WHAT ARE THE LESSONS FROM POST-COMMUNIST TRANSITIONS?

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Abstract
This paper provides a review of the literature on post-communist transitions. It outlines the debate between the proponents of rapid reforms and the advocates of neo-institutionalism. Providing evidence from the transitional countries, it suggests an alternative approach, explicitly acknowledging the impact of two categories of constraints on reforms.

JEL codes: P2, P3, O16.

Keywords: gradualism; institutions; shock therapy; transition

1. Introduction

Since the early 1990s, from Szczecin in the Baltic to Trieste in the Adriatic, East European countries have adopted democratic political institutions and markets, and their income levels have converged towards the average of the European Union.

This has occurred even though most East European countries followed transitional strategies based on theories that leading authorities judged to be patently wrong. John Kenneth Galbraith famously labelled shock therapy as 'insanity'.[1] Nobel laureate Joseph Stiglitz (2002) was equally harsh: 'You had the undermining of the basic social fabric of society. You didn't have growth; you had decline. You had increase in poverty rather than the fruits that capitalism was supposed to bring.'

Transitions are of interest not just to economic historians. Despite the different scale of the challenges posed by reform in places like China or the Middle East, middle-income countries will need to privatise, remove distortionary subsidies, stabilise their public finances, and create space for the growth of the private sector. We examine whether there might be lessons from the post-communist transitions. Could some alternative policy path have led to systematically better outcomes from economic transitions in countries where shock therapy was used?

Our central claim is that most debates about post-communist transitions and desirable reform strategies do not reflect the role played by knowledge problems in the economy and the misalignments of incentives within the political sphere. The mainstream of the economics profession has yet to fully acknowledge that planned economies failed principally because they placed unrealistic epistemic and motivational demands on policymakers. In other words, socialism failed because it required too much wisdom and too much benevolence on the part of the planners. Similarly, many of the popular prescriptions for economic reforms implicitly

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assumed that policymakers did not face knowledge constraints and that their motives were purely benevolent. Hence these policy recommendations were unlikely to withstand less-than-ideal assumptions about policymakers' knowledge and incentives. We call these two factors *epistemic* constraints and *incentive* (or *public-choice*) constraints, and we argue that they are central to the success or failure of transitions.

We argue that the 'Washington Consensus' provided a more solid platform for economic transition than the alternatives available in the early 1990s, because it focused policymakers' attention on variables that they could directly control and provided a simple laundry list of policies that were necessary – though arguably not sufficient – for the success of the transitions.

The major divide among economists of transition appears to be between, on the one hand, those who have argued in favour of shock therapy, a rapid introduction of a big-bang programme of macroeconomic stabilisation, and wholesale reforms – the agenda known as the 'Washington Consensus' – and, on the other hand, the 'neo-institutionalists', who advocate a more gradualist approach and a slow building of the institutions that are necessary for free market capitalism. In our discussion of the two approaches, we briefly study the divergent trajectories of a few countries in Eastern Europe, not in order to provide a set of exhaustive case studies but rather to sketch our perspective against a background of these historical events. Finally, we advocate a different approach to the subject, one that recognises that macroeconomic stabilisation is a necessary but not sufficient component of successful reform, and also that the complex formal and informal institutions needed for the smooth functioning of a modern market economy cannot be imposed by fiat but need to be grown.

2. Why did planned economies fail?

The term 'transition' usually refers to the process of institutional and structural change, such as those that took place in post-communist Eastern Europe from the early 1990s. To understand how post-communist transitions proceeded, why certain of them succeeded and others did not, we first need to understand why they occurred at all. Why did planned economies collapse?

Murrell (1991a) claims that neo-classical economics has played only a limited role in explaining the deficiencies of centrally planned economies. For instance, studies of Soviet industry (e.g. Danilin et al. 1985) relying on a standard production function framework show levels of technical efficiency similar to those of market economies. Likewise, the structure of foreign trade – used as a proxy for the overall production structure of centrally planned economies – does not appear to be vastly different from that of capitalist economies. Finally, the estimates of production functions in communist economies by Thornton (1971) and Whalley (1976) point to efficiency losses that do not appear to be significantly different from estimates obtained from data on market economies.

