

Creating a market economy: the case of the Czech Republic

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Creating a market economy: the case of the Czech Republic

- **Background**
- **After WW2- losing ground and why**
- **Search for a transition strategy after November 1989**
- **What happened in 1990- selected policies**
- **Launching a set of major transformation policies as of 1.1. 1991**
- **How the economy responded-some statistics**
- **OECD entry in 1995 and its significance**

Background

- **Czechoslovakia in between two WW**
- **Czech lands and industrial revolution in Central and Eastern Europe**

After WW2- losing ground and why

- **February 1948, main features of a communist economy**
- **Nationalisation/outlawing of private enterprise**
- **Disrespect for markets/fixed prices – disequilibria**
- **Monopoly of foreign trade/no free access to foreign currency**
- **Authoritarian central planning/one party system**
- **Results: GDP per cap Czech Rep. vs Austria after WW2 and in 1989**

Search for a transition strategy after November 1989

Klausean strategy of transition approved by FP

As of 1.1.1991:

- Liberalisation of prices and foreign trade**
- Stabilisation orientated macropolicies**
- Privatisation**
- Social net**
- Mutually consistent package of policies, point of no return-critical mass**

Search for a transition strategy after November 1989

- **Was it so called shock therapy? No!**
- **Importing mature capitalist institutions/legal framework from abroad? Impossible!**
„Learning by doing“
- **German unification?**
- **Klausean vision: rebirth of capitalism**

What happened in 1990- selected policies

- **Constitutional change -legalising private property of firms, law on joint stock companies**
- **Major overhaul of fiscal policy: budgetary surplus and reducing subventions and corporate taxes, reducing defense expenditures (7% of GDP in 1989)**
- **IMF, World Bank, EU association agreement, Izrael, South Korea**

Launching a set of major transformation policies as of 1.1. 1991

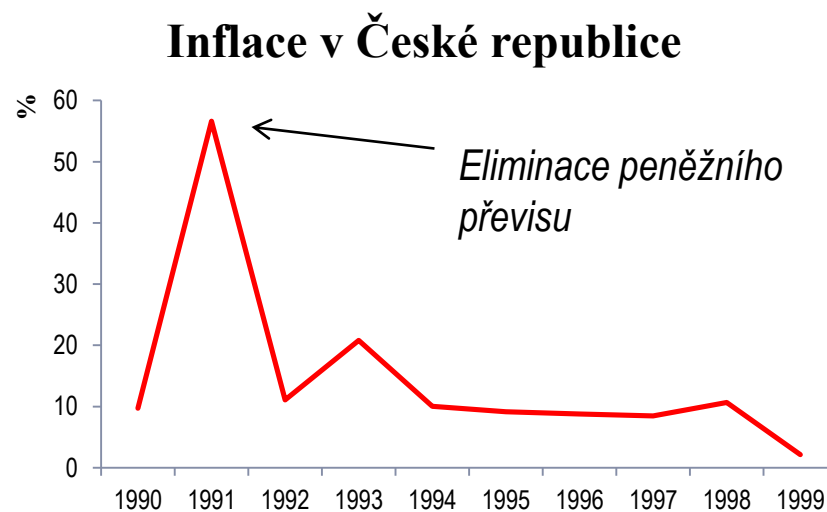
- Liberalisation of prices, opening markets**
- Devaluation of crown and fixing its rate to USD**
- Liberalisation of foreign trade/import competition**
- Stabilisation orientated macropolicies to mitigate possible inflationary developments**
- Activation of social net**

How the economy responded-some statistics

- **CPI, 56% in 1991, around 10% until mid 90s**
- **Lowest among transition economies**
- **good for people, not so for firms**
- **No poverty and big social deprivation problems**

How the economy responded- some statistics

CPI



How the economy responded-some statistics

- **Lowest output (GDP) kolaps among transition economies, problems of its measurement**

Why:

- **Sharp changes in relative prices**
- **New goods entering market**
- **Appearance of a large number of new producers and sellers**

