

Special IARIW-HSE Conference
Experiences and Challenges in Measuring Income and Wealth in CIS Countries and
Eastern Europe
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How and why has Eastern Europe lagged behind the West for (at least)
two centuries? Long-term patterns of economic growth and
development in Central, East and South-East Europe since 1800

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1989 as “The End of History?”

- Influential essay (1989) and book (1992) by Francis Fukuyama:
“What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such.... That is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.”

Intriguing combination of Christian eschatology, European enlightenment (Kant 1784, “Idea for a Universal History with a Cosmopolitan Purpose”) and American Dream gone global

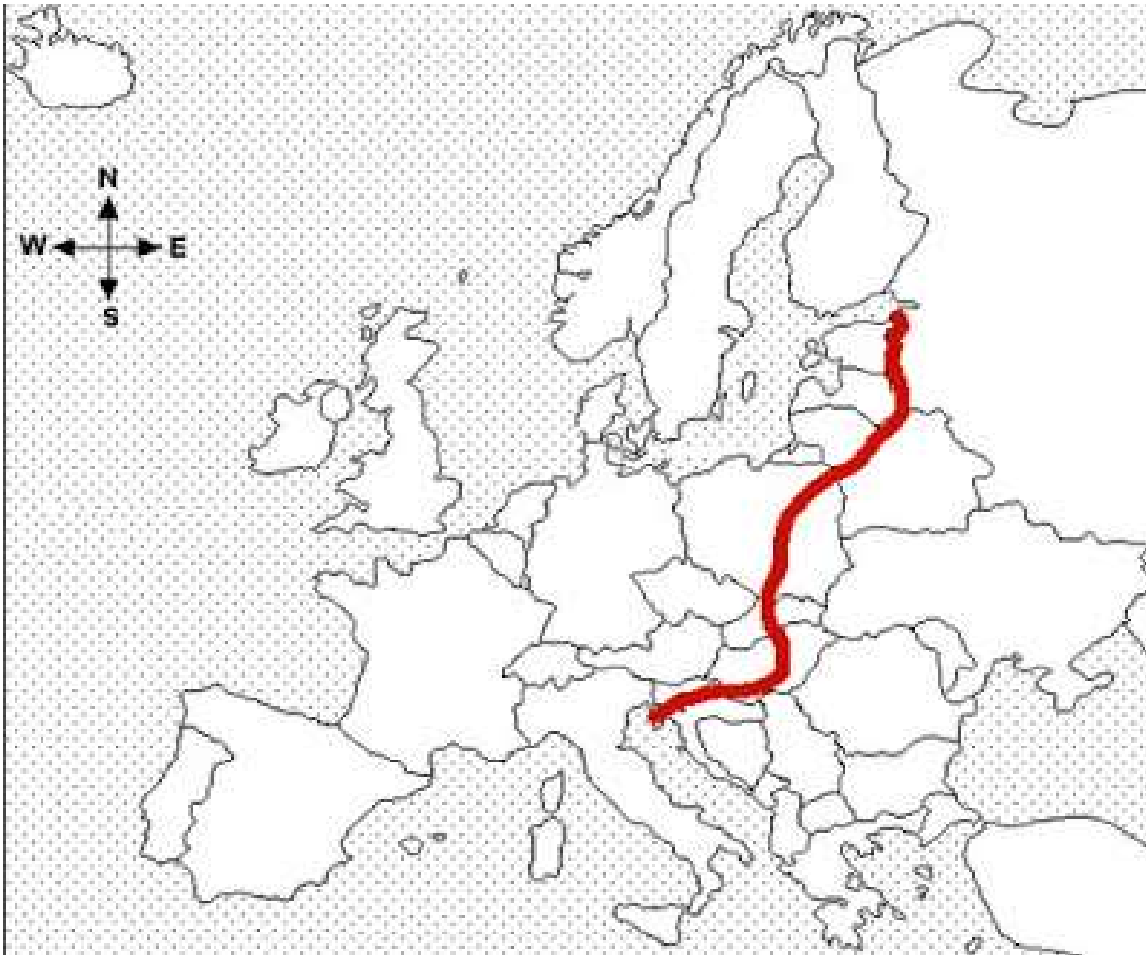
- Economic equivalent of political hypothesis: rapid economic convergence with Western Europe and the U.S. (Robert Lucas and many others)

Yet history has not ended...

