COMPARING TRANSITION DEPRESSION WITH THE EARLIER DEPRESSIONS IN DEVELOPED COUNTRIES

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Povzetek

Padec gospodarske aktivnosti v letih tranzicijske depresije je v članku primerjan z upadom v času velike depresije v razvitih državah pred šestdesetimi leti ter s celo večjim padcem proizvodnje med drugo svetovno vojno in po njej. Resnost depresij merimo v dveh dimenzijah: zmanjšanje statičnega indeksa BDP v primerjavi z letom 1989 ali z vrhom pred depresijo ter s S-časovno-distanco, ki kaže, koliko let prej so bile enake ravni BDP že dosežene v preteklosti.

Skupni čas, ki je pretekel od začetne referenčne vrednosti pred depresijo do vrnitve na stare ravni, je bil v tranzicijskih gospodarstvih v večini primerov daljši kot v razvitih državah v veliki depresiji leta 1929 in po drugi svetovni vojni. V razvitih državah se je ta čas gibal med sedmimi in 10 leti, za tranzicijska gospodarstva pa med šestimi in 18 leti. Uspešnost v času tranzicije je bila pod pričakovanji. Morali bi se bolj osredotočiti na trajnostni razvoj in rast in ne samo na spreminjanje institucionalnega sistema ali še ožje na prehod na institucionalni in pravni okvir EU. Pomen družbenega konsenza o strategiji razvoja, ki je nujen za uresničevanje potrebnih reform, kaže, da bi lahko bilo pomanjkanje tega konsenza eden od vzrokov za neoptimalno okrevanje in tudi za nadaljevanje vključevanja v svetovne gospodarske procese.

Ključne besede*: tranzicijska depresija, velika depresija 1929, S-časovna-distanca, zgodovinske primerjave*

Abstract

The decline of economic activity in the transition years in post-socialist countries is compared with the decline in the Great Depression in developed countries as well as the larger decline in output during and after World War II. The severity of economic depressions are measured in two dimensions: decrease in the static index in comparison with 1989 or the peak before the recession, and in the S-time-distance lag indicating how many years earlier the same levels of GDP had been achieved in the past.

The total time elapsed from the starting benchmark levels to the recovery to these levels was in most cases longer in the transition economies than for the developed countries in the Great Depression and after WWII. For developed countries, this time varied between seven and ten years; for transition economies from six to 18 years. The performance in transition was below expectations. Not only should the focus on development and growth be much more important: the process should also be understood as a process of transformation and re-regulation that is considerably broader and more demanding than merely a transition in the narrow sense or even transition to the EU institutional and legal framework. The importance of social consensus regarding development strategy, that is needed to carry out specific reforms, indicates that the lack of it might have been one of the greatest obstacles for the successful recovery of these countries and for their integration into global economic processes.

Key words*: transition depression, Great Depression, S-time-distance, historical comparisons*

1. Introduction

Nearly two decades of post-socialist transition is analysed in a historical perspective. The analytical framework is broadened by the concept of time distance perspective. The depths of the transition depression, of the Great Depression and that after WWII in developed countries are compared with several measures. It is indicated that in transition economies the duration of recovery to the starting benchmark level was in many cases longer than in the developed countries.

The first two decades of post-socialist transition raises many questions. Abrupt and profound changes in the political and economic institutions and conditions in these countries have led to two sets of consequences. First, new liberties have opened new flexibility and opportunities in political and economic life.

These developments were also expected to bring improvements in the economic performance of these countries over the longer run. Second, the abrupt changes presented a great shock to the economy and led to a drastic deterioration in the production performance and employment possibilities in the short run. The important policy question is to what extent the severity of this fall has been a consequence of an inappropriate strategy and sequence of introducing economic reforms. Lessons of experience in transition would be also useful for further improvements in economic performance and social stability in these countries.

