

(Re)creating a market economy: the case of the Czech Republic

Karel Dyba

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VŠE Praha

(Re)creating a market economy: the case of the Czech Republic

- **Historical background**
- **After World War 2- 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**
- **Structural changes, OECD entry in 1995**

Historical background

Czech lands (Austro-Hungarian Empire) and industrial revolution in Central and Eastern Europe

1918: Czechoslovakia born (Czech lands, Slovakia, Ruthenia)

(Czech lands) between two World Wars in the past century

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 – Czech crown not convertible/**
- **Authoritarian central planning/one party system/**
- **Results: GDP per cap Czech Rep. vs Austria after 2nd WW and in 1989**

Search for a transition strategy after November 1989

**Klausean (V. Klaus) strategy of transition
approved by FP in autumn 1990**

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**
- (collaps of the USSR, oil and gas imports...)**

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?**
- **V. Klaus vision: rebirth of capitalism, no
„third way“**

What happened in 1990- selected policies

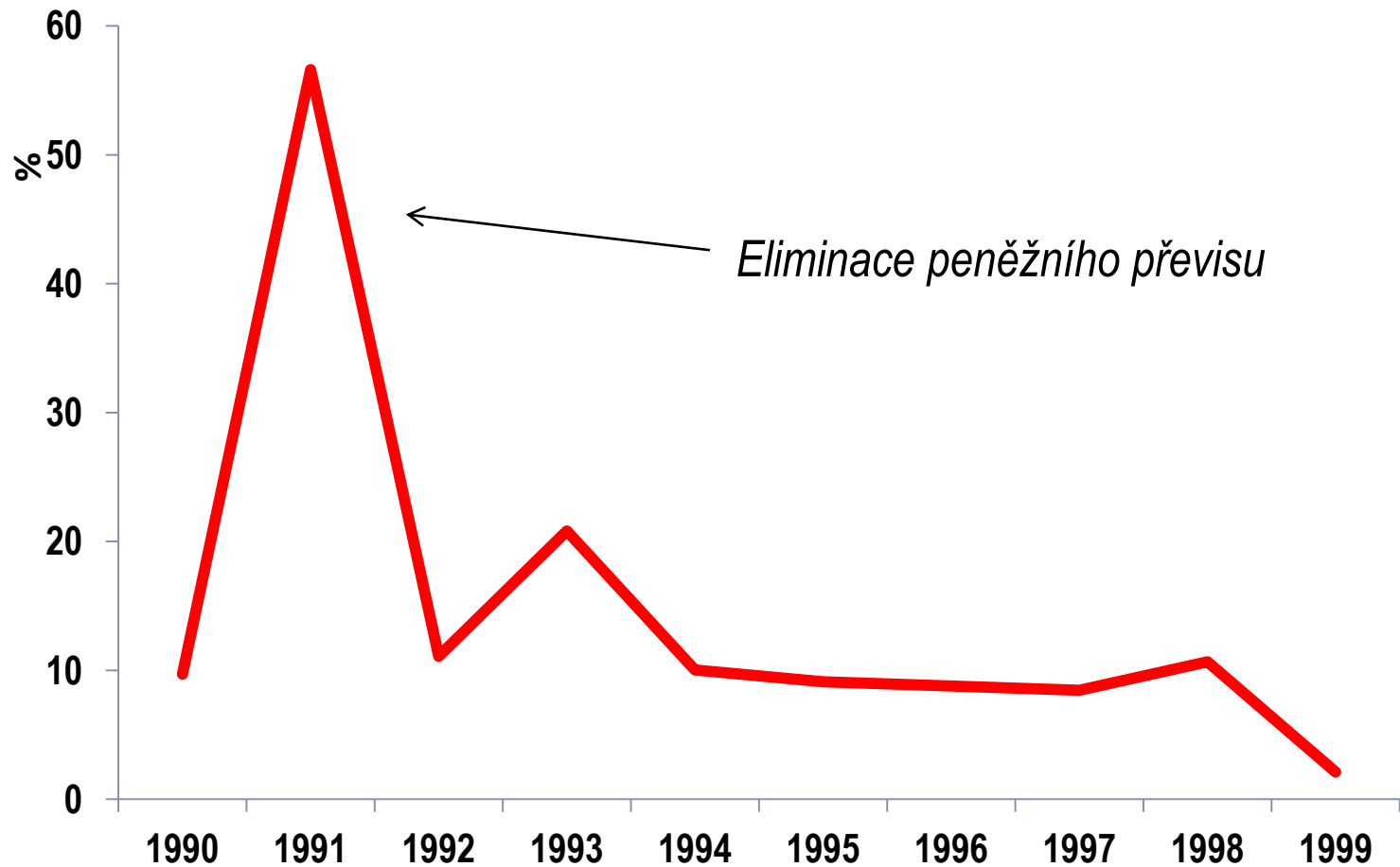
- Constitutional change -legalising private property of firms, law on joint stock companies**
- Major overhaul of fiscal policy: budgetary surplus, reducing subventions and corporate taxes, reducing defense expenditures (7% of GDP in 1989)**
- IMF, World Bank, EU association agreement, Izrael, South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