There are two aspects to the failure to deal adequately with the problems posed by centrally planned economies. First, in the famous socialist calculation debate of the early twentieth century it was the advocates of central planning who used the standard tools of general equilibrium analysis to derive conditions under which planning would generate economic outcomes equivalent to the general equilibrium.[2] It was mostly economists working in the Austrian tradition,[3] and to a lesser extent economists who were able to internalise the insights from that tradition (e.g. Zaleski (1971, 1980), who were able to articulate why such efforts amounted to a rather pointless analytical exercise: in the real world, much of the knowledge needed for economic planning was tacit and decentralised, and would not even exist outside of a market-based discovery process. In competitive markets the price mechanism was a way of communicating that knowledge and using it to make economic decisions. By eliminating this mechanism, socialism placed unreasonable epistemic demands on the planners, who were thus supposed to gather knowledge of 'particular circumstances of time and place' (Hayek 1948, p. 80). Arguably, the failure of the economics profession is related to the weight economists attribute to the use of the general equilibrium model of the economy as the dominant tool of analysis,[4] and the failure to appreciate that the knowledge needed for making economic decisions cannot be reduced to information that can be articulated, shared and centralised. However, the Lange–Lerner 'solution' was widely understood as demonstrating that centrally planned economies could perform just as well as competitive markets.[5]

While the point about the role of markets, competition and prices is straightforward, it remains underappreciated by the economics profession – very often at the cost of misunderstanding the nature of economic transitions. Zinnes, Eilat and Sachs (2001, p. 149), for instance, claim that the principal rationale for privatisation is the existence of asymmetric information and incomplete contracts between planners and enterprise managers (see also Shleifer 1998). These are valid concerns, yet they are not at the heart of the problem. In fact, the fundamental purpose of wholesale privatisation in post-communist countries was to restore the institutions needed to facilitate rational economic calculation within the economy by creating genuine markets for factors of production.

A more mundane reason for the failure of socialism has to do with the perverse incentives created by a system where economic decisions were based on a process of bargaining between factory managers and planners. Even if we agreed that socialist planning could deliver efficient outcomes, it remains unclear whether the conduct needed to attain such outcomes is incentive-compatible (see Levy 1990). In planned economies, factory managers were motivated to provide planners with information that led them either to increase the quantity of factors of production allocated to companies or to decrease the level of output relative to what it would otherwise have been (Weitzman 1980).

3. Should we rehabilitate the Washington Consensus?

The main divide in the literature on transition is between those who claim that rapid, systemic changes need to be undertaken at the beginning of the transition (see e.g. Lipton and Sachs, 1990), and those who claim that the institutional and structural change needs to occur in a piecemeal way, with a specific schedule of timing and sequencing of reforms ensuring the irreversibility of the transition (see e.g. Murrell 1991b).

The policy of rapid, systemic changes, with a strong focus on restoring macroeconomic stability was named the 'Washington Consensus' by Williamson (1990)[6] because at the time it reflected the dominant view of the US Treasury, the IMF and the World Bank on the policies that either were or should have been adopted by Latin American countries in the 1980s.[7] Partly through the work of Jeffrey Sachs[8] and others,[9] the idea that rapid macroeconomic stabilisation is the key to success in economic transitions was translated very quickly into policy practice in the transitional world. Apart from the emphasis on containing inflation and budget deficits, and tackling external imbalances, this perspective argued that rapid privatisation and liberalisation – both on the domestic, microeconomic front, and also with regard to external trade – were essential. This approach emphasises the existence of complementarities between various elements of policy reform. It argues plausibly that price liberalisation without prudent monetary policy would result in rampant inflation rates. Likewise, without the imposition of hard budget constraints, liberalisation would not induce the right behavioural responses on the part of firms.

The emphasis on liberalisation and tackling macroeconomic imbalances was informed by neoclassical price theory, which was quick to identify disequilibrium prices as the main problem of the socialist economy. If the hindrances to the functioning of markets were removed, competitive forces would restore the equilibrium, resulting in an efficient allocation of resources. This view runs against the idea that price signals play a key role in situations of disequilibrium – providing profit opportunities to entrepreneurs who are alert enough to detect them. Speed was another important consideration, since the fall of communism offered a unique and limited 'window of opportunity' (Kingdon 1984) that could have been closed by the rise of political populism and factions that would have been unsympathetic to economic reform.