Result: upward bias in price indices after 1990

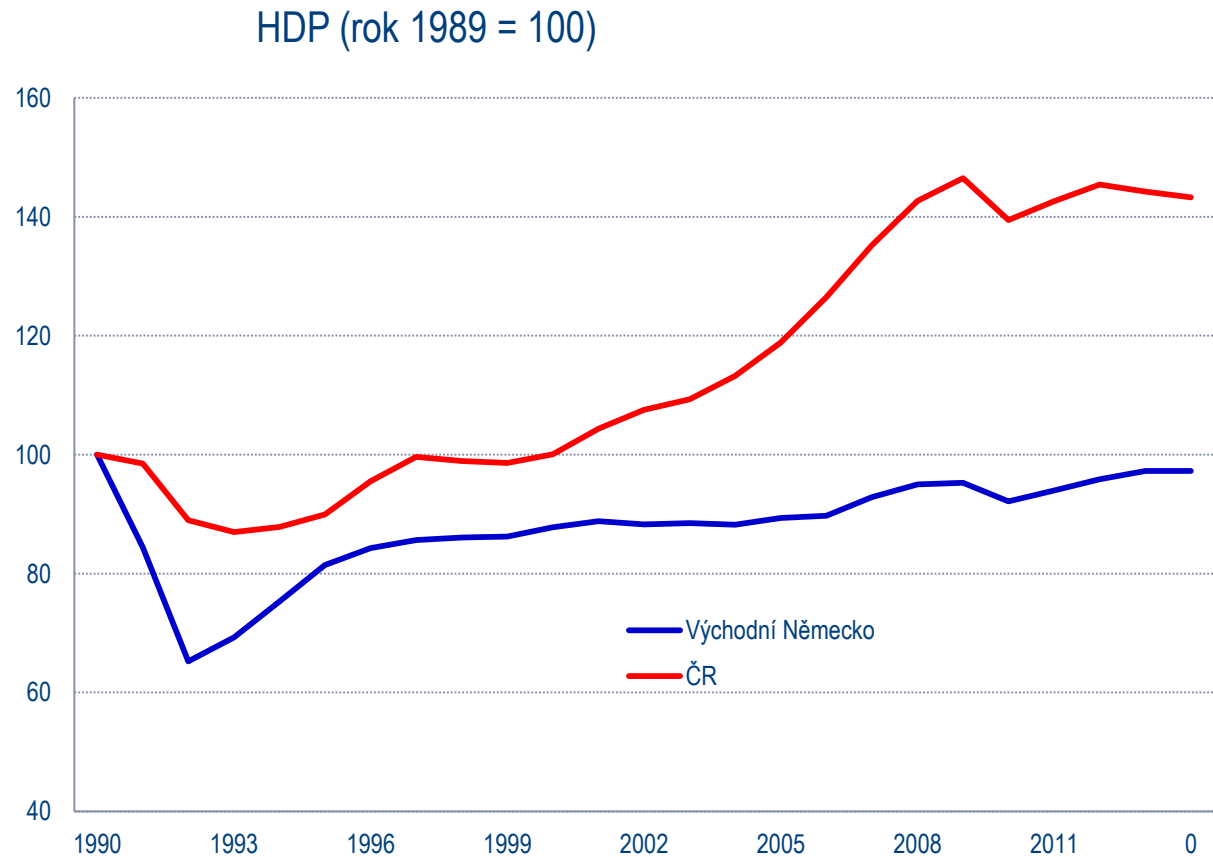
How the economy responded- some statistics

GDP

	Kumulovaný pokles HDP (v %)	Trvání poklesu v letech
ČR	-12	2
Maďarsko	-18	3
Polsko	-18	2
Rumunsko	-21	3
Slovensko	-24	3
Bulharsko	-27	4
Estonsko	-33	4
Rusko	-35	5
Litva	-41	3
Ukrajina	-61	9

