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Small States in Transition: The Experience of the Past Quarter Century

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What Determines Success in Transition?

- Religious history
- Imperial history
- Post-Communist political institutions
- Post-Communist leadership
- Open questions



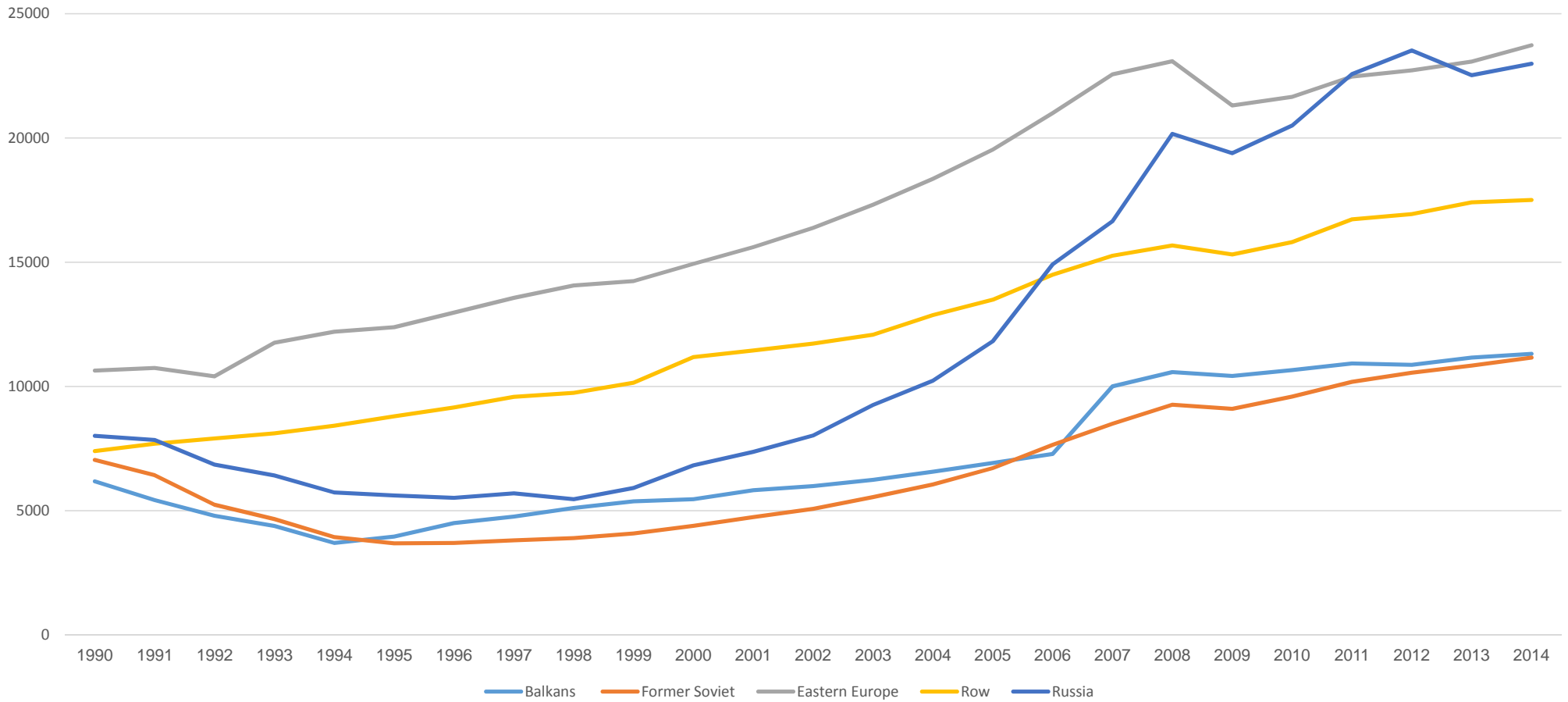
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Basic Statistics