Numerous reformers throughout Eastern Europe – from Czechoslovakia and Poland to Russia – followed this advice on various levels and with varying degrees of success. But there have always been dissenting voices, which have grown in importance over time.

Roland (2001, p. 30) concluded that the policy prescriptions derived from the Washington Consensus were inadequate:

> If anything, the experience of transition shows that the policies of liberalization, stabilization and privatization that are not grounded in adequate institutions may not deliver successful outcomes.

As a result, an alternative paradigm emerged, informed by the insights of the new institutional economics. It emphasised the primacy of institutions for economic development, and underscored the political economy dimension of reforms. It perceived transition not as an attempt to re-engineer the society but rather as an evolutionary process, through which the norms underpinning the functioning of markets could be discovered. This is, at least at first sight, closely related to the approach advocated in this paper. After all, Peter Murrell (1992, p. 83) emphasises that socio-economic mechanisms are in fact information-processing devices and that societies rely largely on local knowledge, very much in the spirit of Hayek's (1948) work. But while 'neo-institutionalism' provides importance insights into the institutional dynamics of transitions, many of the specific policy recommendations advanced by neo-institutionalists are flawed, mainly because they do not take seriously enough the logic of epistemic and incentive constraints.

Whereas the Washington Consensus relies on price theory as its main tool of analysis, the neo-institutionalist perspective stresses the role played by aggregate uncertainty about the outcome of the transition,[10] driven by the variety of potential equilibria. This perspective rejects the emphasis on the rapid implementation of economic reforms, arguing instead that, with the possibility of inefficient equilibria, big-bang changes could lock the country into irreversible institutional outcomes that could cripple its economic development.

Probably the most salient reason why the Washington Consensus prevailed as the dominant policy agenda within the transitional world is that the neo-institutionalists failed to generate a set of policy recommendations that would be of immediate use to prospective reformers. Their approach can be a seen as a negative one – trying to point out the pitfalls of shock therapy. The practical lessons of this approach were limited to questions of timing and sequencing; it advocated implementing more popular reforms first, in order to build political support for further reforms. The neo-institutionalists also emphasised the creation of a strong legal and institutional framework before privatisation and liberalisation took effect, and a potentially large role for government in the process of control and restructuring of state-owned enterprises. Finally, the destruction of pre-existing institutions guiding the functioning of the economic organisations existing under socialism might be inimical, in Murrell's (1991b) view, to the development of the nascent private sector. The corollary of this was that there existed a trade-off between the creation of a new private sector and decentralisation and privatisation of the government-run economy.

Neo-institutionalists therefore proposed not only a programme of gradual reforms but also the creation of a dual-track liberalisation programme, similar to the one employed in China after 1978. The newly emergent private sector would be governed, according to Murrell (2006), by new institutions. At the same time, the old economic mechanisms would remain in place and would guide the functioning of the old sector in order to prevent its collapse. In this manner, the output contraction that occurred in the 1990s would have been prevented and, in the meantime, the institutions needed for a smooth functioning of the market economy would have been gradually put in place.

Yet it is far from clear that the agenda of gradualism and dual-track economic liberalisation was superior to its alternatives. Dual-track economic liberalisation, which would keep in place the economic and institutional relations existing under the planned economy, would be perceived as an entrenchment of the previously governing communist elite. Central planning was generating rents, and while those might have declined by the end of the 1980s, they were not non-existent. Immediately after the fall of communism, politicians who advocated a continuation of the rent-seeking practices within the structure of the planned economy would not have commanded much popular support. Furthermore, such reforms would not have been perceived as credible, partly because similar half-way reforms had already been adopted at various points during the lifetime of the planned economy.

The usual charge that shock therapy ignores the role played by institutions does not appear justified, and one of the points that Åslund, Boone and Johnson (1996) stress is that rapid reforms did in fact encourage institutional development in Eastern Europe. Far from trying to redesign the societies of Central and Eastern Europe, the advocates of the Washington Consensus were trying to answer a more specific question, namely, what economic policy moves were necessary – even if not sufficient – for a successful transition? And, rightly or wrongly, their answer was that macroeconomic stabilisation and controlling inflation and government deficits were the key prerequisites. By consciously delimiting their research question, the economists promoting the shock therapy solution have implicitly recognised that the institutions of a market economy cannot be created by government fiat but, rather, have to emerge spontaneously. Havrylyshyn (2001, p. 55, n.5) is justified in claiming that it is simply incorrect to characterise the Washington Consensus as oblivious to the importance of institutions for economic growth.

