Queen's Economics Department Working Paper No. 1209

IS THE TRANSITION OVER?

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3-2009

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POSSIBLE DEFINITIONS AND SOME MEASUREMENTS

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[DRAFT QED WORKING PAPER]

Revision : 12.03.09

I. INTRODUCTION[1]

While many observers thought it was premature for Czech Prime Minister Klaus to suggest in 1995 the transition was over except for fine-tuning ,[2] as we approach the 20th year after the fall of the Berlin Wall on Nov. 9, 1989,-and the 18th after the dissolution of the Soviet Union at Byelovezha- it is surely relevant to ask the question again. The first new contribution of this paper is to show that ,for all practical purposes, the post-communist transition is over in eight or nine early reformers of Central Europe and the Baltics; but it is *not over* for other transition countries –though many are close, and only a few very far behind.

The second and perhaps more important novelty of this paper is that it goes beyond the qualitative expert judgments in earlier studies addressing this question. With one or two exceptions, earlier studies did not start with an explicit analytical definition of transition and its end-point, and evidence provided was selective often mixing partial quantitative measures with qualitative judgments-albeit well reasoned ones.[3] This paper proposes an analytical definition of transition and its end-point , as well as ways this can be measured quantitatively without undertaking impossibly massive econometric exercises .

[1] I wish to thank for their comments Al Berry, Lou Pauly , and participants of the Munk Centre Seminar Oct. 1, 2008; the Czech Economic Association for the opportunity to present this paper at their Biannual Meeting Nov.30, 2008; Al Green , Frank Lewis and other participants of the Queens University Economics Department History Workshop.

[2] The reference is to Svejnar (1999), p. 78 who questioned " declarations such as that of the Czech Prime Minister in 1995."

[3] Though I accept that many experts have the ability to make such a judgment and this can be valuable.

The countries covered in this assessment are the post-communist ones in Europe and Eurasia, excluding China and Vietnam which, partly because of the continuing dominant role of the Communist Party and partly because of the high initial level of agricultural activity, I consider analytically more similar to developing countries undertaking major market-oriented reforms than to the European post-communist group here. For data purposes the group is most fully covered by the *Annual Transition Report* of the European Bank For Reconstruction and Development (EBRD) , though analysis here excludes Mongolia and some of the countries in South-East Europe due to reporting being too recent. The period covered is approximately 1990-2007, though the latest years are not always available for every measure ; fortunately they are not always needed to make the main points.

The rest of the paper is organized as follows. Section II presents the theoretical framework used to define transition and its end-point, while Section III derives from this a number of feasible measures as "stylized facts" for the end of transition. In Section IV the best available quantitative measures are shown-for the sake of brevity this is by country group rather than all 28 EBRD countries. The main "stylized facts" used are : Personal Consumption share of GDP; Industry share of GDP ; openness of economy and geographic diversification of trade; and more tentatively some comparative advantage indicators. Finally Section V. concludes with some answers to the main question " is transition over", noting the differences across countries and country-groupings.

II. DEFINING THE END OF TRANSITION

DIFFERENT PERSPECTIVE GIVES DIFFERENT DEFINITION

The meaning of transition and its aims may differ from the perspective of different individuals or groups in society. For most citizens of the former communist countries, transition was seen as a way to overcome the backward economic conditions of the socialist world, and they might define it as catching up to income levels of the EU; let me call this definition POP1. For many the transition was also viewed as the return to a "civilized , European society " with all its democratic and personal freedoms; this I will label definition POP2. No doubt many people would hold to both definitions simultaneously, though perhaps give more or less weight to each. For academics we see different views by discipline. Political scientists and historians are most likely to focus on the dimensions of democratization and personal freedoms in the polity—call this definition POL. Economists naturally will be most interested in the transition to a market economy with private ownership –here I suggest it is best to distinguish two non-exclusive definitions: ECON1=MRULE (market rules), and ECON2= MEFF (market–efficiency) [4]

The first, MRULE, includes two key changes: changing the rules from central planning to competitive market decision-making; and changing rules on ownership from a monopoly of state ownership to a predominance of private ownership. In popular parlance this is often described as moving to capitalism, but I argue that this term can be very misleading and the source of considerable differences in the interpretation of outcomes today. Capitalism formally refers only to the "ownership" aspect, and one

[4] Svejnar (1999) presages these distinctions , which he describes as "two conditions" that must hold for transition to be completed. This paper takes a more formal approach as elaborated later, though it is consistent with Svejnar's definition.

could have monopoly capitalism, competitive capitalism or state-guided capitalism– Galbraith among others has argued the first may be sometimes better. In today's transition, a form of capitalism can be said to have been achieved in Russia or Ukraine, suggesting transition is over ,[5] but in fact the very non-competitive "oligarch " capitalism of such countries is an incomplete transition relative to the open and competitive market rules benchmark. An alternative interpretation for such countries is that transition is frozen part-way to a competitive and open market economy.

MEFF refers to the "final" state of equilibrium reached after economic agents react to the new MRULE and complete the necessary reallocation of resources which achieves factor efficiency in production and optimal goods choice relative to demands /desires of population . Any economist will immediately imagine an isoquant efficiency point and an optimal point on the production possibility frontier, and indeed this is the mnemonic I will present below to reflect the MEFF definition.

In the present paper I argue that from the economist's perspective, the MEFF definition is the best one for the ultimate question "is transition over," and that MRULE is just the first step in transition. Logically, MRULE is a necessary but not sufficient condition while MEFF is a sufficient condition because once it is achieved it must have been the case that MRULE was also achieved. This does not mean that observing the progress to and completion of the MRULE condition is uninteresting. This is what the EBRD's Transition Index (and some new alternatives as proposed by Babetskii and Campos

[5]One example is Aslund (1997) who in my view misleadingly titles his otherwise excellent book "How Russia Became A Market Economy"

(2007) are all about, and likely this is what then Prime Minister Klaus had in mind in his 1995 statement. [6] While the paper focuses largely on MEFF , I also present a broad-brush picture on how close are different countries to MRULE completion.

The other definitions, P1,P2, POL, are beyond the scope of this paper, though elsewhere I have discussed the correlation between progress on economic transition (MRULE) and political transition (POL).[7]

THEORETICAL BASIS OF ECONOMIC DEFINITIONS

Two main schools of thought developed on how to do transition: the rapid or Big-Bang reforms, *vs.* gradual reforms. Following Balcerowicz (1993) I eschew the emotive term "Shock Therapy"-it is telling that critics of rapid reforms often use this term, and proponents prefer "rapid or big-bang reforms." In the early years of the transition many said that knowing exactly how to proceed was difficult because "when the Berlin Wall fell there was no theory of transition" (Roland, (2001 p. 29.) The concern that one needed more time to think it through and do it right, naturally led to a preference for gradual reforms. But in retrospect the rationale for gradualism did not need this element, for the theoretical benefits of slower adjustment to dislocation of old industries to allow time for new market-responsive ones - as in Aghion and Blanchard (1994)- were based on the same theoretical principles of efficient resource reallocation as used by rapid-reform proponents. More important neither of these explicitly specified a structural

[6] Inasmuch as by 1995 the EBRD Transition Index for the liberalization components of reform – excluding their second-phase institutional indicators – had reached a value of **4.0** by 1995 and **4.22 in 1996** compared to a top value of 4.3., the statement was only slightly premature IF transition were defined as MRULE. But subsequent events in the Czech Republic and elsewhere demonstrated that even MRULE cannot be restricted to the narrower market liberalization actions alone but must include the deeper institutional rules as well.

[7] Havrylyshyn (2006). In the political science literature one of the important articles on the same theme of democracy-market correlation, is McFaul (2002)

model of transition. Unfortunately, "there is no theory" was also used as a rationale by opponents to reform such as the old Soviet elite of academic economists and many politicians, bureaucrats.[8] Arguing that there is a theory of markets, and a theory of socialism, but no theory of transition is very ahistorical as it implies that going from markets to socialism was a known path, while the reverse is unknown. In fact there was no theoretical work before 1917 by Mark, or Engels, or Lenin, or Luxembourg or anyone else about *how to create socialism,* it was done very pragmatically and *ad hoc.* The correct historical analogue is perhaps the very pragmatic views of rapid-reform leaders, such as Laar (2002) the first PM of Estonia who described the strategy as "Goodbye Lenin-and just do it!"