- Liberal democracy is clearly not the only game in town
 - It has come under more pressure since 2008 global financial crisis
 - Sometimes by the people who overthrew communism (Hungarian PM Orbán)
 - President Putin: “The liberal idea has become obsolete. It has come into conflict with the interests of the overwhelming majority of the population.” (28th June 2019, interview with the *Financial Times*)
- Has Iron Curtain been replaced by a persistent wealth and income gap?
 - Berlin – Lviv: 922 km by car but GDP per capita higher by factor 20 (\$42,481 vs. \$2,101; “only” factor 6 based on ppp-adjusted GDP)
- Problematic assumption of 1989 ‘optimists’: no political and economic differences between West and East before communism?

Curtains before the Iron Curtain?

Hajnal (1965): two different demographic regimes separating
“Western” and “Eastern” Europe



- Pan-European comparison based on early 20th century vital rates but substantial statistical evidence for long-run pattern
- Hajnal line St. Petersburg – Trieste:
“love it or hate it”
- Often criticised but never completely overturned (Dennison&Ogilvie 2014, Cvrcek 2019)
- Remains important cornerstone: Clark (2007), De Moor and Van Zanden (2010), Galor (2011), Voth and Voigtländer (2013)

Book & research project on Eastern European economic history

What do we know about Eastern European economic history?

- Provide a first ever Quantitative Economic History of Eastern Europe
- “The Economic History of Central, East and South-East Europe, 1800 to the present day” (Routledge 2019, forthcoming)
- Edited by myself, 25 authors from North America, Western and Eastern Europe
- Brought together very different historiographical traditions
 - Eastern Europe: Russia and other Soviet Union successor states located in Europe
 - Central Europe: Visegrad countries (Poland, Hungary, Czech Republic, Slovakia)
 - South-East Europe: Albania, Bulgaria, Greece, Romania, Yugoslav successor states→ CESEE: Central, East and South-East Europe

4 main research questions

- Long-term factors impeding economic growth in the region (serfdom, demography, institutions, market access and integration)
- Income levels by the time of the communist take-over (or forced industrialisation policies)
- Economic assessment of the state socialist period
- Successes and failures of the transition period since early 1990s

Structure of this presentation

- Long-term growth figures

GDP numbers for all CESEE economies on annual basis since WW I

Before 1914: mostly annual, sometimes only spot estimates

(e.g., Serbia in 1910)

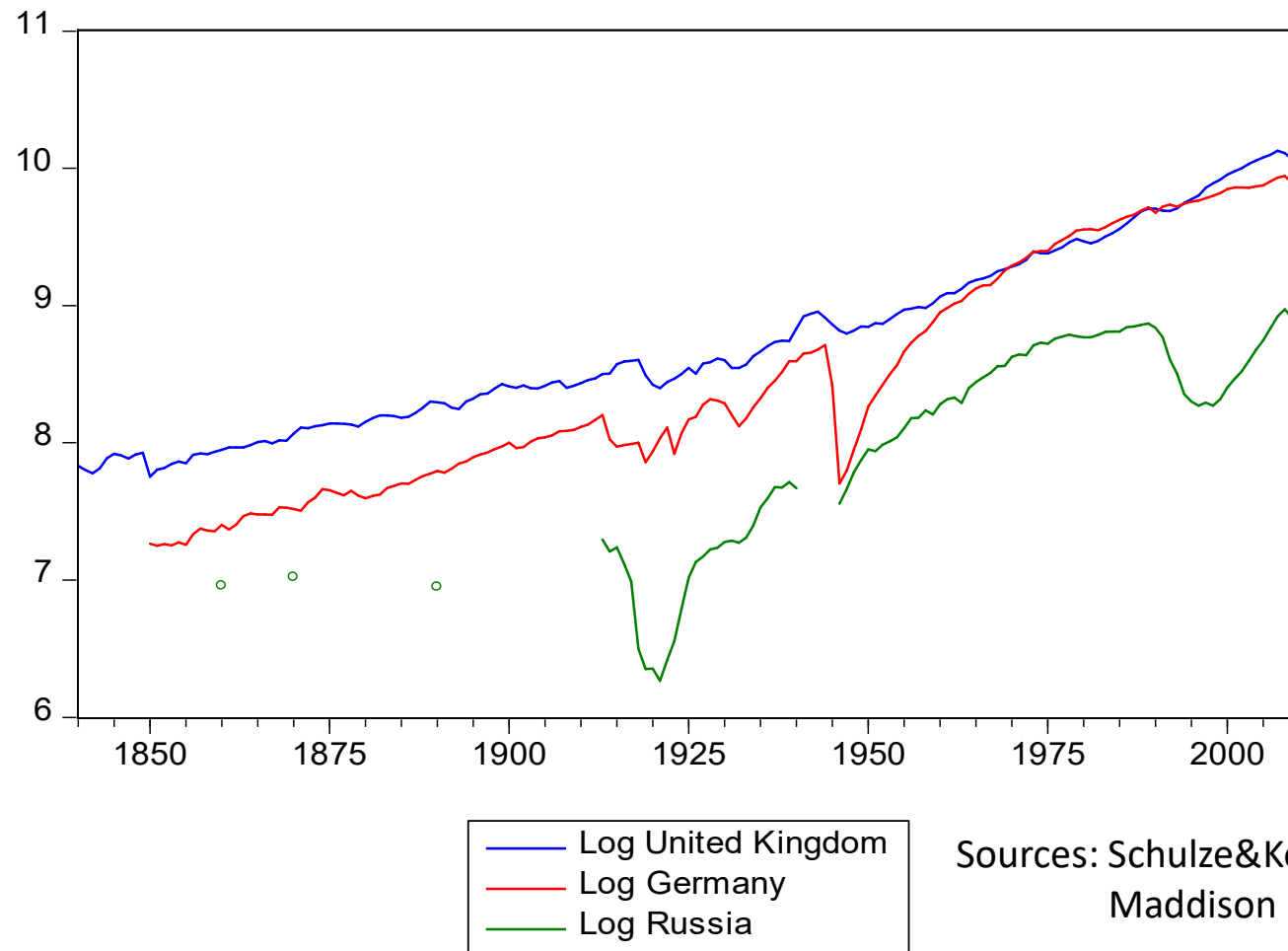
partly systematic overview, partly new reconstruction