All transition economies

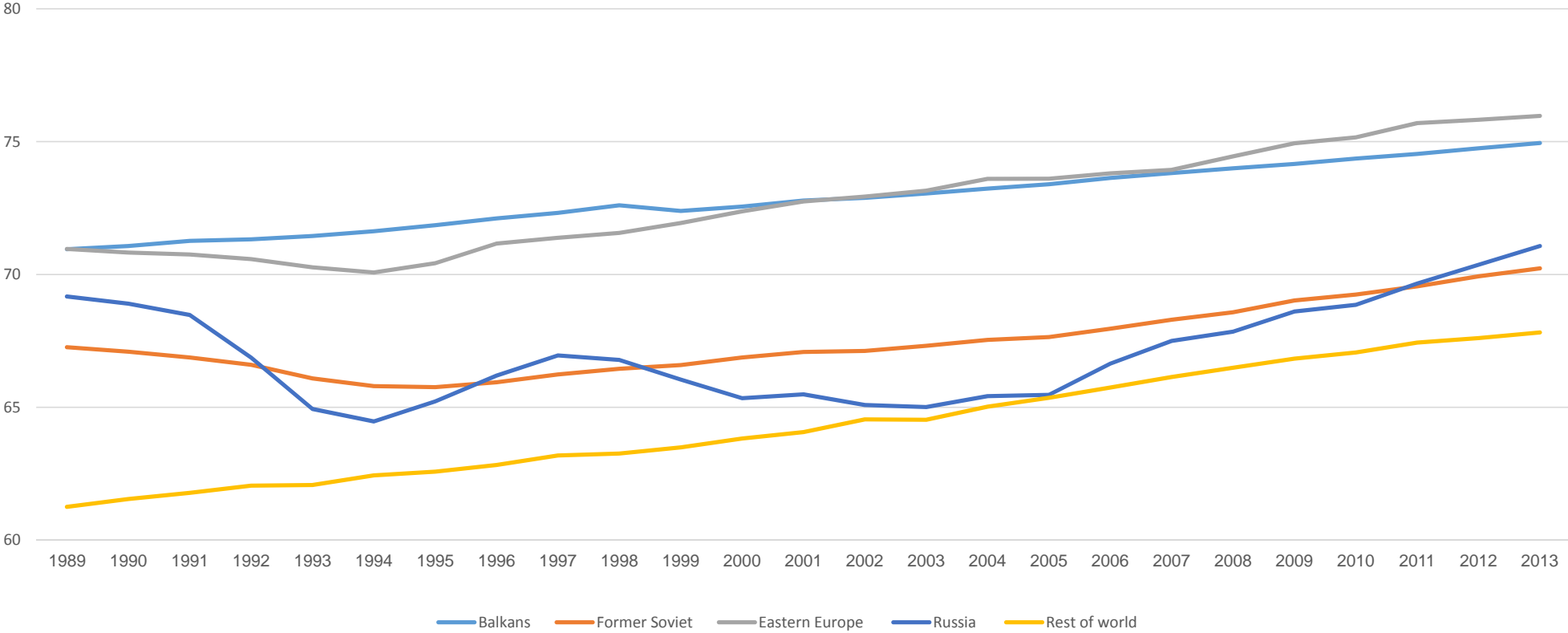


Post-Communist Economic Growth (GDP per capita)