Given how far transition has gone, to worry about whether there is or was a theory of transition may be irrelevant even for academics-but for my purposes it is necessary to go back and seek retrospectively the implicit "theory of transition" in order to have a logical basis for defining its end-point. This is not such a difficult task. While no one in the economics literature has proposed formally a theory of transition, a simple combination of Kornai's (1994) definition (change of rules and incentives in particular elimination of central plan, price liberalization, allowing private ownership, and imposition of hard-budget by state), combined with Blanchard's (1997) definition (resource reallocation and efficiency improvements in reaction to new incentives) , provides a sufficient "theory" of what transition is. Let me call this the KB theory of transition. Note that Kornai's changes coincide with the MRULE definition, and Blanchard's with the MEFF one. I contend without elaborating here that earlier and coterminous writings on

[8] A good example is Bogomolov (1987).

transition, whether espousing big-bang, gradualism ,or institutional evolution, all implicitly worked in this theoretical context of "change rules, then reallocate resources to achieve efficiency." [9]

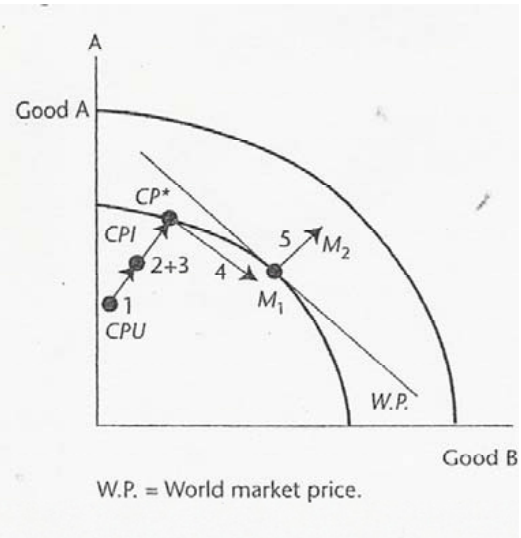
As economists communicate best using equations or diagrams, let me suggest the most effective representation of this KB theory of transition is in a simple Production Possibility Frontier (PPF) as in Figure 1. The figure shows the conventional production possibilities trade-off assuming full and efficient employment of all resources , between two types of goods –say good A is machinery and good B is consumer goods. Relative world prices are shown as WP; society's indifference curves reflecting preferences among the goods are not shown to avoid visual clutter. A second PPF is shown farther out to reflect higher capacity of production with additional resource growth or technological improvement over time.

The MRULE changes of Kornai are, with the exception of world prices (WP) implicit in the derivation of the PPF; they are to be envisioned in the production isoquants of different products/firms, and the imposition of the new market determined prices for goods and factors of production. It is of course the combined movement of each production unit to the efficient isoquant points that lies behind the movement of the economy from inside the PPF to the PPF .

[9] I do elaborate in Havrylyshyn (2006) Ch.1, and Roland (2001) makes a similar argument about underlying aims and concepts of all three schools of thought. He also shows without elaborating the same PPF representation that is central to my exposition.

FIGURE 1

HOW THE PPF DEFINES TRANSITION AND ITS END



While CP* Can be considered the Central Planner's Optimum combination of A (machinery) and B (consumer goods), it may not be achievable in practice unless one accepts Oskar Lange's theorizing with bonuses replacing profits -which Hayek *inter alia* disputed saying even these incentives were simply not enough. There is a wide consensus that by the 1970's or earlier the actual position was inside the PPF at CPI (Inefficient). As Kornai (1994) showed the first step in transition, imposing a hard budget, leads to a transition recession with output declining to CPU (underemployment). Whether one starts here or at CPI does not materially affect my argument-in either case it is clear the system in under-producing relative to potential, and is generally oriented

towards a high ratio of Machinery to Consumer goods in upper left part of the possibilities area. Once the Kornai rules are put in place , structural adjustments will begin to take place both to reduce socialist inefficiencies and underutilization of capacity- *i.e.* recovering from the transition recession-and the system moves towards CPI and CP*, and then with resource reallocation along the PPF. I do not address here the legitimate question whether all the rule changes have to be in place before resource reallocation begins. While no one has argued such an extreme view, it is possible that some partial combination may result in faster adjustment than some other partial combination.[10] These second-best issues are beyond the paper's scope.

The end-point of the transition process is M1, the efficient market equilibrium compatible with world prices (WP). This point must also be an optimum for the societal preference point of view, hence one can envision an Indifference Curve equilibrium at point M1 as well. The steps taken in the transition are roughly simultaneous, though non-simultaneity is unimportant to the main argument. These steps are : 1-output decline due to hard-budget from CPI to CPU; 2- recovery of output with socialist capacity back to CPI; 3- resource allocation efficiency improvements to bring economy to socialist optimum CP*; and 4- movement along PPF reallocating resources among goods to reflect preferences and comparative advantage in an open economy. Thus, the end of transition under definition MEFF is reached at the market equilibrium M1. Section III presents some stylized facts which proxy the attainment of point M1.

[10] This is a key part of the sequencing debate; one example of an analysis along these lines is Zinnes, Eilat and Sachs (2001) which show econometrically that efficiency improvements of privatized firms were greatest where liberalization was accompanied by well-implemented institutions ensuring open and competitive markets.

Figure 1 can also depict the POP1 definition of transition's end: a movement to a higher level of production for all goods , (the higher PPF and an analogous equilibrium M2) hence a higher per capita income. This is not explored further here, but it goes without saying that except for the very early period where transition is merely correcting socialist shortcomings, all of the adjustments 1,2,3,4 may still be occurring when the move to higher income, 5, begins. In this paper the focus is on measuring end-point M1.

III. DERIVING MEASURES OF THE MEFF END-POINT

While quantitative economic analysis covers a wide range of underlying theoretical concepts and provides numerous statistical estimation methodologies of lesser and greaer sophistication, it is not usual to find direct estimates of the PPF. The closest to this are efficiency frontier estimations of the underlying isoquants, typically done for a category of good or sector of production.[11] An efficiency frontier study for a single product is itself a massive econometric exercise using huge micro-data sets; to determine if an economy is at M1 for all goods produced is an impossible undertaking. I propose a shortcut identifying some proxies for this adjustment process, motivated by the well-known consensus on the allocation faults of the socialist economies. The bench-mark for end-of-transition is set as the value of each of these indicators for "similar" market economies- that is economies at about the same level of development.

[11] So far the number of such studies for transition countries is extremely limited; one example for Czech Republic is Sabirionova , Svejnar and Terrell (2005.) They find Czech-owned firms are far inside an efficiency-frontier for all Czech firms including foreign owned.But they do not compare to a global frontier..

While many previous studies have directly or indirectly asked the question how far has transition gone, in most cases the implicit definition was MRULE, and the most widely used measures were the Transition Indicator of the EBRD or an earlier analogue developed in the World Bank. One exception was Gros and Steinherr (2004) who took the same approach of comparing broad allocation indicators to similar market economies, but they used 1997 data. The present paper not only provides a clear theoretical basis for the definition, but also gives more recent information where available, and covers a wider range of indicators, especially on external trade. The paper of Lazarev and Paul (2007) uses a similar cross-section econometric estimates to assess if Russia has achieved "normal" levels for consumption share and industry share. Their findings are mixed , but generally suggest that for some indicators the answer is "yes" , for others it is "not yet;" they do not cover any other countries. In this paper I will present data for a wider range of countries showing values in four main indicators as summarized in Figure 2.

The most important socialist faults were : 1) an anti-consumer bias seen for example in the very low level of automobile and telephone ownership; 2) over-industrialization and its mirror image a very low share of services activity in GDP; 3) a closed economy with low ratio of trade to GDP and as a consequence an inward orientation of trade among the countries of the socialist bloc; 4) goods-specific allocations that were not necessarily reflective of comparative advantage either within the bloc or outside. The first three do not need further comment as there has been a very strong consensus about them outside and inside the socialist bloc. This is somewhat less clear for the comparative advantage issue; even before 1990, while most outside experts held this view, some were less sure

suggesting that for example the concentration of Eastern European satellites on small and medium manufactures while the USSR concentrated on natural resources and heavy industry was not altogether wrong. Even if one agrees the socialist period allocations were not comparative-advantage based, as the next section shows it is not so easy to determine today what *is* each country's comparative advantage, hence not easy to judge how close the adjustment has come to new equilibrium.

Yet another widely observed distortion was the existence of shortages and the consequent queues for these goods. Thus, another proxy for the end of transition could be the disappearance of queues.[12] I do not use this proxy for two reasons. There is no statistice to measure this as is the case for the above four proxies. But in addition, the disappearance of queues was only a first step in the reallocation of resources,-i.e. the clearing of a particular retail , consumer, market -but not yet the reallocation of resources in production that marks the real transformation. In practice queues did disappear very early as prices were freed, but until other adjustments this meant many low-income consumers had to cut back to even lower levels of consumption. Only with later reallocation, more production, more imports, could all consumers enjoy a welfare gain .