This article has a much more modest ambition. First, the decline of economic activity in the years of transition will be compared with the decline in the Great Depression in developed countries about sixty years earlier and the even larger decline in output during and after World War II. While the economic, social and political conditions of the earlier depressions were not the same as in the post-socialist transition countries, it is of interest to see how the developed countries fared after these great declines in their attempts to catch up with the previously achieved production levels. We shall examine what broad conclusions can be drawn from putting the present performance of selected transition countries in historical perspective, using several measures of the severity of depression and for the performance in the recovery phase. An earlier version of this analysis covering the period to 1997 appeared in a restricted paper for the Economist Intelligence Unit (Sicherl 1998). A more narrow analysis looking at the development distances in southeast Europe in the WIIW (The Vienna Institute for International Economic Studies) Countdown project briefly discussed the transition depression in Slovenia, Croatia, Bulgaria and Romania (Sicherl 2000). A part of it was published in this journal (Sicherl 2002). The Economist Intelligence Unit article covered only the period until 1997, while the WIIW report only covered four countries to 1999. By 1999, only Poland, Slovenia and Slovakia had reached their 1989 levels, while the other countries had not yet recovered to their starting levels. Now we are able to extend the analysis to 11 countries and the period of observation to 1989–2008; every country analysed has recovered to its pre-recession levels.

International comparisons are overwhelmed with problems of accuracy, coverage and comparability; therefore, one should be prepared for the possibility of considerable range of uncertainty in the statistics for these countries. Some of them became independent countries in this period and there can be problems with the long-term indicator series for them. For GDP, we use data from Conference Board (2011), for historical series on developed countries data from Maddison (1991).

2. The time distance lens to the severity of the fall in depression

There is no need to discuss the time distance methodology in detail, as it was presented in this journal as a new view in a comparative analysis in Sicherl (1999). In general, 'time distance' means the difference in time between which two events occurred. We define a special category of time distance, which is related to the level of the analysed indicator. The S-time-distance statistical measure measures the distance (proximity) in time between the points in time when the two series compared reach a specified level of the indicator X. The observed distance in time (the number of years, quarters, months, etc.) for given levels of the indicator is used as a temporal measure of disparity between the two series, in the same way that the observed difference (absolute or relative) at a given point in time is used as a static measure of disparity (ibid., p. 23–24).

There are several useful ways of describing economic development over time. It seems that the prevailing one is that of using growth rates of the respective magnitudes or indicators in percentage changes. This has advantages and disadvantages. Positively, it is simple to understand a time series of yearly (or quarterly or monthly) growth rates over time; negatively, the series refer to changing base values, so it may not be easy to grasp the change in levels over a period of time.

We shall also pay more attention to the levels to analyse the situation. A complementary approach also shows that decreases in recessions and depressions could be measured in two dimensions: the static index from the peak and the time distance against the trend before the peak. Thus, it is a special case of application of the time distance measure being different from applications in benchmarking and monitoring. It represents the S-time-distance analysis for a single time series. We show the situation in the recessions in two dimensions: the decrease in the static index in comparison with 1989, and the S-time-distance lag indicating how many years earlier the same levels of GDP had already been achieved in the past.

3. Historical experience in depression and recovery: developed countries and post-socialist transition countries

In this section, the situations of the transition depression and recovery will be compared from several points of view. The severity of the downturn will be first compared in terms of ratios of GDP at the lowest point of the downturn and the appropriate benchmark year (1929 for the Great Depression, 1989 for transition countries; and 1939, 1943 or 1944 for World War II cases).

