Privatization/Liberalization and Growth: Evidence from a Natural Experiment of European Economies in Transition

Chander Kant
Seton Hall University
Email: ckshnj@yahoo.com

We examine the relationship between privatization/liberalization and growth using comparable pre-1991 data also. For transition countries with such data, Bulgaria, Hungary, Poland, and Romania or BHPR countries, a regime change to market economy increased their catching-up-to-the-US rate from 1.66% to 2.25%, while TFP's contribution to output is almost the same in the two periods. Reforms did not impose any short run costs on these countries while the CIS countries fell-behind so sharply that they have still not recovered their 1991 relative income level. The greatly different post-1990 growth in short/long term cannot be explained by differing emphasis on external or price liberalization or privatization - the emphasis was not different. While TFP is behind growth of both, physical (human) capital is the additional factor in Baltic and ex-Czechoslovakian (ex-Yugoslavian) countries. Negative contribution of human capital is the sole reason underlying falling-behind of the CIS countries since 1991. Based on catching-up/falling-behind during the longest period for which we have reliable and comparable data, CIS countries have no prospect of ever equaling US or German income, BHPR countries will reach income equality with the US (Germany) in 90 (108) years; Baltic and ex-Czechoslovakia countries in 67 (91) years, and ex-Yugoslavia countries in 101 (203) years.