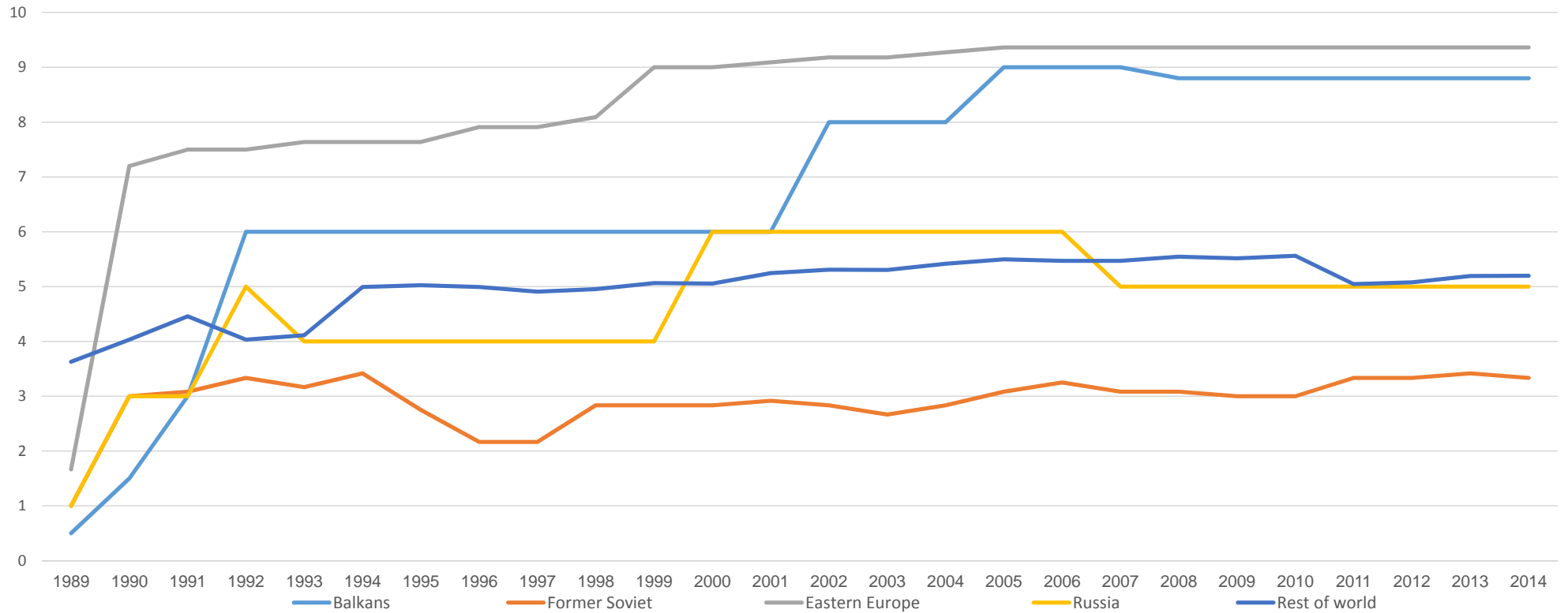
Life Expectancy at Birth





Democracy Scores

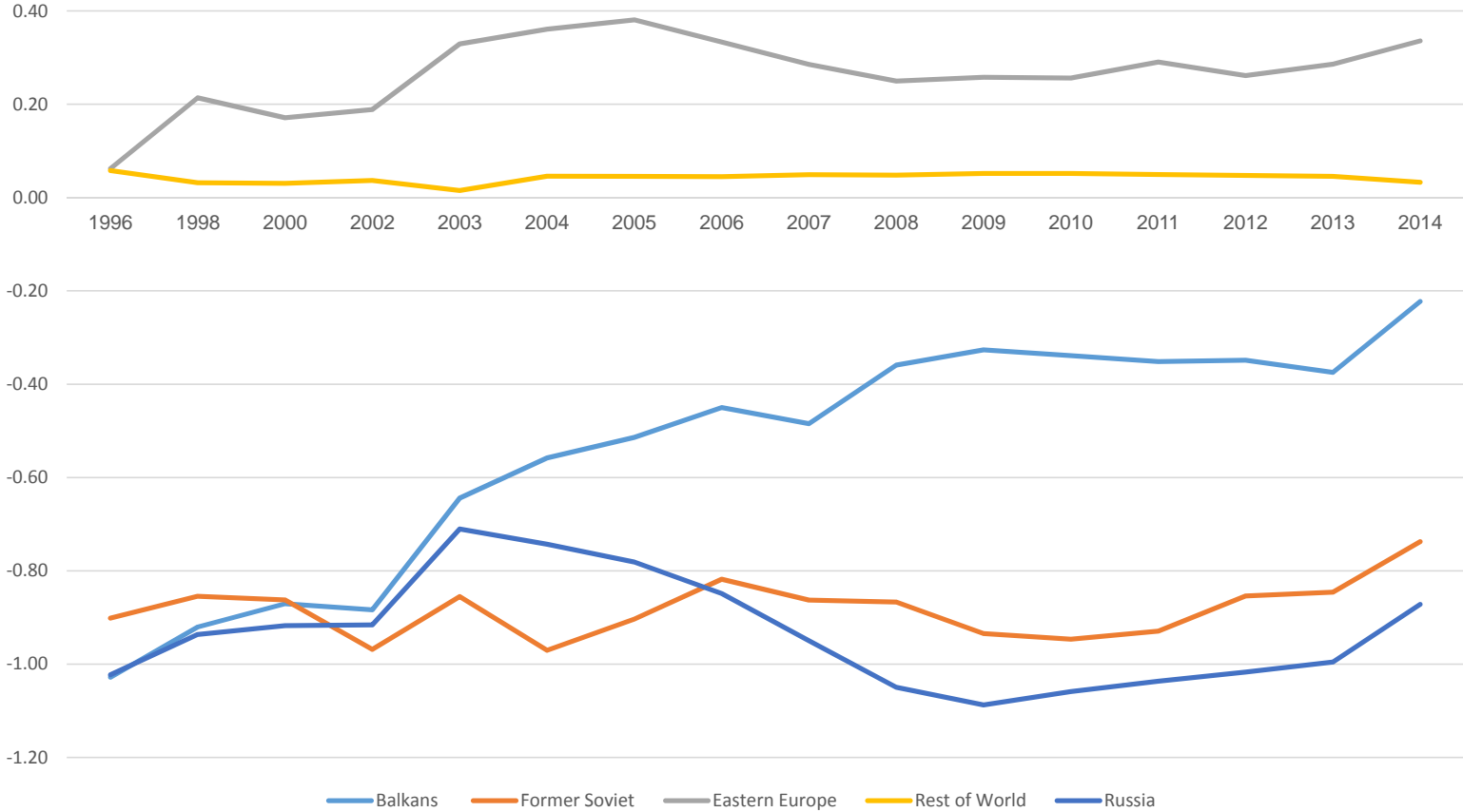
Polity IV Democracy Scores, 0 to 10





Corruption Scores

