Comparative View of the Economic Transition in Post-Soviet Eastern Europe

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The process of economic transition after centrally-run economies change to capitalism based, free-market, has been a long fought over battle between two camps. Some believe that shock therapy, or rapid transition produces the best affects in the long-run, while gradualists propose that slow integration of free-market principles is the key to success. I attempt to provide perspective after the world economic slump from 2008 until 2013, as to which path is the best for transitioning economies. Using World Bank data on GDP and GDP per capita in Post-Soviet Eastern European countries from 1995-2015, the aim of this paper is to add to the current literature surrounding the argument between gradualism vs. shock therapy. The overarching evidence supports previous findings, that argue that shock therapy is the best method, with some caveats involved that have not been considered.

Summary

The questions I base this research project off of are:
1) Which was more successful in terms of time spent getting to free-market, fast or slow transition?
2) Is there mitigating factors that play a crucial role in determining success other than speed of transition?

Possible Explanations

1. War
   - Measuring two countries who had internal war, compared to the rest of the countries who didn't experience any internal war.

2. European Union Membership
   - Measuring the growth in percent of 8 EU members in comparison to the non-member state (5 total non-members), with an outlier of Russia dramatically increasing the non-member.

3. Speed of Transition
   - Broke down the speed into three categories, slow, medium, and fast, in order to better show the different outcomes of each.

Internal War or No Internal

Here, as seen, the impact of Internal War has large effects on a countries ability to succeed economically. This graphic shows the drastic difference between countries who had conflicts within their boarders, and those who didn't. The Y-axis includes the total percent of GDP growth. While the findings for internal wars dramatically show the contrast, having any type of war still does have a much smaller impact on the growth. No internal war leads to economic growth that exceeds those who fight.

EU Membership

This graphic shows the impact EU membership has on economic growth for member states. In my sample there were 8 members, 5 non-members. An outlier in this data was Russia, who had great economic growth since 1995, but was not a EU member, which skewed the data quite a bit. The data also suggests that per capita GDP is more influenced by EU membership than the total GDP. From this I can conclude that it is better to be an EU member when transitioning economy style.

Speed of Transition

The research was originally based on a dyadic method of choosing either shock, or gradual. I break this down into three groups to better represent the speed of transition. What the data indicates is that it is best to choose fast transition, but choosing hybrid transition speed is overall the worst. While slow was not as successful as fast, it does indicate the idea of “picking a lane” is better than having mixed gradualism and shock therapy.

Conclusion

Broken down into three different categories, allows us to view the growth ability of single nations, in the context of speed of transition. Those who are fast transitioning, clearly have higher average mean change than do the rest of the nations who transitioned slowly or at a medium pace.

Evidence produced in this work points to my hypothesis that shock therapy is the best method. However, after considering some very important pieces, we can certainly question whether or not the shock therapy is the main reason, or if there are other factors that played a significant role in determining the economic success 20 years later. I find that the best method for transition is Fast, with no war, and EU membership. As seen from the indications presented, internal wars and wars in general, as well as EU membership can make or break a countries ability to be economically successful. It is also found that having a medium pace, or not going all-in on shock therapy, or gradualism, the country ends up being worse off than either of the two polar ends.