(e.g., Russia before 1880s)

- Economic assessment of communism / state socialism

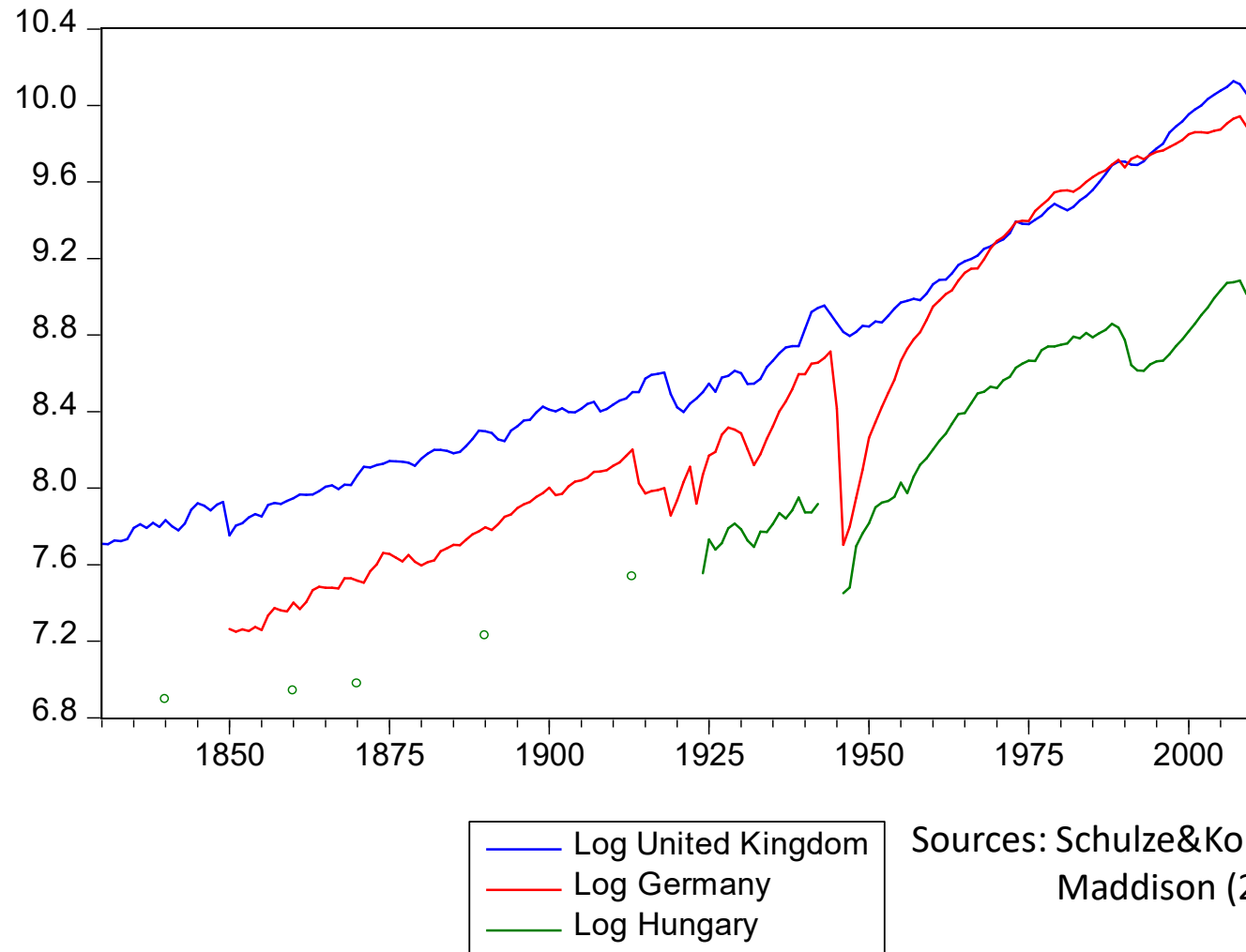
(= 3rd question mentioned above)

