Institutions, Economic Performance and Transition

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Since the fall of the Berlin Wall, in 1989, the countries of Central and Eastern Europe (CEE) and the former Soviet Union (FSU) have been engaged in an historic transition process from centrally-planned to market economies. Economic performance among these countries has widely differed in the years since the start of the transition. So have economic policies. Of course, although the transition countries all came from a central-planning background, initial conditions also differed. Nevertheless, beyond the millions of affected lives, for the economist this is a unique 'natural experiment', giving useful data from which to distill lessons about the policies that have worked and those that have not. These may have broader significance than 'just' for the transition countries. They may also be relevant for developing countries in general, where similar issues play a role. This book researches the relative importance of the various economic policies and initial conditions for economic performance in CEE and the FSU, specifically for growth, enterprise restructuring and capital flight, which are obviously linked. The special focus is on institutional factors, such as the rule of law, which were given little attention in earlier research. Results suggest that the quality of institutions is more important than a host of variables that are generally considered significant. This implies that more stress should have been given on institution building in economic transition, certainly early in the process.

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