Table 1: **Dynamics of GDP for selected transition economies (1989=1)**

Time	Slovenia	Czech Republic	Hungary	Slovak Republic	Poland	Estonia	Lithuania	Latvia	Bulgaria	Romania	Russian Federation
1965	0.391	0.574	0.624	0.574	0.549	0.472	0.526	0.502	0.565	0.504	0.524
1966	0.413	0.599	0.659	0.599	0.583				0.610	0.562	0.550
1967	0.427	0.624	0.697	0.624	0.604				0.642	0.587	0.574
1968	0.453	0.653	0.706	0.653	0.641				0.654	0.600	0.608
1969	0.496	0.665	0.727	0.665	0.634				0.686	0.627	0.616
1970	0.543	0.679	0.724	0.679	0.667				0.725	0.642	0.664
1971	0.583	0.702	0.756	0.702	0.715				0.749	0.732	0.681
1972	0.613	0.727	0.773	0.727	0.767				0.784	0.779	0.685
1973	0.652	0.751	0.813	0.751	0.825	0.661	0.744	0.740	0.815	0.804	0.743
1974	0.715	0.778	0.834	0.778	0.873				0.841	0.849	0.764
1975	0.754	0.801	0.852	0.801	0.914				0.910	0.887	0.766
1976	0.771	0.814	0.854	0.814	0.937				0.937	0.933	0.802
1977	0.826	0.851	0.908	0.851	0.954				0.928	0.954	0.821
1978	0.895	0.861	0.930	0.861	0.989				0.948	0.985	0.842
1979	0.962	0.869	0.932	0.869	0.971				0.985	1.013	0.838
1980	0.985	0.893	0.941	0.893	0.946				0.956	1.016	0.839
1981	0.976	0.888	0.948	0.888	0.896				0.982	1.010	0.847
1982	0.977	0.905	0.982	0.905	0.888				1.014	1.011	0.867
1983	0.984	0.919	0.972	0.919	0.932				0.994	1.002	0.895
1984	1.004	0.941	0.997	0.941	0.966				1.027	1.042	0.907
1985	1.016	0.948	0.973	0.948	0.976				0.996	1.040	0.915
1986	1.047	0.965	0.992	0.965	1.007				1.023	1.058	0.952
1987	1.036	0.970	1.008	0.970	0.994				1.025	1.036	0.965
1988	1.018	0.992	1.023	0.992	1.016				1.018	1.033	0.985
1989	1	1	1	1	1	1	1	1	1	1	1
1990	0.919	0.988	0.933	0.975	0.903	0.919	0.967	1.029	0.891	0.891	0.970
1991	0.837	0.873	0.822	0.833	0.840	0.827	0.912	0.899	0.816	0.776	0.922
1992	0.791	0.869	0.797	0.779	0.861	0.710	0.718	0.611	0.757	0.708	0.788
1993	0.814	0.869	0.792	0.794	0.893	0.650	0.602	0.541	0.746	0.719	0.719
1994	0.857	0.889	0.816	0.843	0.940	0.639	0.543	0.553	0.759	0.747	0.628
1995	0.916	0.941	0.828	0.893	1.006	0.657	0.569	0.556	0.781	0.800	0.602
1996	0.948	0.979	0.833	0.955	1.069	0.695	0.599	0.576	0.707	0.831	0.581
1997	0.995	0.972	0.866	0.997	1.144	0.776	0.644	0.624	0.668	0.780	0.589
1998	1.030	0.965	0.907	1.041	1.201	0.828	0.693	0.654	0.695	0.743	0.557
1999	1.086	0.978	0.945	1.041	1.256	0.826	0.685	0.675	0.726	0.734	0.592
2000	1.133	1.013	0.991	1.055	1.309	0.908	0.707	0.722	0.767	0.752	0.652
2001	1.166	1.038	1.028	1.092	1.325	0.977	0.755	0.780	0.799	0.794	0.685
2002	1.212	1.058	1.071	1.142	1.344	1.054	0.807	0.831	0.836	0.835	0.718
2003	1.246	1.096	1.113	1.197	1.396	1.134	0.890	0.890	0.882	0.878	0.770
2004	1.300	1.145	1.164	1.257	1.471	1.216	0.955	0.967	0.942	0.953	0.825
2005	1.358	1.218	1.201	1.341	1.524	1.330	1.030	1.070	1.002	0.992	0.878
2006	1.437	1.300	1.244	1.455	1.619	1.471	1.110	1.201	1.067	1.071	0.949
2007	1.536	1.380	1.254	1.608	1.728	1.573	1.220	1.321	1.136	1.138	1.031
2008	1.594	1.414	1.264	1.701	1.817	1.493	1.255	1.265	1.206	1.222	1.085
Time	Slovenia	Czech Republic	Hungary	Slovak Republic	Poland	Estonia	Lithuania	Latvia	Bulgaria	Romania	Russian Federation

Source: Conference Board (2011). For the period 1989–2008 dynamics from data of total GDP for all countries, in millions of 2010 USD (converted to 2010 price level with updated 2005 EKS PPPs). In the period 1965–1988 for CZ and SK dynamics was approximated by data for Czechoslovakia, for RU and Baltic states by dynamics of USSR; all from A. Maddison (1995). The dynamics for the period 1965–1988 for Slovenia were approximated by the dynamics of gross material product of Slovenia; source Savezni zavod za statistiku (1989).