Eastern Europe: GDP per capita Russia / Soviet Union vs. Britain, Germany



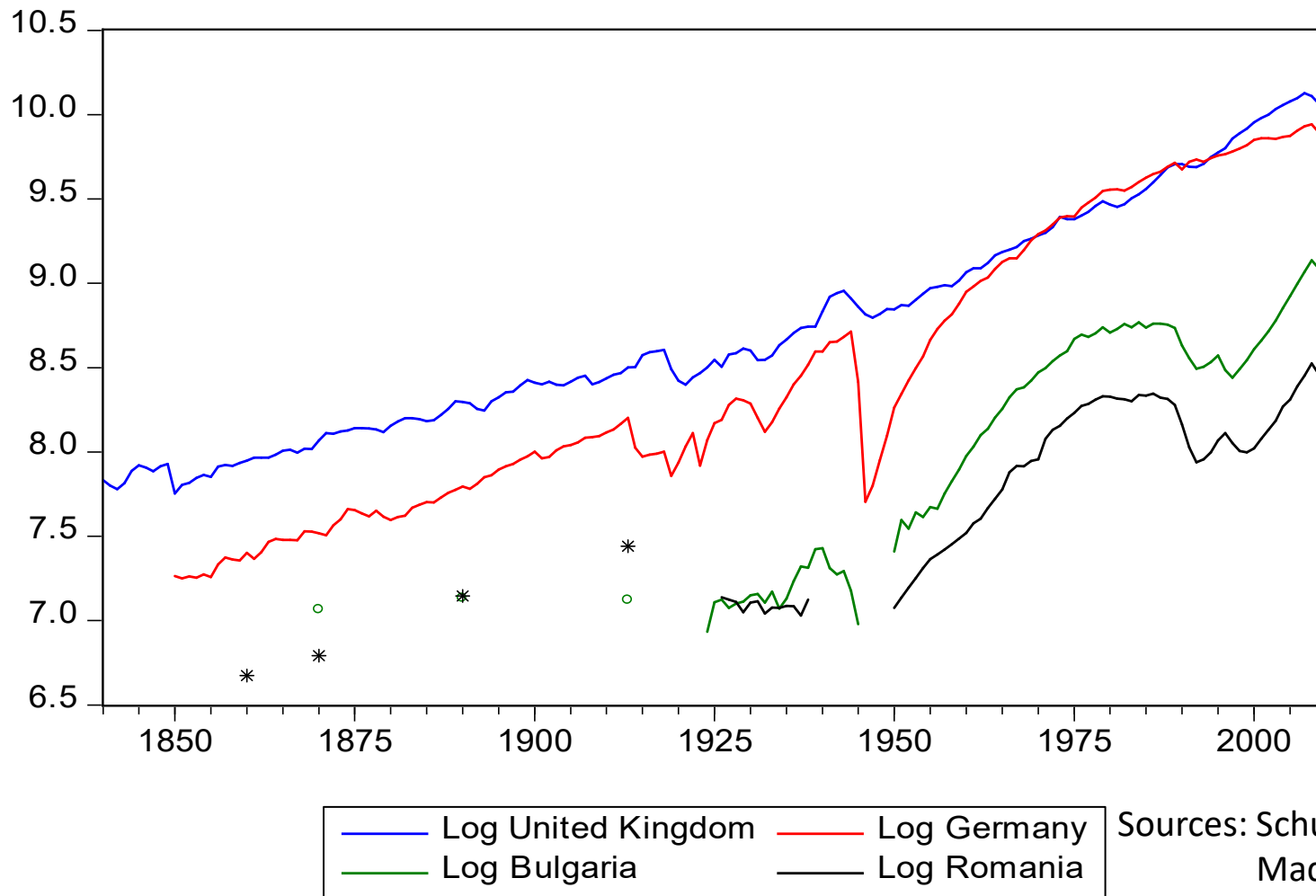
Sources: Schulze&Kopsidis (2019),
Maddison (2013).