With these qualifications, consider what each of these four main faults implies about the nature of correction during the transition, and what then is the benchmark value to be used in determining if transition is over. Correcting the anti-consumption bias means most broadly that the share of Personal consumption in GDP should go up, and the most sensible benchmark is middle-income or upper-middle-income market economies. These

[12] I am grateful to Frank Lewis for pointing this out.

data are easy enough to compile from sources such as the UN National Accounts Annual or the World Bank World Development Indicators. Illustrative of some of the most obvious shortcomings for consumers were automobiles and telephones-for each of these it is again relatively straightforward to compile UN statistics for the comparison. Others like housing space and quality, clothing variety, video and audio equipment could be measured as well. But the results below for autos and telephones are sufficiently representative of the changes since 1990.

Correcting the over industrialization means the share of GDP Value-Added of the manufacturing or industrial sectors should fall over time. The benchmark for M1 here can

FIGURE 2

STYLIZED FACTS IMPLIED BY PPF FRAMEWORK

- **CORRECTED FAULTS**
- CONS share GDP up, e.g. more autos, tel. per 1k pop
- Manuf. share down, Serv. Up
- Share of trade with SOCBLOC falls, with ROW rises sharply
- Export patterns shift to new comparative advantage

- **END-BENCHMARK**
- Similar market economy ratio CON/GDP, autos etc.
- "Chenery Equations" for predicted share of manuf.
- Gravity model prediction of trade by partner
- Differs by country, and very difficult to estimate empirically—will use qualitative indicators

be more rigorous than a simple comparison with similar market economies : it is well known in development theory going back to Clark (1940) that this share at first increases as an economy develops with the counterpart share of agriculture declining. After a certain income level somewhere in the middle of the range the manufacturing share begins to decline, with agriculture continuing to decline but services increasing. Econometric cross-country analysis of what these shares have been historically was done as early as the 1960's by Chenery and followed up intensively at the World Bank culminating in the massive study of Chenery, Robinson and Syrquin (1986). Using this approach some recent studies for transition countries by Doehrn and Heilemann (2005) and Thiessen (2004) provide estimates of this benchmark that I will use in next section.

The closed and inward-oriented economy of the socialist period should in transition become more open so that its Trade/GDP ratio rises, and each country's trade should become more geographically diversified with the share of exports to the socialist bloc falling and the share to the rest of the world rising. All these data are straightforward and need little comment. In the case of geographic diversification the benchmark comparison is more sophisticated than a simple average of similar countries: numerous gravity model studies have been done for transition countries before, during and after the transition – these are relied upon for the comparison to follow and appropriately referenced there.

Finally, there is the fault of not allocating at the right position on the PPF given world prices. This is far more difficult to measure short of the extensive underlying factor

availability studies done by Leamer (1985) and others. Furthermore, the fault may have been different for each country in the bloc. There do not appear to be estimates using this approach for transition countries to my knowledge, hence discussion on this "fault' will be much more qualitative.

Given the methodological difficulty of establishing a benchmark for comparative advantage prudence might suggest leaving it out altogether. I include it warily, and only because it has become a very big policy issue in some countries, especially the larger ones in the former USSR. In Russia , Ukraine and even Kazakhstan and Uzbekistan it is strongly argued by many that transition has destroyed or hollowed out the Soviet industrial strengths and "forced" many countries into the "backward" status of natural-resource providers or at best producers of low-tech goods. This is reminiscent of earlier arguments of the Dependency School of Thought which faulted resource reliance for the underdevelopment of Third World countries.[13] While I will argue below these concerns are misplaced, or at best the reasons for lack of technical progress up the ladder of comparative advantage are misunderstood, ignoring this issue because data is uncertain is not justified.

IV. IS TRANSITION OVER? SOME STYLIZED FACTS*THE MRULE: CEB VIRTUALLY COMPLETE, OTHERS LAG BEHIND*

[13] There were of course earlier precedents As a Canadian I studied the thesis of Canadians being "hewers of wood and drawers of water " for the advanced industrial economies. In the Socialist World the theories of Rosa Luxembourg on imperialists exploiting the natural resource producing colonies are well known.

Before considering the stylized facts on correction of socialist faults ,it is useful to ask how close are countries to completing the first step of Kornai, changing to MRULE . The EBRD provides a widely used annual transition progress index (TPI) consisting of market liberalization measures (LIB) , market institutions implementation (INST) , and infrastructure reform. I leave out the last, and use the average of the others as an estimate of achievement of MRULE .

First some definitions and explanations are in order. TPI is the average of eight EBRD subcomponents measuring progress towards a market on a scale from 1.0 to 4.3 , the top value representing a fully functioning market economy similar to current ones outside the post-communist region. Three sub-components-liberalization of prices, of trade , and small scale privatization can be defined narrowly as LIB, the other 5 are institutional rule changes such as entry and competition conditions, and these I label INST. The shortcomings of the TPI have been noted by many , though apart from the recent efforts of Babetskii and Campos (2007) no alternatives have been presented and analysts of transition use this index widely. Two "tests" of the index give some comfort. First, the above study does find values for some countries that are not as high, and finds many more reversals –e.g. Russia- than does the EBRD; but on balance the general trends over time and differences across countries are very similar. My definition of INST I consider far from ideal for the concept and much less comprehensive and detailed than the institutional indicators of the World Bank Governance Indicators and the related Doing Business indices. Its advantage is the long time series EBRD provides; Havrylyshyn

(2008) shows that for recent years INST and other similar measure have correlation coefficients of 0.90 or higher.

Table 1 presents data for 27 countries in 5 groups showing the following : the year in which (LIB) reached 4.0, the year in which the TPI including LIB and INST reached 4.0, and the value of INST in 2007.

TABLE 1. IS TRANSITION OVER USING MRULE?

COUNTRY	YEAR LIB=4	YEAR TPI=4	INST /2007
Croatia	**1994**	**[[3.7]]**	**3.16**
Czech.	**1992**	**2007**	**3.50**
Hungary	**1994**	**2005**	**3.75**
Poland	**1993**	**2007**	**3.50**
Slovakia	**1992**	**2007**	**3.42**
Slovenia	**1996**	**[[3.5]]**	**2.92**
CENTRALEUR			**3.38**
Estonia	**1994**	**2006**	**3.75**
Latvia	**1994**	**[[3.8]]**	**3.25**
Lithuania	**1994**	**[[3.8]]**	**3.32**
BALTICS			**3.44**

Albania	**2000**	**[[3.2]]**	**2.17**
BosniaHerceg.	**[[3.8]]**	**[[2.7]]**	**2.08**
Bulgaria	**2000**	**[[3.9]]**	**2.92**
Macedonia	**1994**	**[[3.4]]**	**2.50**
Montenegro	**[[3.5]]**	**[[2.8]]**	**2.00**
Romania	**1998**	**[[3.4]]**	**2.75**
Serbia	**2007**	**[[3.0]]**	**2.25**
SE-EUROPE			**2.38**
Armenia	**2001**	**[[3.3]]**	**2.33**
Azerbaijan	**2007**	**[[2.7]]**	**2.00**
Georgia	**1997**	**[[3.5]]**	**2.17**
Kazakhstan	**1997**	**[[3.2]]**	**2.42**
Kyrgystan	**1995**	**[[3.2]]**	**2.08**
Moldova	**2005**	**[[3.1]]**	**2.33**
Russia	**2007**	**[[3.1]]**	**2.58**
Tajikistan	**[[.3.8]]**	**[[2.6]]**	**1.67**
Ukraine	**2007**	**[[3.2]]**	**2.50**
CISM			**2.23**
Belarus	**[[2.4]]**	**[[1.9]]**	**1.80**

Turkmenistan	**[[1.9]]**	**[[1.3]]**	**1.00**
Uzbekistan	**[[2.7]]**	**[[2.2]]**	**1.75**
CISL			**1.51**

The country groups have a broadly regional character, but in fact were defined on basis of a homogeneous degree of progress in transition shown by the TPI in about the years 2004-5–Havrylyshyn (2006). A purely geographic definition might have included Croatia and Slovenia in South-East Europe (SEE) but their objective reform conditions are more similar to Central Europe; Similarly, the last group, CISL (countries of CIS with very limited reform progress) include Belarus in the extreme west of the CIS, and Turkmenistan and Uzbekistan in Central Asia, while other Central Asian countries are found similar to more western CIS cases. [14] The other nine CIS countries are clearly much farther ahead with at least moderate reform progress and I label them CISM.

The first two columns shown in Table 1 for each country are meant to capture respectively the near-completion of MRULE for the narrow liberalization actions, and the near-completion of MRULE for the full complement of transition reforms; given the imprecision of EBRD's top value of 4.3, I suggest it suffices that a country pass 4.0 to consider the task largely completed -especially since in practice there have been no cases of substantial backsliding from these high values. For countries that had not reached 4.0

[14] I am not denying geography has played a role in determining advancement in transition and explore this in the 2006 study. For present purposes interpreting the grouping by the degree of transition is more meaningful.

by 2007, Table 1 shows instead the actual value reached in 2007 in [[square brackets]]. The third column gives the actual value in 2007 for INST.