What is critical is that whereas some institutions are amenable to rapid reform by changing the existing laws, most of them are open only to gradual change. Even the formal institutions that are often assumed to be contingent on government fiat are in reality dependent on the existence of effective court systems, judges, and lawyers who would be able to apply and enforce the new rules. Furthermore, the market economy is always embedded in an informal and cultural framework, which in turn depends on the prevailing cultural norms sanctioning entrepreneurship, innovation, keeping promises, success or failure. Economists know very little about the origin and evolution of these norms, and it would certainly be presumptuous to believe that such norms can be tweaked at will.

Fischer and Gelb (1991) can serve as a typical example of a Washington Consensus-style blueprint for successful economic reform. They see economic reforms in the post-communist world as having two indispensable components. The first is the restoration of macroeconomic stability and the second is economic liberalisation – freeing up prices and creating opportunities for various new economic activities.

Probably the main reason for the widespread adoption of the Washington Consensus was that it provided policymakers with an agenda of straightforward measures that they could adopt in transitional economies which universally required immediate macroeconomic stabilisation, whereas the neo-institutionalist approach required politicians to pursue policies that often went beyond their binding political and epistemic constraints. Shock therapy also focused on variables that policymakers could directly control – the statutory status of private enterprise, legal restrictions governing price formation and freedom of contract, and also measures affecting inflation, public spending and public deficits.

In this respect, the neo-institutionalist reform prescriptions are less attractive. Neo-institutionalism requires not only that policymakers be able to identify the measures that are the most likely to elicit popular support at the beginning of the transition, but also that they can sequence the reforms in a way that leads to the desired reform outcome. Even identifying winners and losers from particular policy moves is a more complex task than first meets the eye. Counterintuitively, Milanovic (1998) demonstrates that the biggest winners of the post-communist transitions were retired pensioners – a finding that is at odds with the popular belief that of pensioners were the most vulnerable victims of the allegedly ruthless transition to capitalism.[11]

A piecemeal transition would require policymakers to slowly design the optimal legal and institutional order for a market economy while the economy is still shackled by bureaucracy. Not only would such a mode of transition be likely to lead to problematic second-order effects – such as spontaneous privatisation of state-run enterprises[12] – but, more importantly, it would be impracticable because many of the institutions guiding economic life are not known to anyone prior to the existence of the market. Rapaczynski (1996) demonstrates that progress in the creation of functioning and well-enforced property rights in transitional countries cannot be expected to come primarily from the perfection of the legal system. In the case of complex assets and intricate market relationships, it is impossible to identify the desirable legal mechanisms in advance, without observing the practices that emerge in the markets.

4. What does the evidence say?

Can the disagreement between advocates of shock therapy and those defending a more gradualist approach be resolved by inspecting the economic performance of countries that followed different policy advice? The economic and political changes in Central and Eastern Europe in the 1990s were complex, and economic historians can't run controlled experiments. Conventional econometric tests are unlikely to shed much light on the comparative performance of different transitional economies.

This section highlights some stylised facts related to transitions in Central and Eastern Europe, and discusses, on empirical grounds, some of the criticisms levelled at shock therapy. Our finding is that simple strategies of macroeconomic stabilisation, privatisation and liberalisation

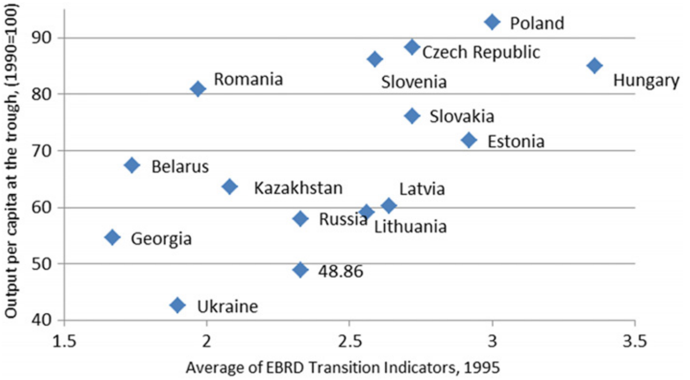

Figure 1: Output at its lowest point during the transition and progress of reforms by 1995.
Sources: EBRD (1996); World Bank, World Development Indicators (http://data.worldbank.org/indicator)

produced surprisingly good outcomes and did not lead a reversal of transition. While this does not constitute proof that shock therapy dominates its alternatives, the finding alone is suggestive.