Table 2: **How many years earlier had the current level of GDP already been achieved (S-time-distance for GDP series on itself, based on first intersection)**

Time	Slovenia	Czech Republic	Hungary	Slovak Republic	Poland	Estonia	Lithuania	Latvia	Bulgaria	Romania	Russian Federation
1965											
1966											
1967											
1968											
1969					1.2						
1970			1.1								
1971											
1972											
1973											
1974											
1975											
1976											
1977										1.3	
1978											
1979					1.5						1.2
1980					3.5				1.8		2.1
1981	1.4	1.2		1.2	6.5				2.1	2.1	
1982	2.4				7.6					3.1	
1983	3.0		1.3		7.2				1.6	4.4	
1984					6.7						
1985			3.3		7.4				3.5	1.0	
1986			2.2						2.1		
1987	1.4				1.4				3.1	3.2	
1988	2.9								4.3	4.2	
1989	5.2		2.5		3.2				7.4	10.5	
1990	11.6	2.2	10.8	2.8	15.3	4.8	3.1		15.3	14.9	2.7
1991	13.8	11.8	17.6	14.5	17.7	10.2	7.5	8.2	18.0	19.1	5.8
1992	15.6	13.0	19.4	18.0	18.3	16.7	20.0	23.4	20.8	21.3	16.4
1993	16.2	14.0	20.5	18.3	18.5	20.5	25.2	26.7	22.1	22.2	20.4
1994	16.6	14.2	20.9	17.2	17.8	21.9	28.4	27.3	22.7	22.7	24.8
1995	16.7	10.9	21.3	13.7	9.1	22.2	28.4	28.2	23.1	22.2	27.2
1996	17.2	8.6	22.0	10.6		21.4	28.3	28.5	26.5	22.4	28.8
1997	13.5	9.9	20.8	8.4		18.6	27.7	27.9	28.6	25.0	29.6
1998	12.5	12.0	21.0			17.1	26.9	27.9	28.8	26.8	31.7
1999		11.7	18.5			18.2	28.2	28.2	29.0	28.0	31.5
2000			16.3			15.3	28.4	27.6	28.5	28.6	30.2
2001						13.1	27.3	25.5	28.5	28.4	29.0
2002							25.1	23.4	28.2	28.3	29.4
2003							20.9	20.8	28.4	28.2	27.9
2004							17.8	17.0	26.3	27.1	26.8
2005									23.4	26.7	22.6
2006											20.1
2007											
2008						1.8		1.5			
Time	Slovenia	Czech Republic	Hungary	Slovak Republic	Poland	Estonia	Lithuania	Latvia	Bulgaria	Romania	Russian Federation

Source: Own calculations based on Table 1.

Table 1 presents information on the dynamics of GDP in selected transition countries. This selection includes the ten CEE countries that became the members of the EU, as well as Russian Federation. The main emphasis of the analysis is on the period after 1989, with transition depression and recovery. However, since we would like to add some information about the degree of the decline in GDP in a historical perspective, we have added the time series for the period 1965–1989. The backward-looking time series are needed for calculation of this

special application of S-time-distance for GDP series on itself, based on first intersection in the past. The data sources and approximations used are available under Table 1.

Time distances in Table 2 relate to a special group of possible application of the time distance concept, which is probably less interesting than some other time distance applications for benchmarking and monitoring earlier in the journal, but can still serve as an interesting presentation tool in describing the severity of depressions. Here, a given time series of GDP is compared with its own movements in the past; one possible way of presenting the degree of decline from earlier values is to calculate the observed distance in time (number of years, months, etc.) between the present time and the time when this level of the indicator had already been achieved. Such calculations of backward-looking S-time-distance can be easily grasped by separately analysing each country's GDP series in Table 1 over time. For instance, GDP in Romania was in 1992 at about 71 per cent of its 1989 level, approximately the same (73 per cent) level had already been achieved in 1971, which means that the backward-looking time distance was about 21 years. Similarly, the level of GDP in 1933 in the USA had first been attained in 1918; the resulting time distance in Table 4 is 15 years, indicating an additional and complementary way of describing the severity of decline, i.e. that the level of GDP fell back to a level attained 15 years ago.