Taking the TPI at face value, what does Table 1 tell us about the first end-point of transition defined as MRULE? For Central Europe and the Baltics (CEB) the LIB actions were largely completed very early between 1992 and 1994, with one exception, Slovenia in 1996. It is particularly noteworthy that the Baltic countries starting only about 1992 had completed these by 1994, no later than most of Central Europe. Only Poland and Czechoslovakia were earlier. For INST and hence the overall TPI , reaching a 4.0 value took much longer, indeed it is still a little short in four cases: Croatia, Slovenia, Latvia and Lithuania.

But even the four CEB laggards were far quicker than all other transition countries. On LIB alone most SEE and CISM countries have by now reached the 4.0 threshold- Bosnia-Herzegovina, Montenegro and Tajikistan excepted. But apart from Bulgaria none has come even close to completing the rules change in the INST category, thus overall their EBRD score implies even the first step in completing transition is far from done. The three CISL countries remain closer to a socialist set of rules than the market .
The broad picture of CEB near completion, SEE and CISM moving forward but still short, and CISL virtually unchanged from socialist period will be repeatd in analysis of the indicators for MEFF completion below.

Before turning to that it is worth making a small digression on the sequencing of LIB and INST. In the early debates on how to do transition the gradualist school and even more so the institutional evolution school emphasized the advantage of first putting in place good market institutions before completing all liberalization and privatization steps. The reasoning was in theory sensible, that good institutions were needed to ensure liberalization resulted in the smoothest reallocation and largest possible efficiency improvements. (see Roland (2001)).But the actual path followed by transition countries has made it historically impossible to test this hypothesis, because not one single case of a country moving faster on institutions than on liberalization is to be found. To the contrary all had faster progress on LIB than INST, and if a pattern exists it is that those who moved fastest on LIB followed up quickly on INST and closed the gap within about a decade, while those who delayed LIB, moved even more slowly on INST increasing the gap between LIB and INST.[15]

The remainder of Section III presents data for the proxies of MEFF defined earlier, each addressing a major structural distortion of the socialist system. In general, values shown will be averages for the country groups defined in Table 1 rather than those for each transition country .For the most part the CISL laggards will not be analysed in detail, as their structural adjustments tend to be much less complete than even for the CISM countries-not surprising given how far behind they are in achieving the MRULE .

ANTI-CONSUMER BIAS: LARGELY CORRECTED FOR ALL

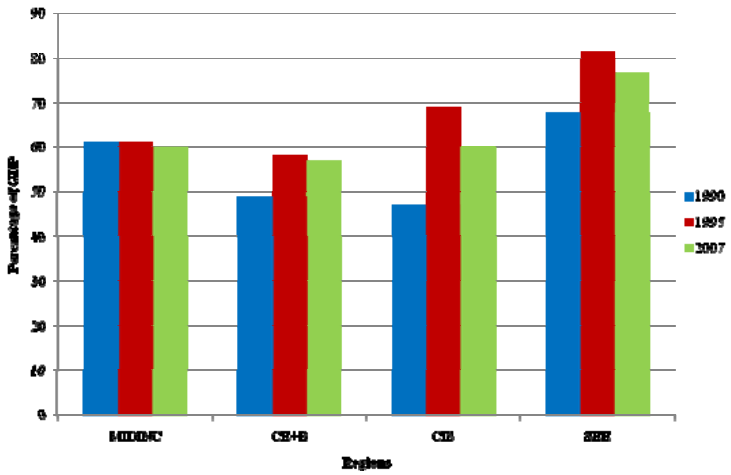
[15] This point is not central to the present paper, and is elaborated in Havrylyshyn (2008).

The first socialist distortion noted was an anti-consumer bias. To assess how much this has been corrected it suffices to observe the simple share of Personal Consumption in GDP. I use World Bank World Development Indicators data here to construct Figure 3., showing this share for three years in CEB, CISM , SEE, and as a benchmark of "similar" market countries Upper Middle Income Countries (MIDNC).

For CEB and CISM one sees a very similar picture : a sharp increase within the first five years already from below 50% to a little under or over 60%. This brings them close to the "similar" countries benchmark with values at 60%. Some overshoot is seen in 1995 for SEE countries, perhaps reflecting the much greater macro instability there and the longer period before recovery of government revenues and investments. The SEE values seem much higher from the start and may be due to the lower income levels as well as much greater political instability. In any event , the broad-brush conclusion seems clear: the anti-consumer bias has been quickly and probably completely corrected in the entire transition region, that is the position on the PPF of Figure 1 has shifted as expected from the upper left to the lower right with relatively more consumer goods .

FIGURE 3:

CONSUMPTION SHARE OF GDP

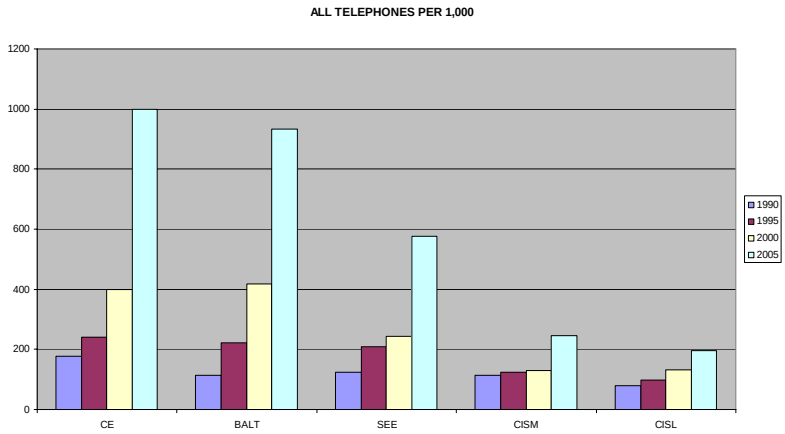


As a specific illustration of this correction one can observe what has happened to the per capita ownership of two goods especially under-consumed in socialist economies, telephones and automobiles. Figures 4 and 5 (constructed using UN *Annual Statistical Yearbook* data) suggest a dramatic fulfillment of consumer's pent-up demand for these items, particularly in the CEB countries where economic recovery came soonest. [16] For telephones a caveat is in order: the numbers include both land and cell which reflects not just a transition change but a global leap-frogging of one of lower-income countries to the newest technology. In fact the surge is also seen in land-lines alone.

FIGURE 4

[16] Some of the country groups in Figure 5 for autos are different because of data availability in the source; Baltics not shown, Russia-Ukraine shown separately and OCIS (other CIS) does not include all countries.

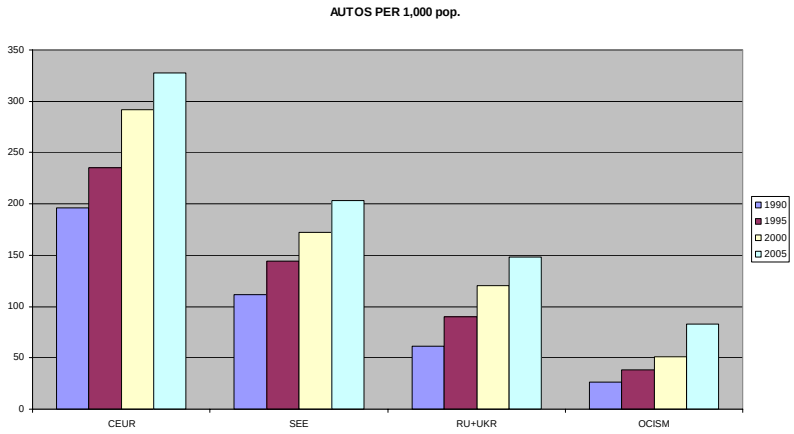
TELEPHONES PER 1,000



In the case of automobiles some special circumstances may prevail as well, for example the short distance from West Europe to SEE making transport of used autos far easier.; anecdotally it would appear this was not a huge deterrent in Central Asia because there was a displacement effect: Europeans and Japanese vehicles would first go to the closer