Central Europe: GDP per capita Hungary vs. Britain, Germany



Sources: Schulze&Kopsidis (2019),
Maddison (2013).

South-East Europe: GDP per capita Bulgaria, Romania vs. Britain, Germany



Sources: Schulze&Kopsidis (2019), Maddison (2013).

Convergence or divergence to Western Europe?

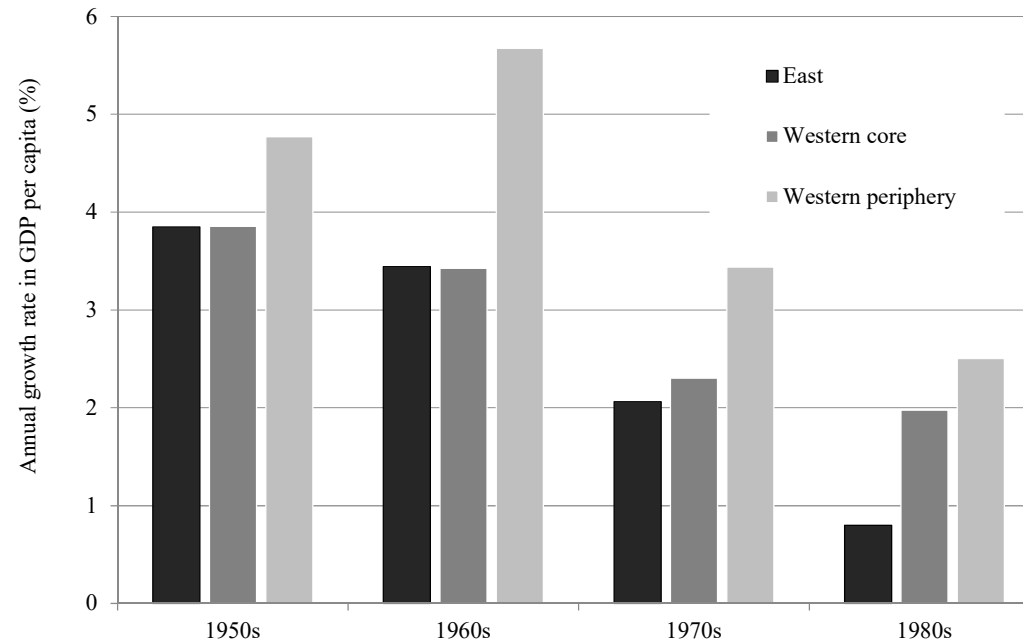
Mid-19th century - 2008

	Central Europe	Eastern Europe	South-East Europe
Representative country	Hungary	Russia	Bulgaria, Romania
1 st observation	1840	1860	1870 (1 st common obs.)
GDP p.c. as % of Britain	39.1%	37.1%	32.3%
2 nd observation	1938	1938	1938
GDP p.c. as % of Britain	42.4%	34.3%	21.9%
3 rd observation	2008	2008	2008
GDP p.c. as % of Britain	35.9%	32.0%	29.1%

Sources: Schulze&Kopsidis (2019), Maddison (2013).