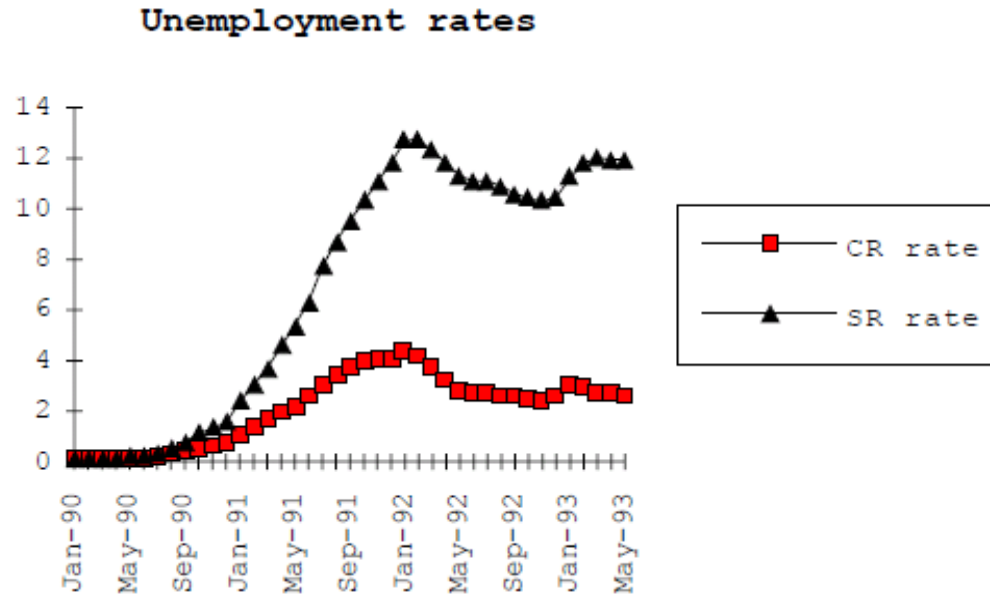
GDP: Czech Rep vs former GDR

1989 = 100



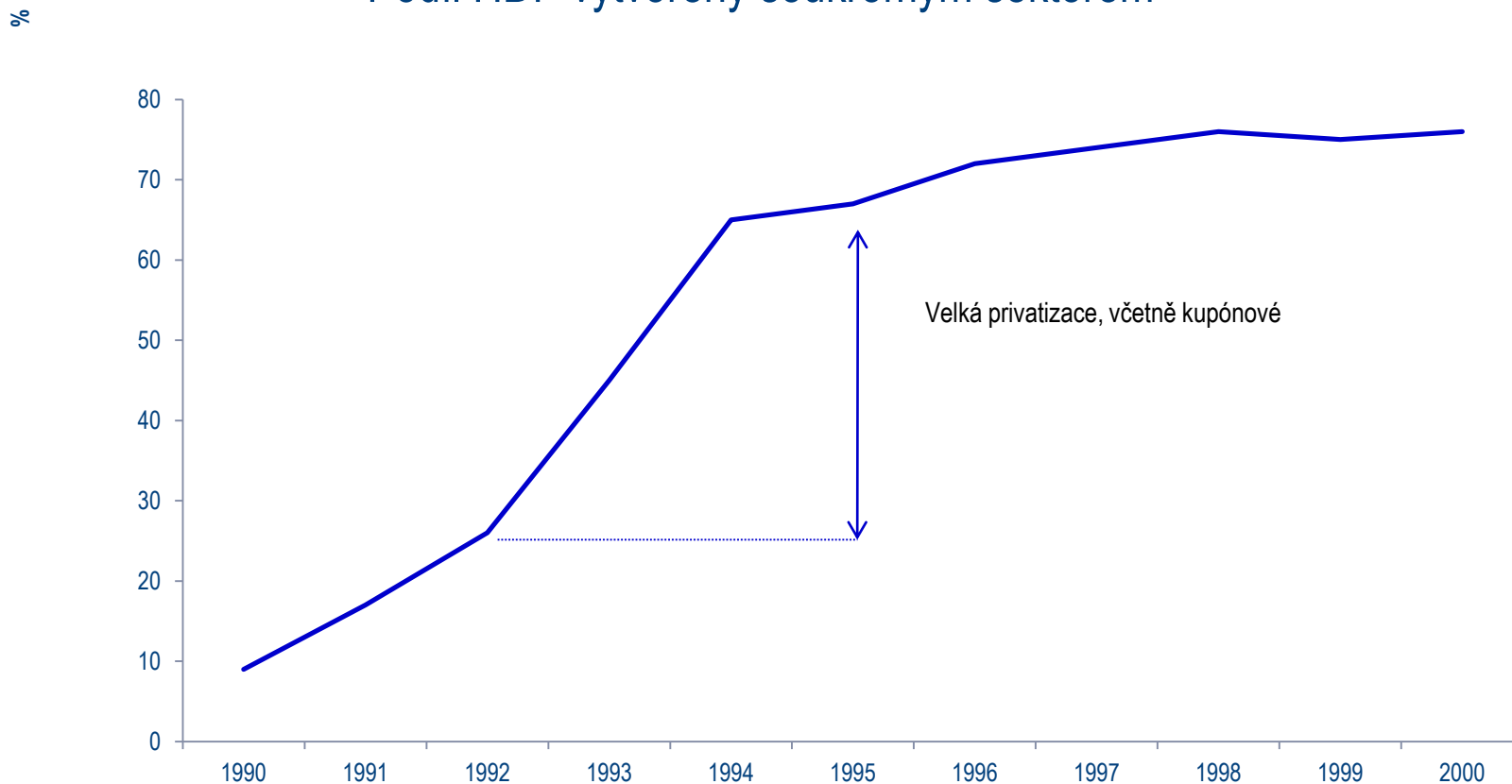
How the economy responded-some statistics