FIGURE 5

AUTOS PER 1,000



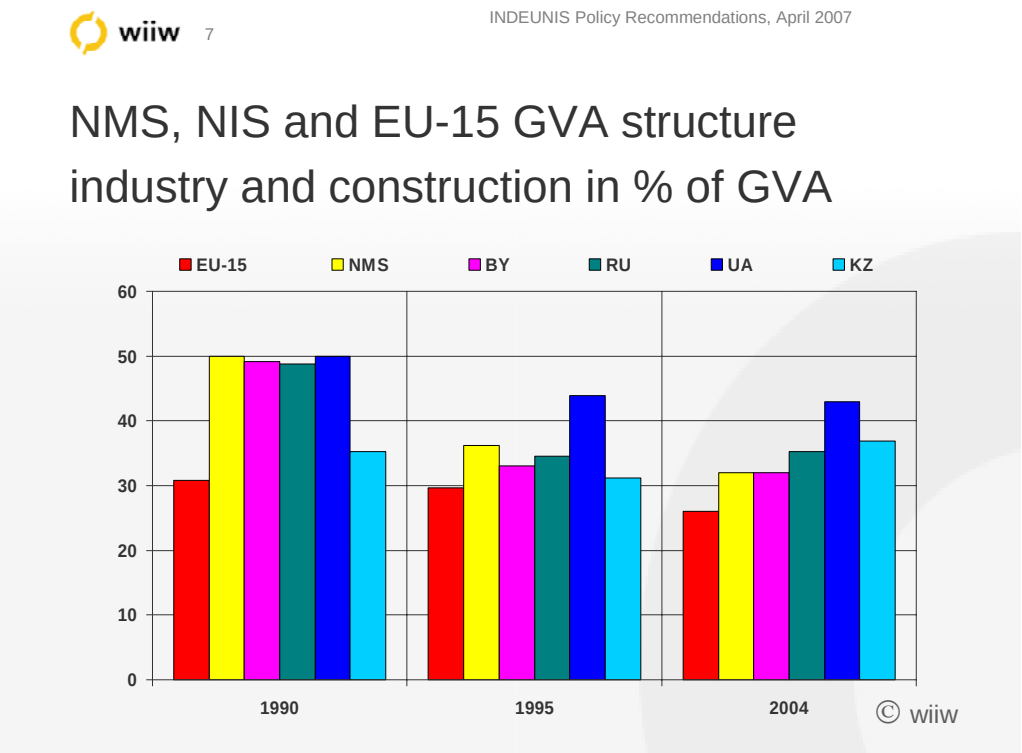
countries (SEE , Russia, Ukraine), but then old Soviet autos from there would go to Central Asia . As one might expect the increase in auto ownership in Russia and Ukraine (averaged) is much lower than in Central Europe even by 2005 after their growth surge ; at the same time it is distinctly higher than in the other CIS countries.

OVERINDUSTRIALIZATION: ESSENTIALLY CORRECTED IN CEB, ONLY PARTIALLY IN CIS

The second structural distortion analysed concerns the over industrialization of socialist economies, that is a value-added share of Industry in GDP higher than comparable economies. This problem also commonly involved an over emphasis on heavy and

probably military industry compared to light , consumer goods., but here I deal only with the overall industry share; some of the excess of heavy is in any event captured in the anti-consumer bias given the essentially closed economies. A broad comparison of the changes since 1990 is shown in Figure 6, which gives the share in three years (1990,1995,2005) for the original EU-15 as a rough benchmark, the New Member States acceding in 2004 (NMS)- which equates to the CEB group save for Croatia- Belarus (BY), Russia (RU), Ukraine (UA) , and Kazakhstan (KZ). [17]

FIGURE 6



[17] The data were compiled at the Vienna Institute for International Economics within the INDEUNIS project, whose results are presented in Grinberg, Havlik and Havrylyshyn (2008).

The over industrialization is evident in the 1990 panel; compared to a share of just over 30% in the EU15, nearly all the centrally planned economies had values of about 50%. The exception of Kazakhstan at about 35% is explainable by its relative strength in natural resources even in the Soviet period. This incidentally hints at the possibility that within the Socialist bloc some reflection of comparative advantage was incorporated into the planner's choices.; I come back to this in discussing comparative advantage adjustments.

Within a short five years these shares fell sharply for the transition economies to levels somewhat over 30%, but the 1995 values may not have been a new equilibrium yet, partly because of the short time for adjustment and in the case of the CIS countries because of the deep and continuing transition recession which, following Kornai (1994) was likely to have affected industry in particular. The 2004 values , while confirming the long term downward trend for the NMS, suggest less adjustment for the CIS. The NMS or CEB countries saw a slight further decline to about 32 % on average only somewhat higher than the share for the EU15. For the CIS countries in the sample the share stayed in the range 35-40% and over, with some experiencing a slight rebound and Kazakhstan rising to a share even higher than in 1990.

Thus it is clear that the trend was a correction of over industrialization in all these transition countries. But that does not provide a direct answer to the question "is transition over?" , have they reached the MEFF point? For that one needs a more appropriate benchmark than the EU 15 which of course have a much higher level of

development. I turn next to the issue of what should be the “norm” for the transition countries.

As already noted, the basic principle originating with Clark (1940) is that the optimal share of industry in GDP varies with the level of development (y in eq.1) increasing from low income levels to intermediate ones as the economy moves from an agrarian to industrial phase, but then declining as income continues to rise and the economy moves to a services phase. But as Chenery, and others discovered in econometric studies across a large sample of countries income alone does not fully determine the optimal shares; the size of POPulation , geographic SIZE of country and availability of natural resources NATRES affect the result as well; country specific dummies are also often included in such an equation. Thus, a typical Chenery equation would be:

(1) INDSH= a + by, +cy2 + d POP +eSIZE+f NATRES+ DUM

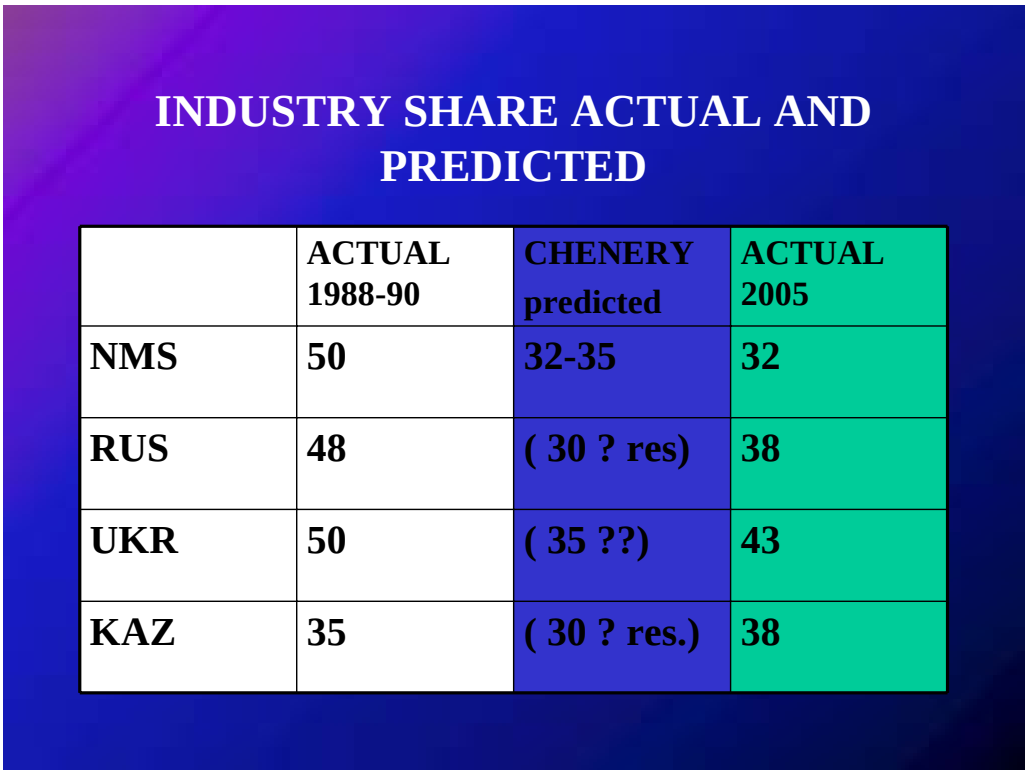
An early analysis for transition countries Gros and Steinherr (2004) was done for 1997 , which at less than a decade is perhapos too short , especially for CIS countries where transition might did not start until about 1993-5. As Figure 6 suggested these late starters experienced considerable volatility in output and this share. Nevertheless it is noteable that Gros and Steinherr using this share indicator as well as some others similar to those in the present paper,conclude that for “Central Europe the transition is nearly over” , while the others remain far behind. I will show below that their early conclusion remains

valid with more recent data. Lazarev and Gregory (2007) for Russia alone are less firm in their conclusions , but show the same general direction of change.

More up to date Chenery-type equations have been estimated for Central Europe (but not CIS) in Doern and Heilemann (2005) and Thiessen (2004) and I use their results to summarize the status of this adjustment .But even these too may be by now outdated and have only partial coverage- there is a clear research agenda established here. Since the results for CEB do suggest an adjustment period of at least 10 perhaps even 15 years after the initial MRULE is achieved, one might speculate that the CIS equilibrium may not be reached until 2010 or later given LIB values approached 4.0 only after 2000. But the question of which countries have and which have not completed transition can be tentatively addressed already. Figure 7 summarizes the results from the above two studies .