4.1. Shock therapy and the overall growth record

Throughout the 1990s a major recession hit most of the transitional countries, both in Central and Eastern Europe and in the former Soviet Union. Output in practically all of the post-communist countries followed a J curve, as the initial fall was later reversed by an upward trend.

The initial slump was much deeper and the recovery was much slower in the case of the post-Soviet space (Campos and Coricelli 2002, p. 794), with Russia returning to its 1989 output levels only in 2006 (Popov 2009, p. 2). In Central and Eastern Europe, 1989 GDP levels had been restored by the end of the 1990s, and the upward trajectory was sustained until the Great Recession of 2008 (Popov 2009, p. 2). As Shleifer and Treisman (2005) and Åslund (2002) point out, standard GDP statistics might well overestimate the magnitude of the fall in output, especially in a country like Russia where the 1989 output levels were likely to be overstated due to the high share of industry creating little or no consumer surplus, such as the bloated military production sector.

Also, a simple inspection of the data in Figure 1 contradicts the view that shock therapy was the main driver of the slump. The figure provides a plot of the average of the EBRD Transition Indicators as of 1995 against the size of the output contraction at the deepest point of the transitional recession. If anything, the figure suggests that rapid reforms were associated with a rather small fall in output rather than indicating a trade-off between the two. Indeed, the fall was the steepest in countries that did not have a credible programme of economic reforms.

As Campos and Coricelli (2002) note, the fall in output was accompanied by a contraction in the capital stock. Socialist economies were characterised by inefficiently large capital stocks. Furthermore, the structure of production created through the process of bureaucratic planning, without genuine markets for factors of production, resulted in an interlocked structure of capital goods which could not be sustained in an open market and which could be reallocated to uses in the emerging private sector only at significant cost. Roland and Verdier (1999) retell this story (see e.g. Horwitz 2000) using a neo-institutionalist economic model of relations-specific investment, and imply that new investments would occur only after new business relationships are formed. Interestingly, they blame rapid liberalisation for the subsequent economic downturn, arguing that more gradual privatisation, possibly creating a two-track economy, might have avoided this outcome. However, they miss the key element of this approach, which is that production structures that do not reflect consumer valuation are unsustainable in a world of scarce resources. Therefore, unless the governments pursuing reforms were in position to subsidise the loss-making state-owned enterprises, it was simply necessary to close them down, even at substantial social cost.

The end of communism was also marked by a shift in the structure of foreign trade, triggered by the collapse of the communist bloc's Council of Mutual Economic Assistance, which contributed to the fall in output. The ability of economies to reorient trade towards Western markets was therefore critical to coping with the slump.[13] Unsurprisingly, the most agile adjustment occurred in the Visegrad Group (the Czech Republic, Hungary, Poland and Slovakia) and the Baltic states. Indeed, Campos and Coricelli rightly observe that the speed of the reorientation of trade in the Baltics was remarkable, with a rise of the share of exports to industrial countries from 5 per cent in 1991 to more than 50 per cent in 1998. This adjustment was more difficult for many of the former Soviet countries, especially those in Asia, for which access to West European markets remained elusive.

All of these considerations suggest that the economies needed to undergo substantial structural changes, involving a reduction in the share of industry and a growth of services. From this perspective, the claim made by Roland (2001, p. 44) that 'standard . . . economics . . . at best would predict a low supply response to liberalisation but not a negative one' is telling. Strictly speaking, it is accurate, especially if one considers the simplest, least sophisticated version of neoclassical economics.[14] However, an Austrian-inspired approach that recognises the heterogeneity of capital and the complementarities that exist between different capital goods can go a long way in resolving this alleged puzzle (Boettke 2003, p. 30).