- No clear evidence of long-run convergence with Western Europe
- CESEE countries have operated typically at 1/3 of Britain and Germany
- Intra-CESEE performance: Central Europe > Eastern Europe > South-East Europe

Decadal growth rates 1950s – 1980s: CESEE vs. Western core and periphery



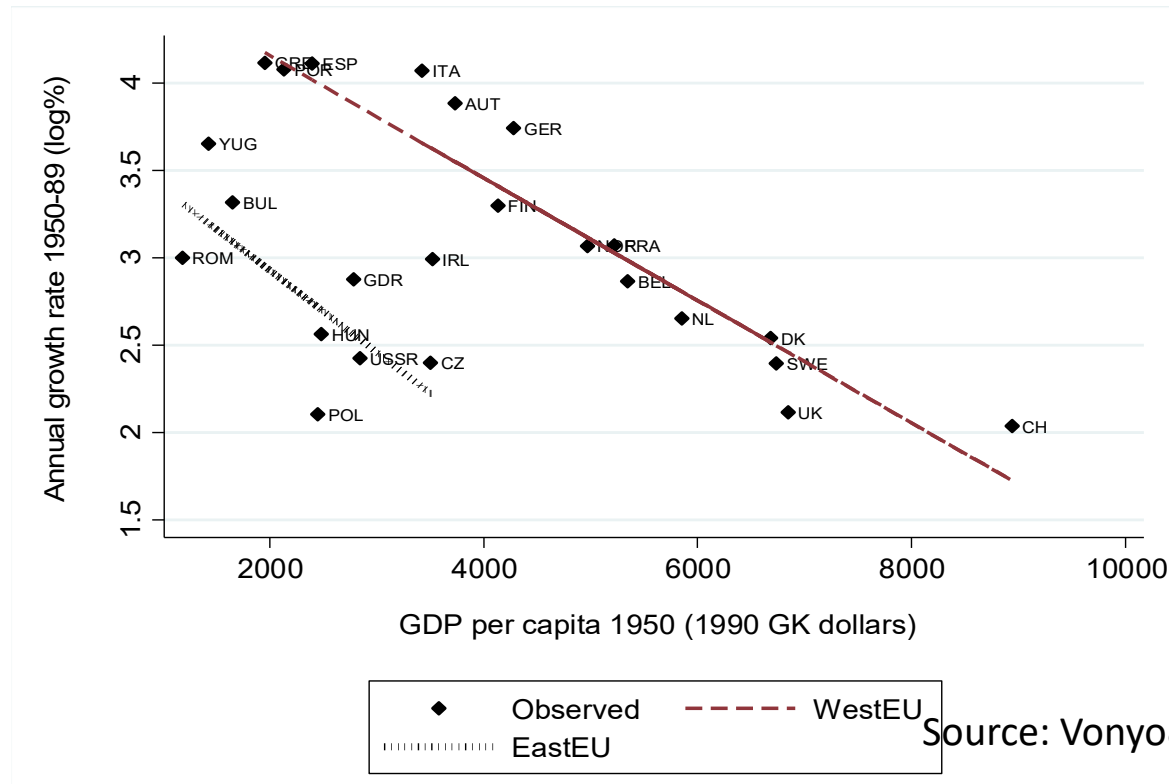
Source: Vonyo&Markevich (2019)

CESEE: Bulgaria, Czechoslovakia, Germany (East), Hungary, Poland, Romania, U.S.S.R., Yugoslavia

Western core: Austria, Belgium, Denmark, France, Germany (West), Netherlands, Norway, Sweden, Switzerland, U.K.

Western periphery: Finland, Ireland, Greece, Italy, Portugal, Spain

Two convergence clubs: West vs. East



Convergence hypothesis works for both West and East but

- Predicts higher growth in the West
- Explains better the West's growth performance