Figure 7 gives approximate values of the industry share before transition (1988-90), Chenery equation predictions from the two studies , and the actual shares in 2005 as in Figure 6. For the NMS. Chenery predictions are shown as a range , while for Russia, Ukraine and Kazakhstan which were not included in the cited studies, I show my own "best guess" on the following assumptions: Ukraine with limited natural resources and development level slightly lower than Central Europe, is likely to be at the top of the NMS range, about 35%; Russia with a comparable level of development is likely to be lower given its strong natural resource endowment, as is Kazakhstan.

FIGURE 7



If these educated guesses for the three CIS countries are reasonable then it follows that they are far from completing this part of the transition, with actual share values considerably in excess of the norm for countries at that level of development ,and in case of Russia and Kazakhstan far more industry than their natural resources would suggest. For Central Europe and the Baltics , the levels reached by 2005 are very close to or lower than predicted, implying that for them the over industrialization is fully corrected—on this score their transition is over.

TRADE ORIENTATION: ALL VERY OPEN ; DIRECTION OF TRADE NORMAL FOR CEB, CLOSE FOR CIS

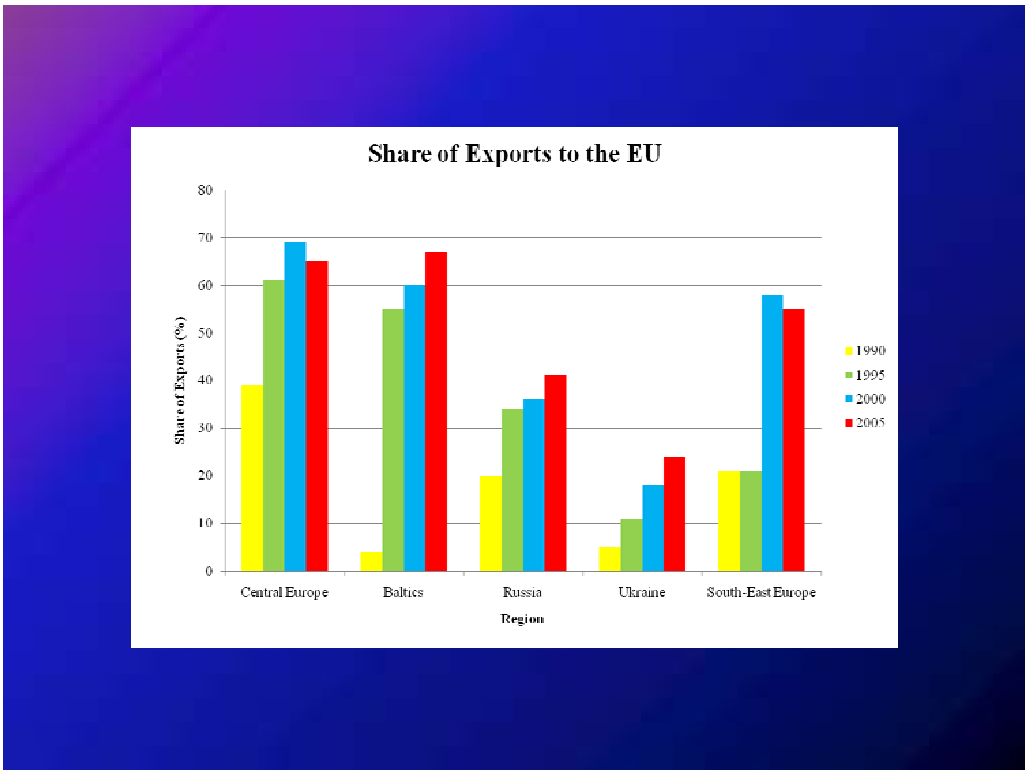
In the socialist period the ratio of trade to GDP was not that low at 10-60% ,because there was a lot of trade in the Comecon region. Nevertheless with the transition virtually all transition economies very rapidly opened to trade beyond the old bloc and the ratios attained 100% and more by 2005. (Broadman (2005, p.297, Fig.11.1.) Turkmenistan is an exception, but interestingly the other two CISL laggards have very high openness ratios. Of course, as with the industry share this alone is not the full story: the benchmark share for "similar" countries can be estimated using Chenery-type equations . Ellborgh-Woytek (2003) as well as Capolupo and Celli (2005) do this in a partial way and come to the conclusion that indeed comparable levels have been reached in most countries. The evidence while incomplete is so strong that one can be comfortable concluding that the trade-opening adjustment is essentially complete.

Perhaps a more important dimension of the structural change was the substantial shift in direction of trade from the earlier inward-orientation. I focus on that dimension in this paper, recognizing that for the former USSR republics the introduction of borders may by itself reduce trade among them by some amount .[18] But the degree of inward orientation was so extreme that the large change seen was almost certainly not due to the formality of borders. Furthermore , to ensure this border effect is excluded, I measure for an individual country, say Ukraine, the share of its exports to the EU 15 (Western Europe) before and after independence, showing in Figure 8 the trend from 1990 to 2005 .

[18] That borders do matter even when formal trade restrictions are virtually zero is shown for Canada-US trade flows after the North American Free Trade Agreement by McCallum (1995).

While this does not cover all global exports it is the predominant share for exports outside the old bloc, and thus serves as a good proxy for the geographic reorientation of exports in the transition process. The dramatic shift since 1990 is evident in all countries and groups. It was most immediate for Central Europe, jumping from 20-40% in 1990 to over 60% by 1995, then stabilizing at about 65%. For the Baltics it was even more dramatic , from less than 5% to well over 50%. With the exception of Russia , all USSR republics had very limited exports to EU-though some of this was accounting, attributing to State-Trading firms in Moscow exports from other republics. It is thus not surprising that the biggest jumps were in Baltics and less so Ukraine which went rather more slowly from 5% in 1990 to about 25% in 2005. Russia started much higher at 20%, and this doubled to 40+%; here however some of the increase was not volume but price effect, as the dominant export was energy. The same sharp reorientation is seen in SEE.

FIGURE 8



But can one say the geographic orientation is complete? One way to answer this is to use gravity models to estimate what the "normal" share of each destination should be for a country's exports and compare to the actual . The general form of such an equation is:

(2) $Xij = a + bYi + cYj + dDISTij + eDUM$

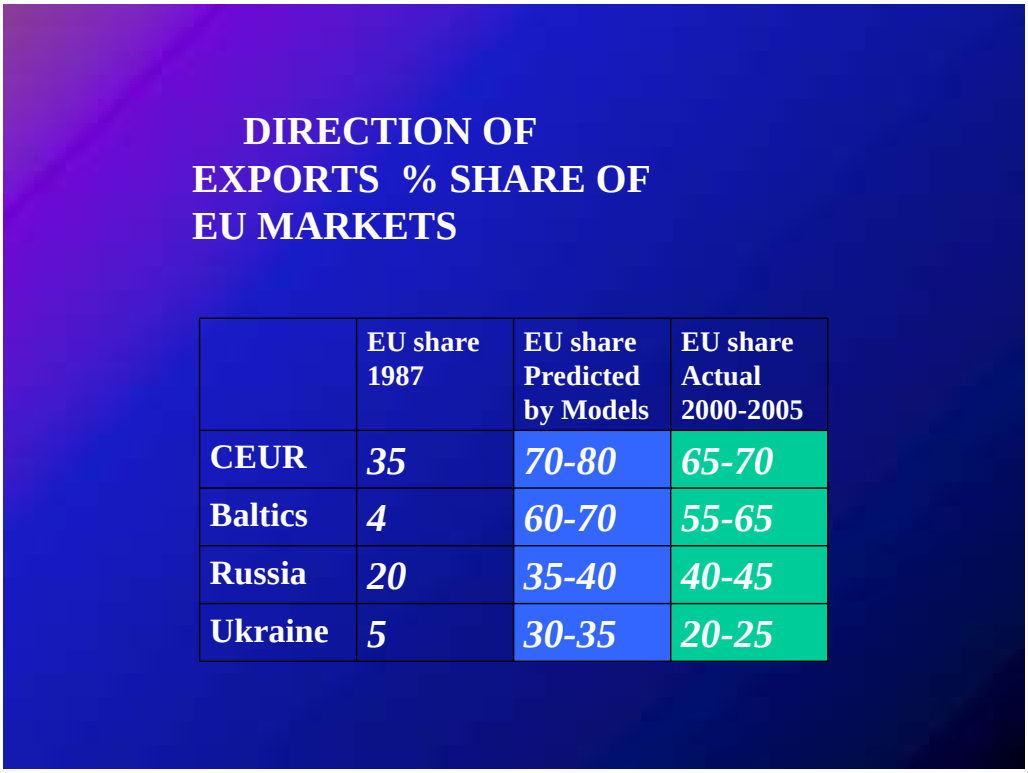
Where Xij is export from country i to country j; Y is GDP of each country, and DISTij is the distance (in kilometers or travel costs) , and DUM are variables reflecting special relations between i and j such as common language, contiguous borders, free trade arrangements and the like. The coefficients b and c are positive and d is negative.