Unemployment rates

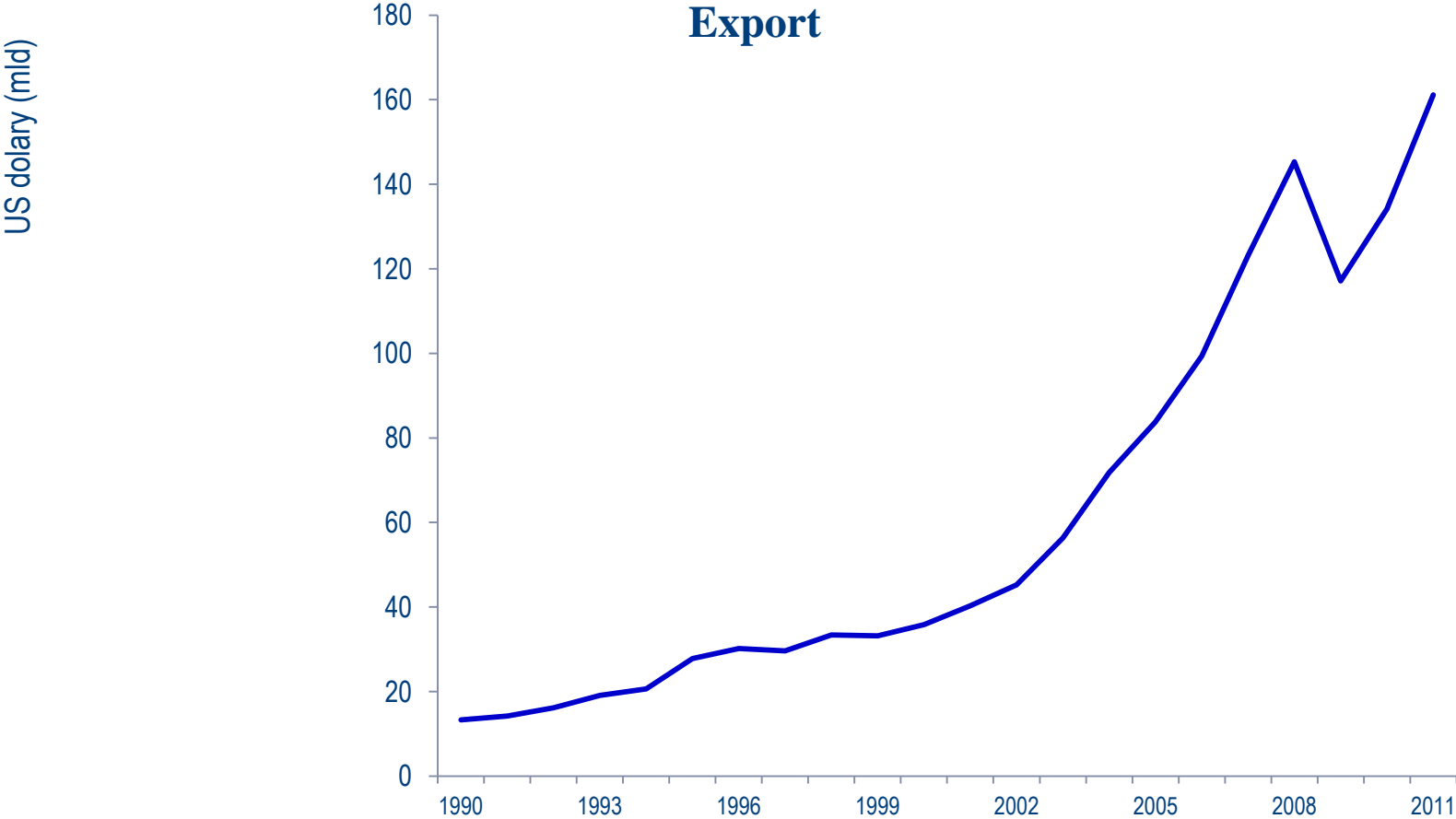


How the economy responded- some statistics

Podíl HDP vytvořený soukromým sektorem



How the economy responded- some statistics



OECD entry in 1995 and its significance

- **„likemindedness“ – parliamentary democracy
and open market economy**
 - **Real capitalism beats real socialism**
 - **But?**
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