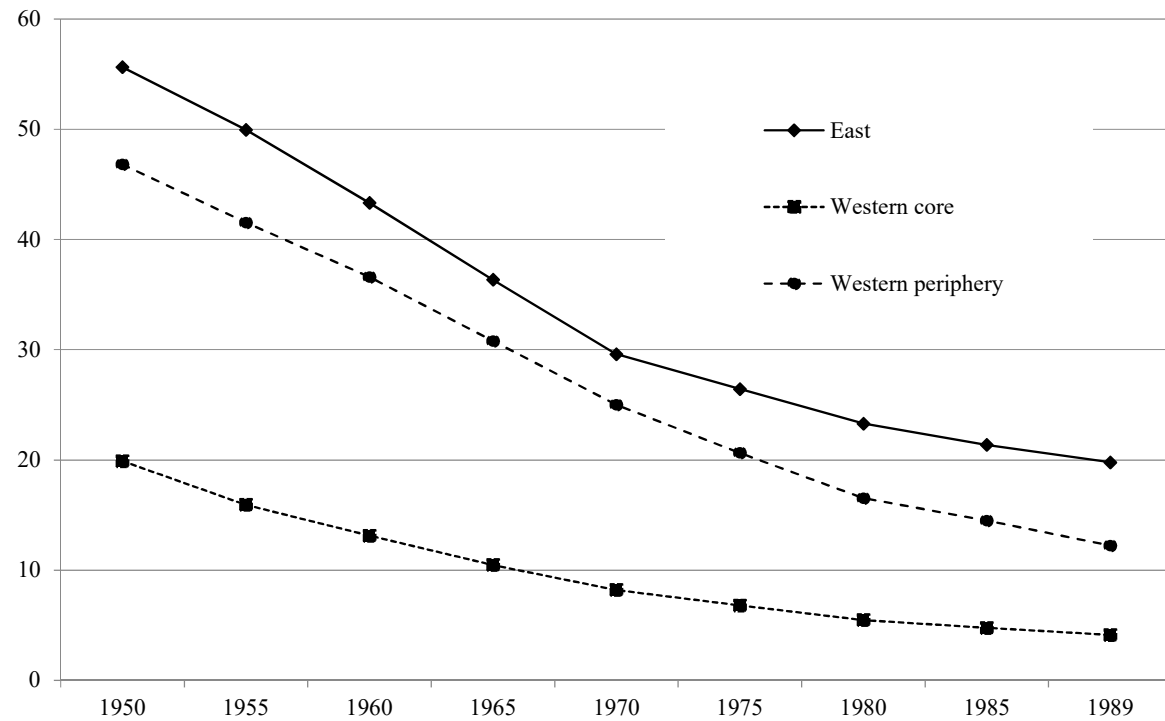
What was communism good at?

- Aggregate data (GDP): communism (state socialism) allowed countries to perform well against their own past but not against capitalist economies
- What, then, was communism good at?
 - (1) pushing structural change
 - (2) enabling fixed capital formation
 - (3) health and human capital formation
 - (4) equality
- Why?
 - (1) & (2): coercive nature of communism
 - (3)&(4): political commitment of communism? (equality vs. liberty)
- Winston Churchill : “The inherent vice of capitalism is the unequal sharing of blessings. The inherent virtue of socialism is the equal sharing of miseries.”
(House of Commons 22nd October 1945)

Pushing structural change?

- Structural change: re-allocation of the labour from agriculture to industry (and later from industry to services)
- Schulze&Kopsidis (2019) document “growth without structural change” in the long 19th century
- Well-established historiography on the importance of structural change for economic growth (Dennison 1967, Cheremukhin et al. 2017)
- Allen (2003): “From farm to factory” (monography on Soviet industrialisation)
- Vonyo&Markevich (2019): structural change did not go far enough

Agricultural share of total labour force West vs. East, 1950-1990



Source: Vonyo&Markevich (2019)

Fixed capital formation: East vs. West

- “rise and fall of communism” often explained in terms of comparative advantage of the two economic systems
- $Y = T * f(K, L)$
- Extensive growth: Y increases as a result of higher K, L
- Intensive growth: Y increases as a result of higher T (technology, TFP)
- Communism is good at extensive growth (Preobrazhensky 1926)
- Capitalism is good at intensive growth (Hayek 1960)

- 1950s & 1960s: extensive growth dominates intensive growth
- 1970s & 1980s: diminishing returns to increased factors input, but not compensated by better technology, management practices etc.
- Bergson 1987, Ofer 1987, Krugman 1994, Easterly&Fischer 1995
- Classical accounts of this view for the Soviet Union: Allen 2003

View of investment-led growth supported by previous growth accounts on Eastern Europe (Heston et al. 1995), but data problems:

Investment-to-GDP ratio, CESEE, 1950-1989

	1950	1960	1970	1980	1989
Bulgaria	22.8	27.5	31.6	20.3	10.1
Czechoslovakia	15.0	20.7	21.7	23.1	19.1
Hungary	26.1	29.1	34.5	30.0	20.8
Poland	16.2	22.1	25.3	26.9	22.3
Romania		18.9	30.3	32.1	12.8
Soviet Union	14.5	24.5	28.3	30.2	29.3
Yugoslavia	22.2	27.3	31.5	30.9	17.3