On this aspect of adjustment a lot of prior gravity model studies for transition countries have been done allowing a quick summary comparison as in Figure 9.[19] For CEB, Russia

[19] The various studies used are described and referenced in Grinberg ,Havlik, Havrylyshyn (2008) , Ch. 2. Three examples are in References here :Havrylyshyn and Pritchett(1991), Vavilov and Viugin (1993), and EBRD Transition Report 2003.

and Ukraine this shows the initial share of exports going to the EU in the pre-transition period about 1987,

FIGURE 9



the range of predicted values for this share in various gravity model studies, and the actual share range in the period 2000-2005. Given the different methodologies and coverage by the studies, and given some instability in these shares over the transition period as the new equilibrium was being sought, I prefer to give ranges of values rather than averages, though the basic conclusion are not much affected by either choice. Clearly, the CEB countries appear to have completed their geographic orientation towards Europe ; Russia exceeds the estimated norm but perhaps only because energy prices had been very high; Ukraine has not yet reached the share that would be “normal.”

There is no hard evidence for other CIS countries or SEE, but it is likely that like Ukraine the shift has been substantial but still incomplete. Once again as with previous indicators , the conclusion seems to be that in Central Europe and the Baltics the transition is essentially over, but in other countries it is still incomplete.[20]

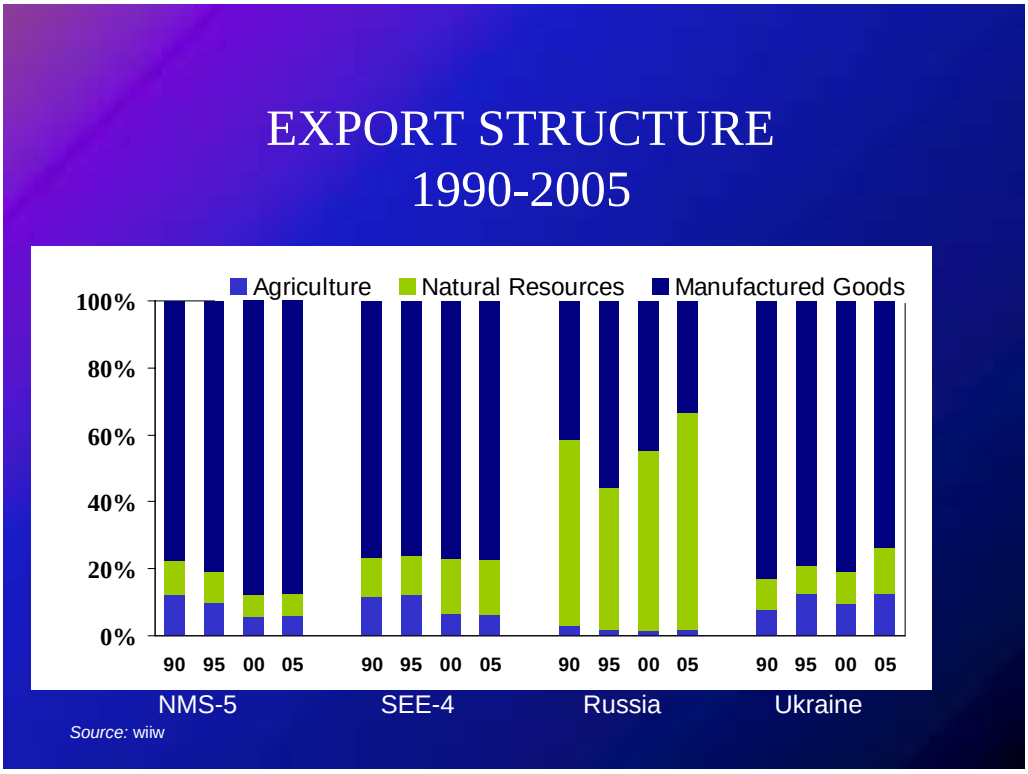
HAS THE COMPARATIVE ADVANTAGE EQUILIBRIUM BEEN REACHED? MAYBE, MAYBE NOT.

As noted at the outset, determining if transition countries have achieved the new comparative advantage equilibrium is far more difficult than for the other indicators. A country's comparative advantage is not simply the allocation between manufactures and natural resources—though this is part of the story—and since the issue involves a large number of goods Chenery-type equations for cross-country comparison are not enough; much more complicated models measuring endowment of several factors (capital, labour, human capital, land, minerals, energy etc) and relating them to tens if not hundreds of products would be needed. The massive work of Leamer (1985) doing this has not been repeated often. Therefore in this part of the paper the approach will be less rigorous and more qualitative. While the question "is the new equilibrium reached" cannot be answered, it is possible to determine if the change in composition of trade has been large or small.

[20] The causes for a faster or slower shift in trade patterns are discussed for example in Hoekman and Djankov ((1997) and Havrylyshyn and Al –Atrash (1999).

Let me start with the broad allocation of commodity exports into agricultural, natural resource , and manufactured goods. Figure 10 shows that for Central Europe (=NMS5) the manufactures share has risen steadily, albeit from an already high level over 70%.

FIGURE 10



In contrast SEE , Russia and even Ukraine show a slight decline in favour of an increase in the natural resources share. In fact for Ukraine this natural resource content of exports is probably even higher inasmuch as major exports like chemicals and metallurgical products require large resource and energy content. Kazakhstan is not shown but it exhibits the same trend, reflecting the large new petroleum exports, similar to Russia.

The continued emphasis on resources has caused great concern in the large CIS countries and Russia in particular, that the pre-existing industrial base, skills, and technology have been eroded by the transition and the economies are moving not up but down the ladder of comparative advantage from more sophisticated goods like machinery, aviation etc.[21] But it is very difficult to determine if this movement is away from or towards a new equilibrium, especially given the earlier consensus that socialist economies overemphasized industry and in particular heavy-industry. It is surely not surprising that countries with rich natural resources and energy as Russia and Kazakhstan, or Uzbekistan with cotton, and Moldova with mild climate for fruit orchards, might see at least initially a structural shift towards more and not less natural resource exports. Having said this, it is also the case one might have expected the strong scientific and educational endowment of the USSR to bring about an increasing export of more high-tech products .

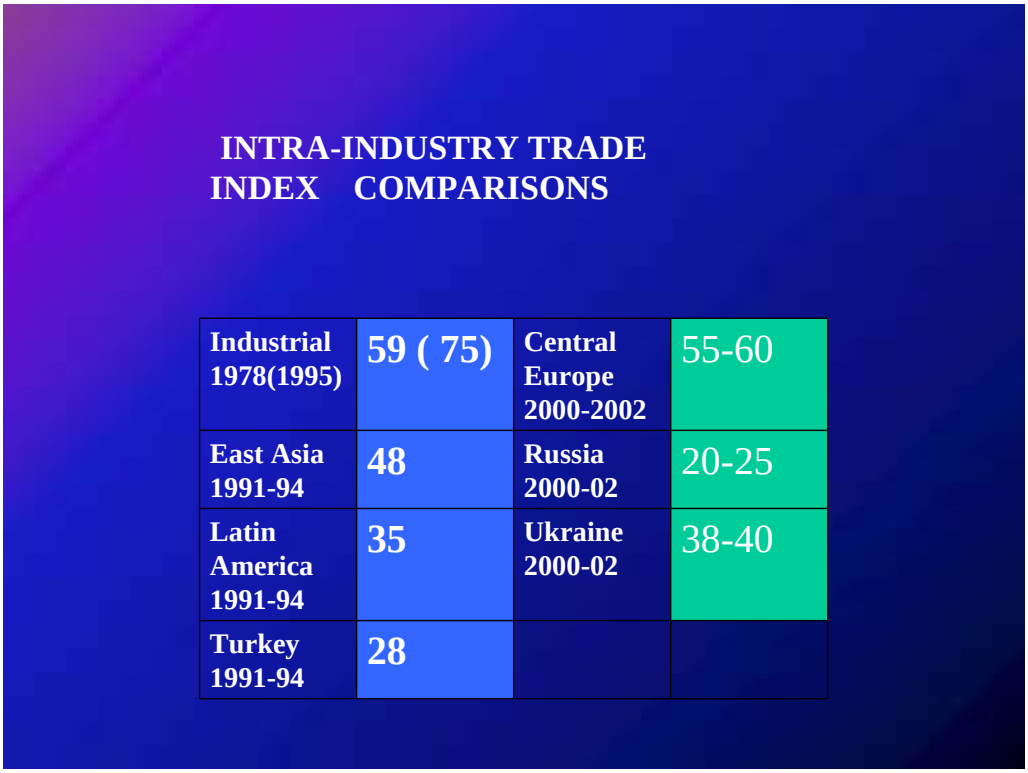
An increasing sophistication of exported products is clearly observable in the CEB countries. Numerous studies have looked at the changed composition in terms of capital-intensity, skill-intensity, low vs. medium vs. high technology content, and have generally found this changed in an upward direction very quickly already in the nineties.[22] An illustration of this and the very different outcome in CIS countries is given by a proxy for technical sophistication of exports: the widely used measure of Intra-Industry Trade ,

[21] This is explored in detail in Grinberg , Havlik, Havrylyshyn (2008); see Havrylyshyn chapter and on IIT chapters by Ferlo and Soos. For measures of skill-intensity and quality of exports in Central Europe see Dulleck, Foster, Tehrer, Woerz (2005), and Kandogan (2005 and 2006).