As a rule, the economies with worse initial conditions had to undergo deeper recessions.[15] This does not mean that economic policies are irrelevant for growth performance. A wide range of studies have found that greater liberalisation in the early years of the transition led to higher growth and lower inflation in the subsequent period.[16] One interpretation of that finding is that fast liberalisation *works*. Another, more cautious, view is that countries with more favourable initial conditions were able to liberalise more quickly than others and also experienced smaller output losses. While adjudicating this dispute is not straightforward, it is clearly difficult to find evidence that fast liberalisation in and of itself led to deeper economic slumps in the 1990s.[17]

4.2. Privatisation

Privatisation was probably among the most contentious aspects of transitions. Some critics of privatisation went so far as to argue that 'rapid mass privatisation . . . was a crucial determinant of differences in adult mortality trends in post-communist countries' (Stuckler, King and McKee 2009, p. 399). Although this claim is difficult to sustain,[18] advocates of gradual reforms have claimed that privatisation was counterproductive.

Gradualism was thought to allow for the continual compensation of losers, thus steadily building the political support needed for further reforms.[19] A gradualist approach would involve privatising only those firms that could find private acquirers who would finance them. The idea was to create economic success stories and build support for further privatisation. Unprofitable companies would be financed directly through the state budget, as suggested by Begg and Portes (1993). Those loss-making state-owned enterprises that for political reasons could not be closed ought to be bailed out by the government, which would then impose stronger monitoring from the centre, as suggested by Kornai (1990).

This approach disregards time consistency and credibility problems. If it were common knowledge that the government was committed to reform, gradualist sequencing would work. In a situation where the intentions of policymakers could have been reasonably doubted, it was imperative that the government pre-commit to economic reforms from the outset – for example, by putting in place and following a mass privatisation strategy. Likewise, stronger monitoring was not a realistic option in most post-communist countries, in which state capacity crumbled.

A related rationale for rapid and mass privatisation was to provide institutional insurance that the reforms would be harder to reverse. The large scale of the newly created private sector and the mass character of the privatisation process, often involving the population at large as shareholders, were seen as imposing greater constraints on potential renationalisation. It is most likely harder electorally to go against the interests of many citizen–shareholders than against those of a few capitalists.

A large literature tries to map the effects of privatisation on economic performance. Havrylyshyn and McGettigan (2001) and Djankov and Murrell (2002) find that, broadly speaking, privatisation improved the performance of enterprises. The relevant question is whether the counterfactual to rapid privatisation was more likely to produce good economic outcomes. In their study of privatised companies, Zinnes, Eilat and Sachs (2001) find that different countries reacted differently to privatisation. In itself, the privatisation of a company did not guarantee a transfer of ownership. For that to occur, specific institutions were necessary. When privatisation occurred in a good institutional environment, it had a positive effect on corporate performance. However, Zinnes, Eilat and Sachs fail to demonstrate that, conversely, bad institutional environment resulted in a strong negative effect of privatisation on the economic performance of enterprises.

Megginson and Netter (2001) provide a thorough overview of the economic effects of privatisation, both in the developed world and in transitional countries. The general conclusion is that privatisation 'worked' in the broad sense of improving firms' performance. Foreign ownership in particular had dramatically positive effects on firm-level performance and restructuring.

Nellis (1999) concludes his overview of privatisation in transitional economies by noting that in institutionally weak countries privatisation has led to stagnation and the decapitalisation of companies, instead of better financial results and increased efficiency. He stresses, however, that renationalisation or postponement of further privatisation is unlikely to provide any major gain. 'Governments that botch privatisation are equally likely to botch the management of state-owned firms' (1999, p. ix). In sum, privatisation in Central and Eastern Europe did not always live up to expectations. But no evidence that its alternatives would have brought about better economic outcomes has yet emerged.

5. How to think about transitions?

This paper should not be read as an unqualified endorsement of shock therapy. However, given the epistemic and political constraints facing policymakers after the fall of communism, simple and rapid reform strategies exploiting the existing window of opportunity had better chances of success than elaborate attempts to engineer the formal and informal institutions needed to embed the market order.