Source: Vonyo (2017), Vonyo&Markevich (2019)

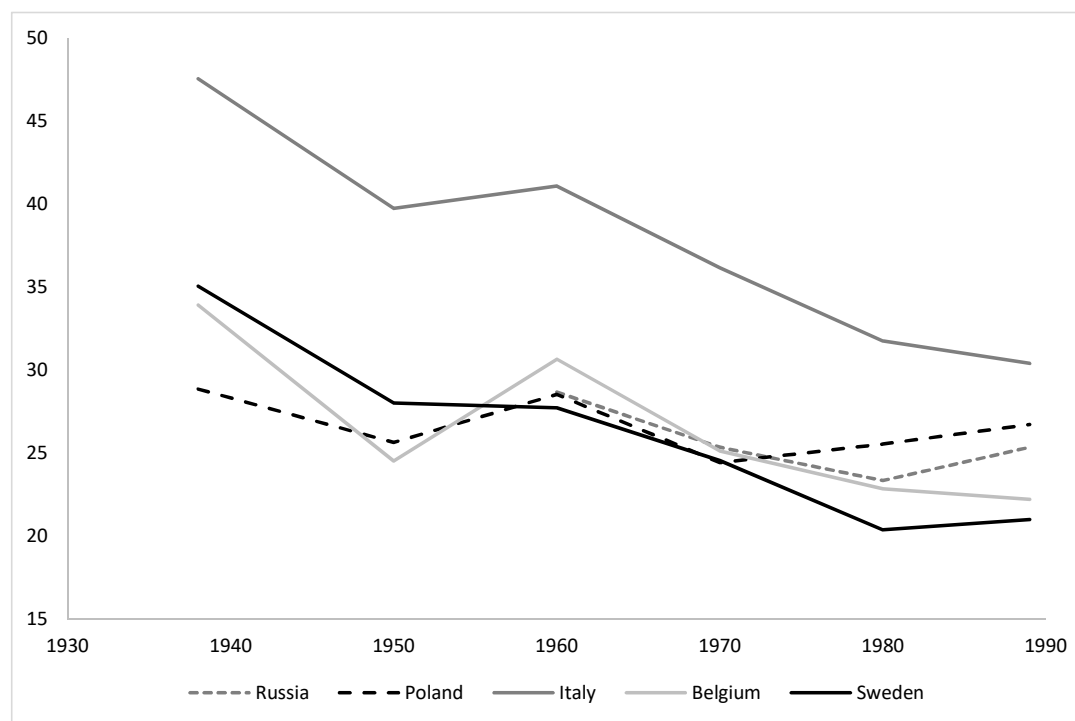
Investment increasingly clashed with the political need to support consumption
Why is Soviet Union different?

Life expectancy at birth in European state-socialist and market economies, 1950-1989

	Central Europe	Sout-East Europe	Soviet Union	Southern Europe	Western Europe	Scandinavia
1955	66.2	61.1	66.0	66.3	64.6	71.0
1960	68.4	65.4	68.7	68.5	70.6	72.0
1970	69.7	68.4	69.5	71.3	71.9	73.3
1980	70.0	70.0	69.2	74.1	74.0	74.9
1990	70.8	71.1	69.9	76.7	76.3	76.1

- Western & Southern Europe start at roughly the same level in 1950s as Central and Eastern Europe...
- ... but gain subsequently 10 years vs. only 4 years
- CESEE life expectancy developments similar to GDP: 1950s, 1960s much better than 1970s, 1980s

Income inequality (Gini coefficients) in European market economies and state-socialist countries, 1950-1989



Sources: Solt (2009), Van Zanden et al. (2014), Leeuwen&Foldvari (2019)

Concluding remarks

On question 3: economic assessment of the communist period

- Communism spurred growth compared to earlier periods, but CESEE fell back – throughout the four decades – against Western Europe
- Assessment based on GDP data which constitute upper-bound estimate
 - Insufficient accounting of quality differences (Mercedes vs. Trabant)
 - Suppression of consumption (Shleifer&Treisman 2005)
 - Transformational recession was probably unavoidable (Aslund 2013, Voskoboynikov 2019)
- Living standard indicators point to the same conclusion

In general

- countries have typically operated at around 1/3 of British / German income levels – though some of them have caught up considerably in recent years
- Indicators point to deep-seated differences to Western European experience
- We are better at documenting differences than explaining them