[22] I will not give details here , as the references and a summary of the many findings are available in the preceding citation in great detail.

or IIT. A summary of approximate values for IIT in transition countries and some comparator market economies is shown in Figure 11.

FIGURE 11



In Central Europe IIT was in a range similar to that seen in industrial countries 25 years earlier, and generally higher than values for emerging market economies in the nineties. In contrast Russia and Ukraine are well below those of Central Europe; other CIS have even lower values. Thus, there was a much more dynamic structural change in Central Europe, and perhaps an approach to their new comparative advantage equilibrium. Why did this not happen in the advanced CIS countries ?

There are three possible explanations: first it has not happened *yet* because the MRULE reforms came much later and are still incomplete; second they may in fact be at their new equilibrium at least for now because many of these countries do have much larger natural resource and agricultural endowments; a third explanation is particularly emphasized in Russia today, that too-rapid reforms killed off the old industrial potential and to revive it one now needs special "Industrial Policy" measures to promote new comparative advantage industries. [23]This debate is beyond the present paper which only asks whether the new equilibrium positions have been reached. For comparative advantage, I do not think it is possible to give a clear answer other than to say Central Europe has clearly seen much more dynamism and change in the type of manufactured goods it exports.

IV. SUMMARY AND CONCLUSIONS

In this section I recap the main findings, briefly discuss what if any surprises are found relative to expectations at the outset of transition, and list the issues that merit further research.There are many different ways of defining the end of transition, and here my answer to the question "is transition over" will be based only on the economic definition presented in Sec.II and the actual measures of how much socialist distortions have been corrected shown in Sec. III. Using these measures four summary points stand out. .

First,it seems clear that countries in Central Europe and the Baltics have essentially completed the transition or very nearly so in all dimensions, while for countries of the

[23] The case for Industrial Policy is given in Filatov. Grinberg,Porfirov and Silvestrov chapter and Mironov and Dorogov chapter in the Grinberg, Havlik and Havrylyshyn (2008), the counter arguments are in chapters of Havrylyshyn, Havlik, and Hunya.

CIS , or other former Soviet republics transition is only partially over. In South-East Europe the picture is more mixed, with countries that took longer to achieve political stability such as Serbia and Bosnia much farther behind, others like Bulgaria and Romania are catching up to Central Europe. The main explanation for why some countries have completed transition or nearly so is their earlier and more resolute progress on changing the economic rules of the game.

Second, however, the correction of the anti-consumer bias seems complete everywhere with attainment of a consumption to GDP ratio in the same range as similar market economies (about 60%).. This probably reflects two things: the transition recession sharply cut revenues of government hence its size , and all consumers, in reformiong and non-reforming economies tried to fulfill the pent-up demands as soon as their means allowed.

Third, for the indicator concerning attainment of comparative advantage, that is achieving the optimum point on the PPF, it is not possible to conclude with the same confidence as for the other measures. Nevertheless it is again clear that Central Europe and Baltics have been moving much more dynamically to a change in structure of their manufactured exports than others. The increase in the share of natural resource exports for many of the CIS countries[24] is sometimes taken as evidence that they have regressed in comparative advantage and lost the manufacturing strengths of the Soviet period. Given the difficulty of measuring the "correct" comparative advantage for any country, it is not possible to confirm or refute this interpretation. But I have argued that for many of

[24] This is also true for many of the SEE group, though the paper does not present this evidence.

these countries the known underlying endowments of natural resources would be expected to lead exactly to such a result as a mirror image of the correction in over-industrialization . At the same time, it is conceivable that some of the more advanced CIS economies should have had the ability to convert their strong military-industrial complexes based on an unquestioned high level of scientific knowledge, into comparative advantage for new hi-tech products. So far Central Europe has been able to achieve more of this than the CIS-probably again due to the lead on MRULE.

Fourth, and qualifying the first conclusion, even in the advanced transition countries of Central Europe and Baltics, there remains a significant transition policy task: completing the various institutional reforms relating to regulations in the financial sector, competition policy, minority shareholder rights , legal institutions , etc. The EBRD scores for the "institutions" rules are clearly still lagging behind liberalization. Arguably, the standard of the EBRD indicators is too high for the question "is transition over"- their top score of 4.3 is generally defined as "standards and performance of advanced industrial economies" while in this paper I contend the proper comparator is similar middle and upper-middle income market economies.[25] The EBRD does not of course provide estimates for such economies, but the Governances Indicators of the World Bank do, and without a detailed analysis thereof, it appears the institutional qualities of MRULE in Central Europe is roughly similar to comparable economies. This is clearly an interesting area for further research ., with the most important analytical question being not simply

[25] Havrylyshyn (2008b) uses the World bank Governance Indicators such as rule-of-law, regulatory quality, corruption control, to show that CEB countries have attained levels comparable to, or even superior to those in East Asia and other upper-middle-income countries.

what levels are reached, but if the institutional part of MRULE is not complete, how does one explain that the actual structural changes to achieve MEFF have been completed?

There are a number of surprises in these results. It is generally perceived that countries of South-East Europe and the CIS are lagging behind considerably in the reform process, but surprisingly this is not so for the changes in liberalization policy such as free prices, private sector activity, open economies. On these indicators, all but a few laggards[26] had nearly completed the reforms in the period 2000-2005. It is on the institutional or second-phase reforms that they lag considerably behind Central Europe.

Related to this is a surprise on the actual sequencing followed by countries for liberalization and institutional change. Much criticism has been made of the big-bang or rapid reform strategy for overemphasizing liberalization and not paying enough attention to institutions. The early arguments of intuitionalists that it is better to put in place some good institutions first then liberalize may appear to be vindicated by the data of Table 1. Indeed these advanced liberalizers do lag on institutions. But the surprise is that countries which delayed liberalization *did not* move faster on institutions. To the contrary, the slow liberalizers were even slower on institutions. It is remarkable that in practice, not a single case exists of a country that tried to follow the prescription of the institutionalist school of thought-even those like Belarus and Uzbekistan that professed to be going slowly on liberalization to put in place the right conditions in fact lagged very far behind on institutions.

[26] Exceptions are Belarus, Turkmenistan and Uzbekistan

I suggest there is an important political economy interpretation here. Countries and leaders that were deeply committed to reforms were sincere in their views that first they need to do the stabilization and liberalization, and then they would follow with institutions. With a lag they did. Country leaders that professed to be delaying liberalization for the sake of setting up good market rules, were not strongly committed to reforms, but were arguing for the delays so as to position themselves and the "new capitalist ' supporters in establishing a strong ownership and market-dominance position. I contend that the much greater role of "oligarchs" in CIS than in Central Europe is due to these delays. The proof of this pudding is in the statistics of Table 1: where liberalization was delayed, institutional reforms were delayed even more.

I turn finally to a few thoughts on further research. First, the area of what is or is not comparative advantage merits much more investigation, especially to address the burning issues in advanced CIS countries like Russia and Ukraine whether they are or are not allocating efficiently, whether or not "Industrial Policy" could help speed the process of moving up the ladder of comparative advantage to goods of higher skill and technology content.

Second, the issue of institutional change and whether it has achieved in transition countries levels comparable to "similar' mid-income economies deserves more investigation. But the interesting aspect of this is not simply the comparison, but an analysis of what levels of attainment on institutions are the minimum necessary for stimulating the structural changes in transition and promoting a path of strong economic

growth. This is of course a broader question of development globally, but the very unusual and rapid changes in the transition economies provide a unique laboratory for this research experiment.

Third is the possibility of more direct econometric efforts using efficiency frontier methodologies to address the question “is transition over?” The value of such difficult and large exercises may be less in confirming or correcting the results of using proxy indicators for the endpoint as I have done here, but in the revelations of differences in the catch-up process by country, by sector or type of good, by ownership structure-small, large, domestic, foreign, state , private.

A final word: for many observers and policy makers the question addressed here may be of little relevance, as it is in other ways felt in the bones that transition is over in Czech Republic or Hungary or Estonia. And I certainly agree with the view that having to deal with conventional fiscal, or balance of payments, or banking problems is a sign of having reached market economy status. But this exercise and the suggested further research does have value not only for a historical understanding of an extremely important historical phenomenon, but also for the insights it reveals about structural changes in the economy which have always gone on and which will continue.

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