Control of Corruption, by Region, -2.5 to 2.5





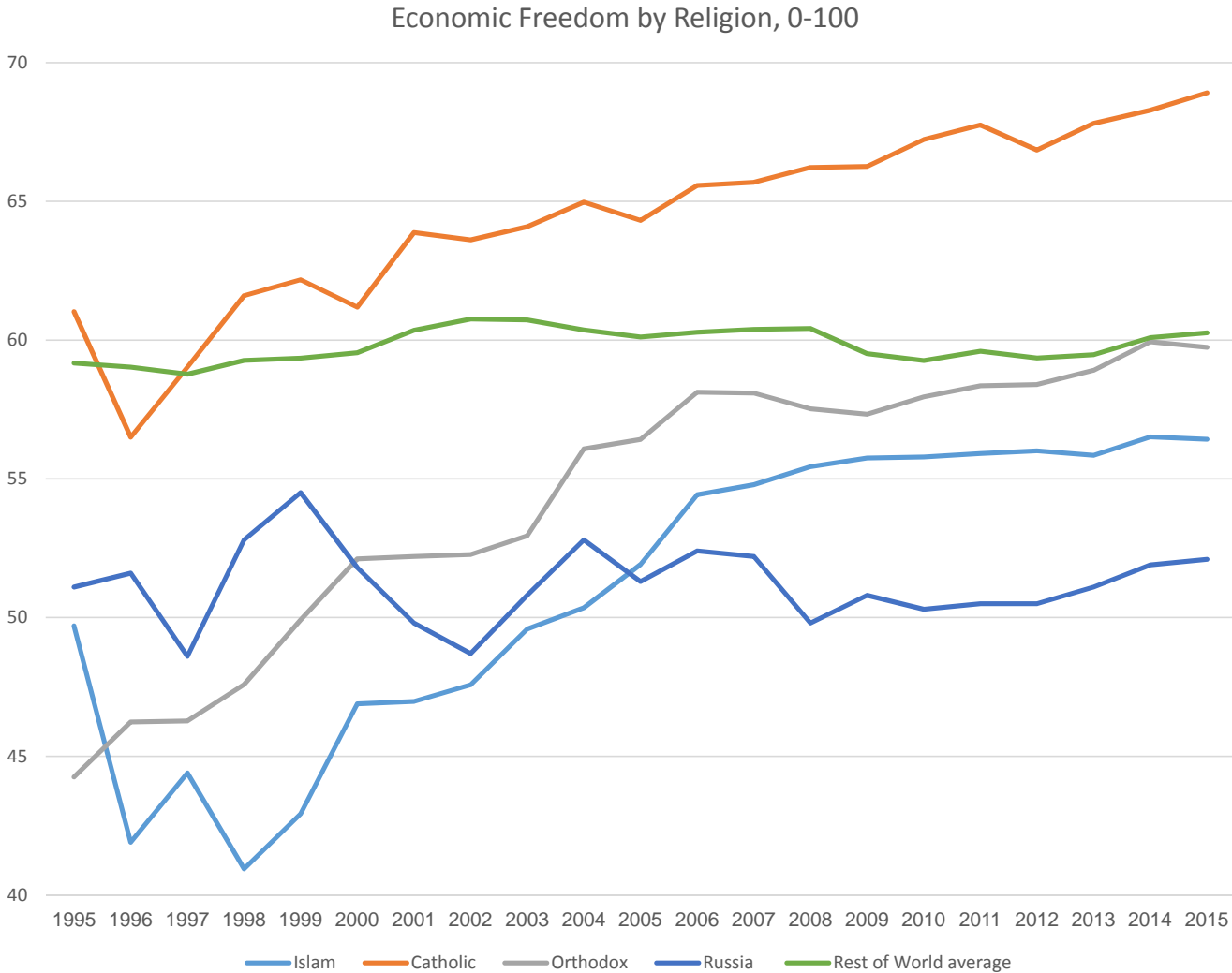
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What Explains Differences?