True, the institutional order is key to the functioning of the market economy. However, the rules of the market order are not something that can be designed and imposed on market participants from above in a short time. Any blueprint for reform should involve radical reforms in areas that are amenable to policymaking – privatisation, liberalisation, inflation and deficit reduction, as well as low-hanging fruit in the form of statutory changes affecting the status of private enterprise in the country. Apart from that, an evolutionary process will guide the emergence of new legal rules and formal and informal institutions. It is unwise to think that such rules and institutions can be created consciously before the relevant markets exist.

The other important characteristic of any viable reform strategy has been articulated by Boettke (1995) and is related to the traditional problem of credibility and time inconsistency emerging during policy changes. Historically, communist economies were subjected to numerous reforms. In the Soviet Union alone, significant reforms occurred in the 1920s, 1950s, 1960s and 1980s. All of them either failed or were reversed at some later stage. In such circumstances, the credibility of the reformers was essentially contestable, especially if they were connected in any way with the previous political elite. In such an environment, piecemeal reforms were perceived as reversible and lacking credibility. True, in a world without credibility problems an optimal sequence of small-scale reforms could have worked better. The only way the new political elite could signal durable commitment to the new economic and political order was to use the brief window of opportunity for rapid and encompassing reforms.

As a result, the general prescription for economic transitions arising from the present paper is to change the institutions and policies that the government *can* change, and to do so quickly and credibly. However, this prescription does not address the deeper question of whether reforms are likely to stick, given a particular concatenation of informal institutions, culture and beliefs. That issue remains wide open to future research.

Notes

1. Quoted in *The Independent*, 7 July 1990.
2. Taylor (1929), Lange (1936, 1937), Lerner (1934).
3. See Mises (1920) and also Hayek (1935, 1945) for the key contributions. Lavoie (1985) and Boettke (2001) provide an overview of the history of the debate.
4. See Levy (2011) and also Levy and Peart (2006). Also, Boettke (1997) argues that a broader failure of the economic profession has led to 'a flight from reality' and to the development of either empirically irrelevant or ideologically motivated work.
5. Most prominently, as late as 1989 Paul Samuelson and William Nordhaus provided probably the most telling summary of their views on the workings of a centrally planned economy in their best-selling textbook: '[C]ontrary to what many skeptics had earlier believed . . . the Soviet economy is proof that . . . a socialist command economy can function and even thrive' (Samuelson and Nordhaus 1989, p. 837).
6. More on the Washington Consensus can be found in Williamson (1990, 1993, 1997) and in Kolodko (2000).
7. For a review of the thinking and principles behind this approach, see also Balassa et al. (1986).
8. See, for example, Lipton and Sachs (1990), Sachs (1993, 1994).
9. See Balcerowicz (1994) or Klaus (1991), among many others.
10. 'Aggregate uncertainty' refers to uncertainty about the global outcome of a policy move, that is, about whether it might bring about an overall welfare improvement. In contrast, 'individual uncertainty' refers to uncertainty about the effects of a particular policy move on an individual or a group of individuals.
11. Hellman (1998), for example, speaks of pensioners as 'traditional losers' from post-communist transitions.
12. Unlike some proponents of gradualism who downplay the role of spontaneous privatisation, Johnson and Kroll (1991) argue that spontaneous privatisation was a highly significant phenomenon.

13. Christoffersen and Doyle (1998) provide an early discussion of the importance of trade dynamics in transitions.
14. Similarly, Blanchard (1997) characterises this slump as a difficult puzzle since in his view the removal of the distortions existing in socialist economies should have caused output to increase, not to decrease.
15. Heybey and Murrell (1999), Krueger and Ciolko (1998), Åslund, Boone and Johnson (1996).
16. De Melo, Denizer and Gelb (1996), Sachs (1996), Fischer, Sahay and Vegh (1996), Åslund, Boone and Johnson (1996), Havrylyshyn, Izvorski and van Rooden (1998) and Berg et al. (1999).
17. This does not prevent Roland (2001, p. 45) from embarking on speculation about the possible counterfactual to rapid price liberalisation. If the Chinese model of dual-track liberalisation had been adopted, he claims, the output fall would have been limited.
18. Earle and Gehlbach (2010), Gerry, Mickiewicz and Nikoloski (2010).
19. Roland (1994), Dewatripont and Roland (1992).

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