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

- **Liberalisation of prices, opening markets**
- **Devaluation and fixing crown rate to USD**
- **Liberalisation of foreign trade/import competition**
- **Stabilisation orientated macropolicies to mitigate possible inflationary developments**
- **Privatisation (restitution, voucher priv.)**
- **Activation of social net (rents?)**

How the economy responded-some statistics

CPI

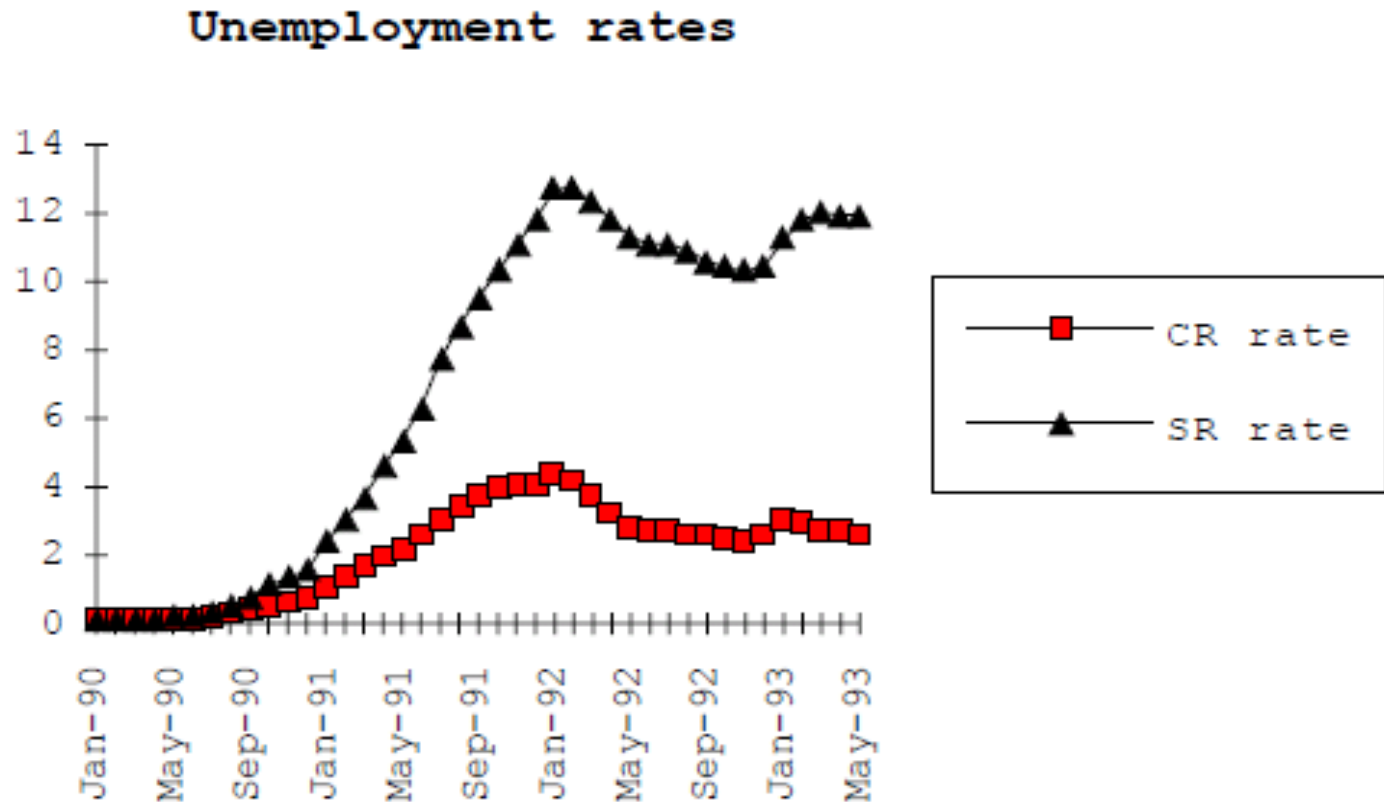


How the economy responded-some statistics

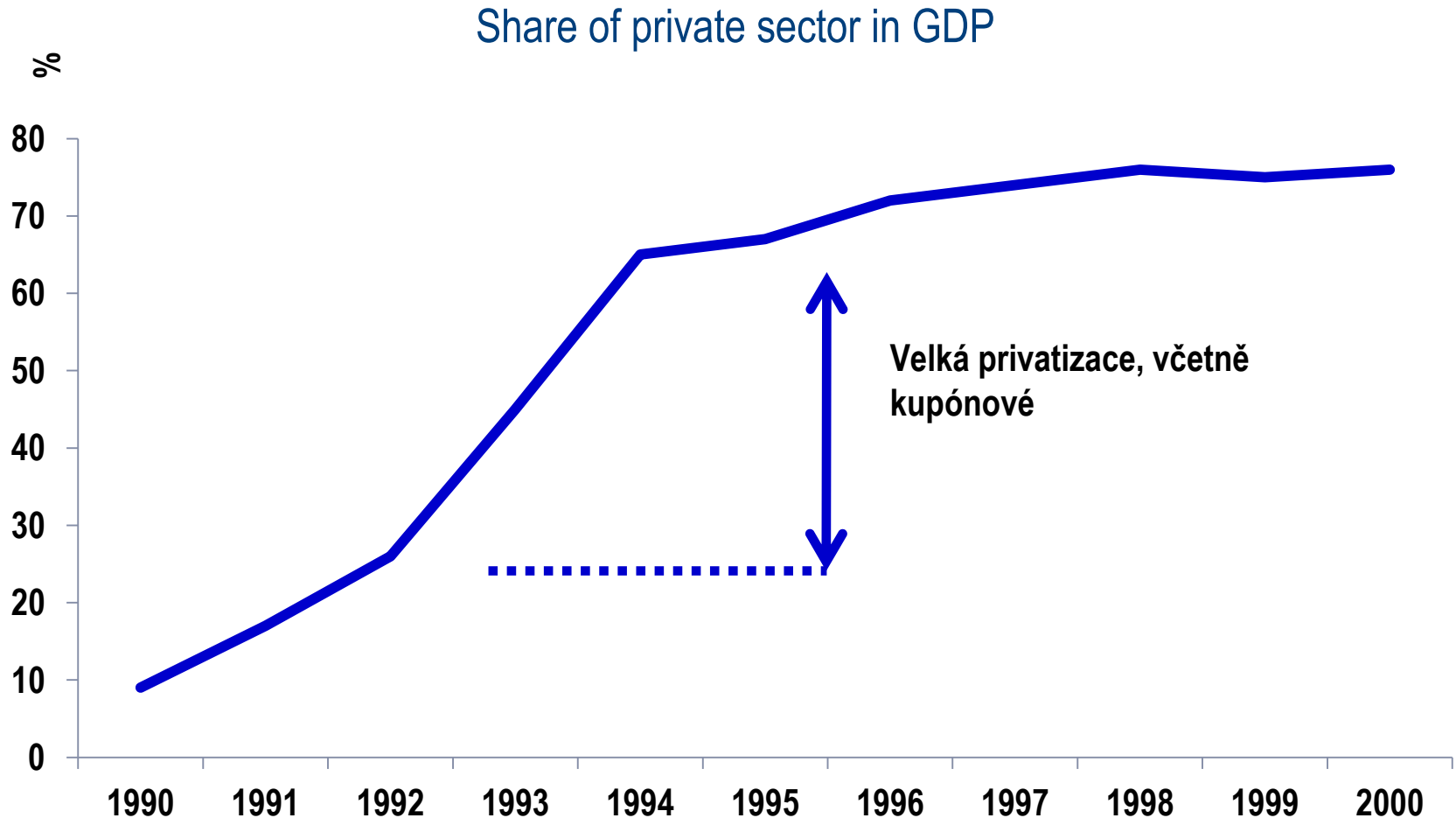
- **CPI, 56% in 1991, around 10% until mid 90s (lowest among transition economies)**
- **good for people, not so for firms**
- **no significant industrial disputes, no outright poverty and big social deprivation problems**