4 hypotheses

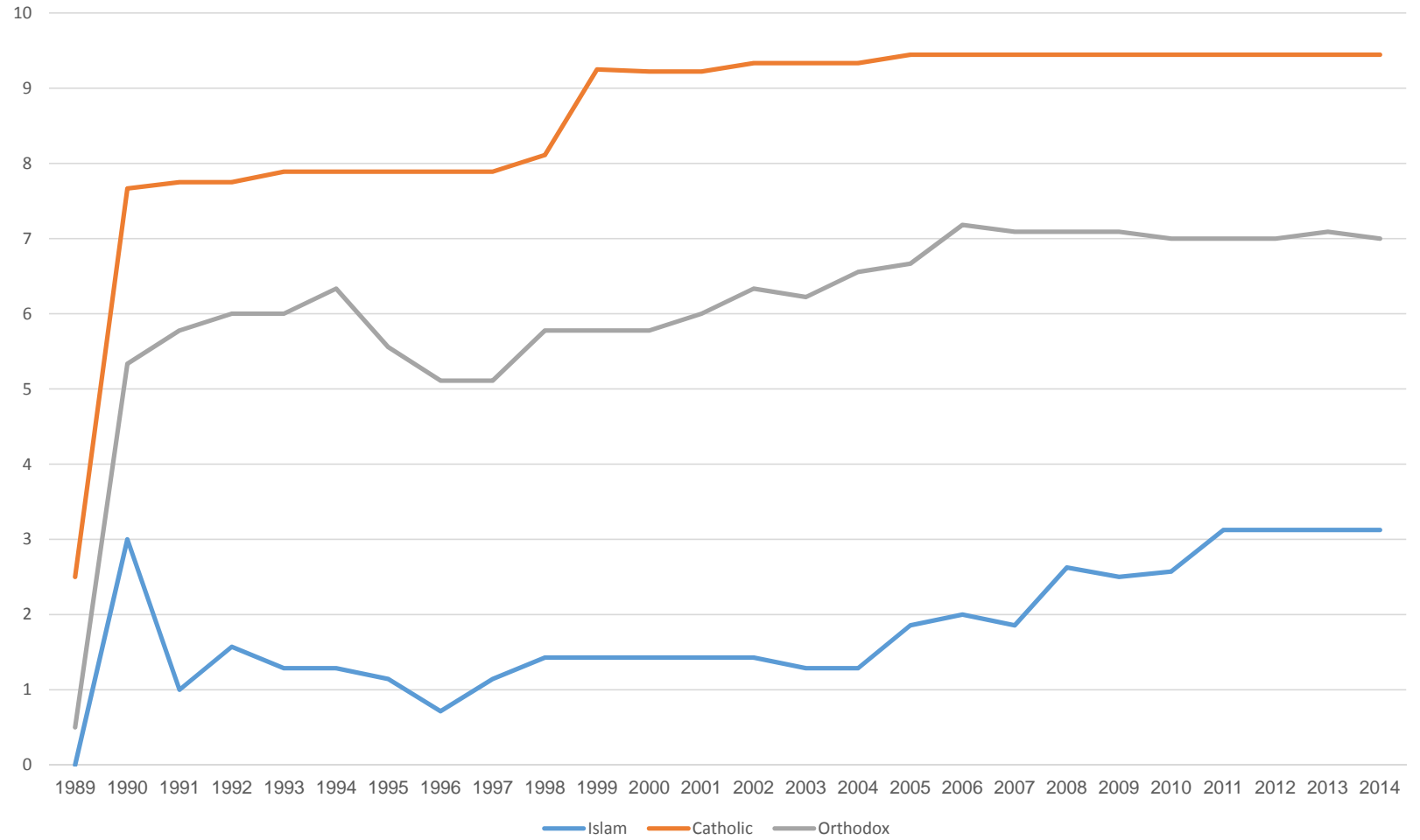


1. Is Religion a Factor?



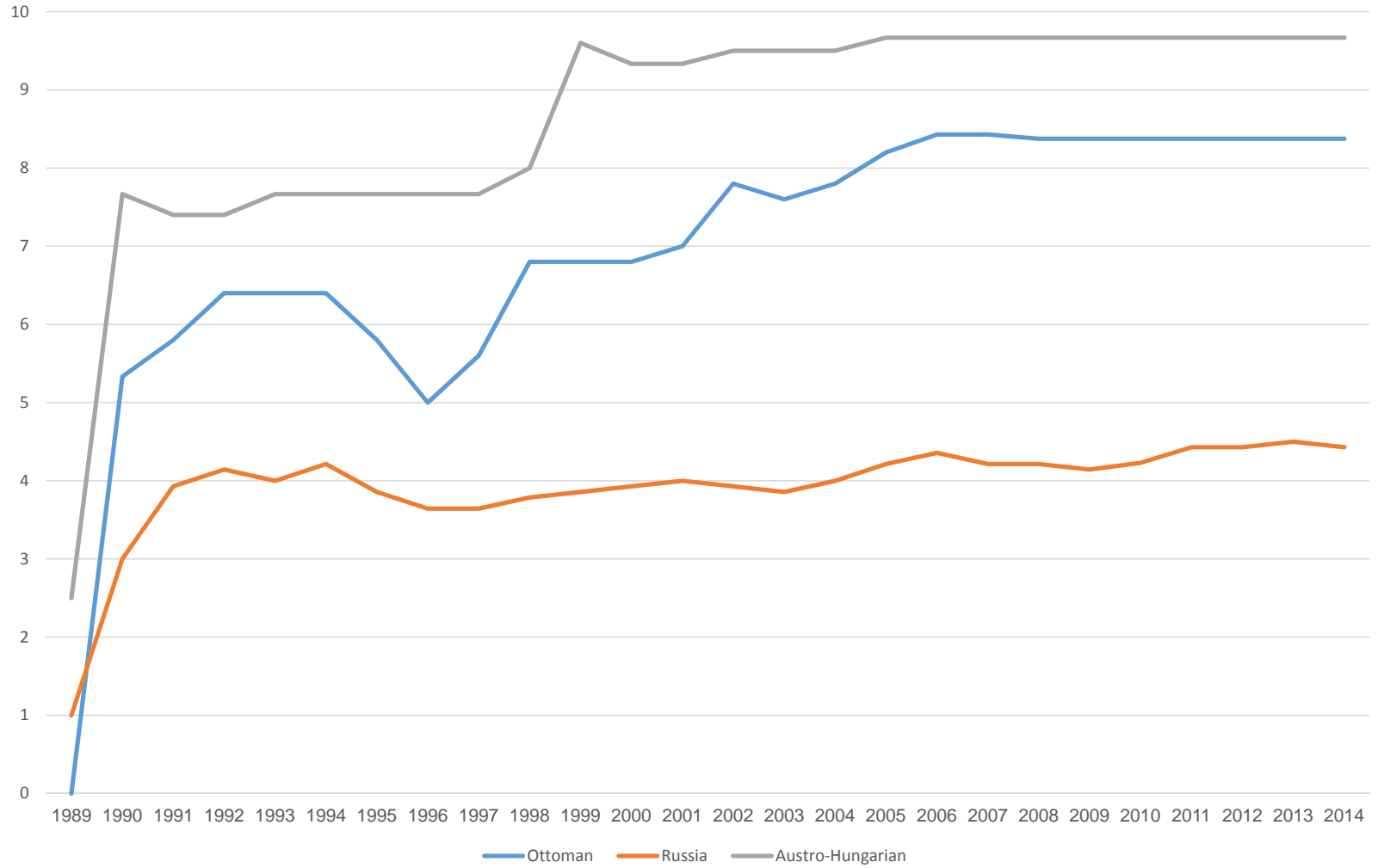


Democracy, 0-10



1. Is Religion a Factor?

Polity IV Democracy Scores, 0-10, by Empire

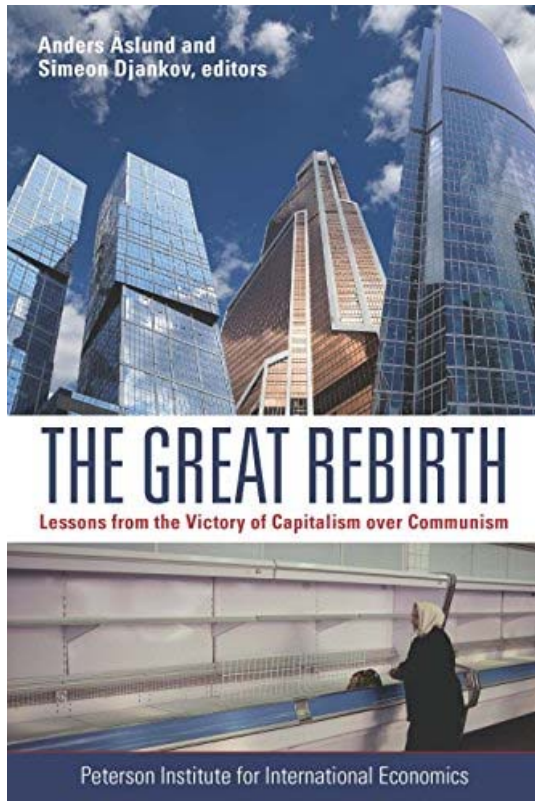


2. Is Imperial History a Factor?

Post-Communist Political Institutions

- Presidential vs Parliamentary systems makes a big difference in explaining democracy and a small (but statistically significant) difference in explaining economic performance.
- But it is highly correlated with former Russian empire; and more recently with the Soviet Union.
- Transitions are rare – Croatia went from presidential to parliamentary system in 2000; (Turkey is going the other way now).

