transformation, the greater the probability of the deep transformational recession, and hence the more likely delays in liberalization. And also he mentioned, the greater the magnitude of these distortions inherited from the CPE, the more pronounced the reduction of GDP during the transformational recession. Because there are barriers to capital and labour flows, such as poorly developed banking system and securities market, the lack of accepted bankruptcy and liquidation procedures, and so on. The reallocation of resources is associated with temporary loss of output. The first initial condition will be explained is high defence expenditure. In most socialist countries, defence expenditure was very high. So the reduction of this expenditure was not offset by increase in non-defence output. At the same time, Vladimir though, distortions in industrial structure were very important. However, Chinese and Vietnam reforms were not constrained by distorted infrastructure in industry and especially in agriculture. Form the results of the two different reforms it is easy to understand that, during transition period, the countries with huge distortions in fixed capital stock infrastructure in industry were doomed to experience transformational recession. As Vladimir said, even in China large state enterprises in heavy industry proved to be the bottleneck in the whole reform process. So it is clear that the restructuring from industry to services was the major reasons for the transformational recession, rather than depended on shock therapy or gradualism. Comparing the degree of openness of socialist economies with market economies, it is obvious that in many socialist countries, their external trade was relatively larger than it was in similar market economies. However, as Vladimir mentioned that, after the transition in most countries, trade was relatively underdeveloped. The reason was distortions existed in the external trade. For example, the prices used in the former Soviet republic trade were completely different from those on international markets. There is a valuable example is the disproportions associated with the size and specialization of enterprises. Compared most enterprises in the CPEs were very large and with China, Vietnam, where enterprises were relatively smaller. On the contrary, half of all employees worked at large enterprises with personnel of over in Czech, Romania and Soviet republics. So restructuring should have been accompanied by greater reduction of output in East European countries rather than in China and Vietnam. All in all, differences in performance during transition not only depend on the institutional capacity but also on the pre-transition levels of GDP per capita and distortions in industrial structure and external trade patterns. However, institutional reform is dominant strength. With strong institutions, it turns out that the fall in output in transition economies was associated mostly with the initial conditions Conclusion In a recent debate about relative merit of gradual versus shock therapy approaches to economic transition, different people have different ideas about these two approaches. In fact, it is difficult to use one approach to explain the complex transition economy. So this essay attempts to explain the differences in transition process from another scale. Due to the lack of constitutional thinking among economists, it is obvious that it will tend to focus on the surface phenomenon. With the strong institutions, accounting for the initial conditions and external environment, it is easy to understand the differences in different countries and different transition economies. In conclusion, forget the shock therapy and gradualism because it is time to apply another approach to analysis the transformational recession. Big Bang Vs Gradualism: Turning the Sequence Upside-Down. Economic

Reforms and Constitutional Transition: Magazine on line summer Maskin, Eric and Chenggang Xu. Soft Budget Constraint Theories: From Centralization to the Market. Annual Bank Conference on Development Economics. Institution traps and Economic Reforms. New Economic School, Moscow. Politics, Markets and Firms: Journal of Policy Reforms, forthcoming. Shock Therapy Versus gradualism: The end of the Debate. Published by the Association for Comparative Economic Studies.

Chapter 6 : Shock Therapy versus Gradualism: The End of the Debate | Gang Wang - calendrierdelascienc

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