How the economy responded-some statistics

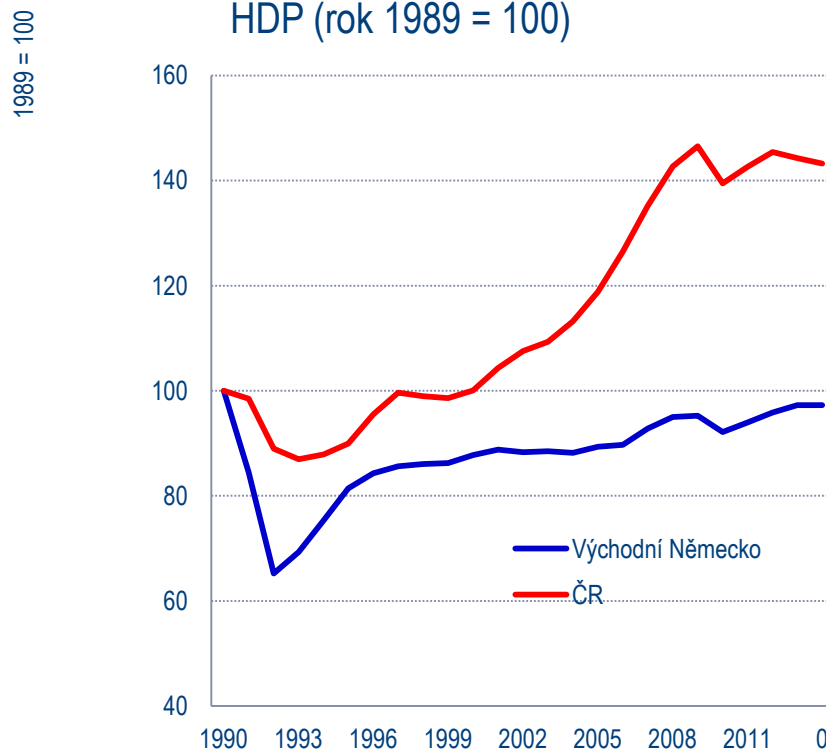
Unemployment rates



How the economy responded-some statistics



GDP : Czech Republic and former GDR



- GDP decline in former GDR deeper than in the CR. However there was a large decline in population in the GDR, about 20% after unification of Germany. Population in the CR remained about constant.

How the economy responded-some statistics

GDP decline and its duration

	Cumulative decline in GDP (y %)	Duration of the recession
ČR	-12	2
Hungary	-18	3
Poland	-18	2
Romania	-21	3
Slovak Rep	-24	3
Bulgaria	-27	4
Estonia	-33	4
Russia	-35	5
Latvija	-41	3
Ukraine	-61	9

Pramen: WIIW a vlastní výpočty

How the economy responded-some statistics



Structural changes, entering OECD in 1995

- **Selected structural changes (sectoral shares, size of enterprises, patterns of trade, consumption structure, inside of enterprises)**
- **OECD entry in 1995, precondition is parliamentary democracy and open market economy – a kind of recognition that sound basics of transformation put up**