Leaders' Role in Transition



Daniel Treisman estimates the speed of reforms under different political leaders, accounting for a country's historical and other characteristics.

1. Gaidar
2. Balcerowicz
3. Klaus
4. Not statistically significant

168. Videnov (Bulgaria)

169. Kravchuk (Ukraine)

Interesting who does not come up: Laar (Estonia) or Saakhashvili (Georgia) – because small and homogeneous countries are easier to reform?

Implications for Small Countries in Transition

- Homogeneous, protestant or catholic countries easiest to reform (Estonia, Latvia, Lithuania, Slovenia fit the bill)
- Heterogeneous, Eastern Orthodox countries difficult to reform (Macedonia, Serbia)
- Georgia – an outlier
- Montenegro – an outlier
- Belarus – a negative outlier



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Open Questions

The list is longer, two examples

Is Nation-Building an Obstacle or a Booster

- Difficult to both build institutions and move to democracy and market economy
- But, building from scratch easier than fixing existing institutions
 - Can go to first-best, for example flat tax systems.



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Is the Pull of the European Union a Positive Force



- Positive: Politicians can blame “Brussels” for needed reforms
- Negative: “Convergence” on reforms, for example call for higher taxes
- The Eurozone crisis and subsequent refugee crisis shifted the focus away from accession and needed reforms.