Tables 3 and 4 summarise the experience in downward and recovery phases in depressions in developed economies in the 1930s and 1940s and in transition economies after 1989, respectively. The duration of decline and the magnitude of decline in expressed as percentage from the respective major benchmark years (1929 or 1989) are broadly similar. In percentage terms, the average decline according to calculations based on data from Maddison (1991) for 16 developed capitalist economies in the Great Depression (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, UK and USA) is comparable with that in Czech Republic, Slovenia, Slovakia, Hungary and Poland in the 1990s. The minimum level reached by the sixteen countries in the Great Depression was 82 per cent of the 1929 level while the respective percentage from the 1989 level was between 78 per cent for Slovakia and 87 per cent for the Czech Republic. The notable exceptions among transition countries are Lithuania, Latvia and Russia, where GDP at a minimum fell to about 55 per cent of the 1989 level. With respect to the duration of decline, the longest declines were experienced in Russia and Bulgaria, nine and eight years respectively.

In addition to describing the depth of the depression regarding the index of decline against the previous benchmark, the special application of time distance for

a single time series calculated in Table 2 on the basis of time series dynamics in Table 1 provides an additional view of the severity of the depression. Tables 3 and 4 present the information on how many years earlier the minimum level in the respective depression had already been reached in the same country. This specific S-time-distance application compares the time path of real GDP for each country with its own past development (and not another country as done in the some earlier benchmarking applications).

When one compares the degree of depression in terms of time distance, the comparison between the experience of developed countries in Great Depression and the selected post-socialist transition economies, it seems that the decline was less serious in the Great Depression. The lag in time for sixteen countries mentioned was nine years and that for the USA 15 years. From the post-socialist transition economies, only the Czech Republic and Slovenia, with time lags of 13 and 16 years, respectively, can be compared with the value for the USA, but even for these two countries such values are higher than the value for the average for sixteen developed countries in the Great Depression. Besides the Czech Republic and Slovenia, Poland and Slovakia with 18-year lags join the group of smaller declines, while for seven other post-socialist transition economies their GDP dropped to levels achieved between 21 and 32 years ago. Especially high values are for Latvia (27 years), Lithuania (28 years), Bulgaria (29 years), and Russia (32 years). These time distances bring these countries closer to the magnitude of decline experienced in France, Germany and Japan during and after World War II; in percentage terms, the decline was less than for the three aforementioned countries in World War II. Also, the total time elapsed to the return to the levels before the Great Depression was longer in most transition economies.

Figures 1 and 2 visually present the comparison between the USA in the Great Depression and Hungary after 1989. The fall in percentage terms was greater in the case of the United States, but in terms of the time when the trough was achieved, the magnitude of the depression was higher in Hungary, 15 years and 21 years, respectively (in the USA, the 1933 level fell to its 1918 level; in Hungary, the 1993 level fell to about 1972 level). Even more importantly, the speed of recovery from the trough was slower in Hungary than in the USA; the average growth rate of the GDP from the trough to the earlier benchmark year was 6.2 per cent in the USA and 3.3 per cent in Hungary.

Figures 3 and 4 compare the WWII experience in Germany with the transition period in Russia. In percentage terms, the depression was more severe in Germany, where in 1946 the GDP fell to only 40 per cent of its 1944 level; in Russia, the 1998 level was 56 per cent of the 1989 level. In both cases, the level of GDP at the minimum level reached was that achieved in these countries 32 years

Table 3: **Historical experience in downward and recovery phases in depressions of selected transition countries**

	Poland 1989=1	Slovenia 1989=1	Slovakia 1989=1	Czech Republic 1989=1	Hungary 1989=1	Estonia 1989=1	Lithuania 1989=1	Latvia 1989=1	Bulgaria 1989=1	Romania 1989=1	Russia 1989=1
Downward phase											
Minimum level reached (year)	1991	1992	1992	1992	1993	1994	1994	1993	1997	1992	1998
Duration of decline (years)	2	3	3	3	4	5	5	4	8	3	9
Minimum level reached (%)	84	79	78	87	79	64	54	54	67	71	56
How many years before has this level been already achieved	18	16	18	13	21	22	28	27	29	21	32
Recovery phase											
Recovery to benchmark (year)	1995	1998	1998	2000	2001	2002	2005	2005	2005	2006	2007
Recovery to benchmark (%)	101	103	104	101	103	105	103	107	100	107	103
Duration of recovery from trough (years)	4	6	6	8	8	8	11	12	8	14	9
Average growth rate in recovery period (%)	4.6	4.5	4.9	1.9	3.3	6.4	6.0	5.8	5.2	3.0	7.1
Total time elapsed (years)											
Total time elapsed to return to the level in benchmark year	6	9	9	11	12	13	16	16	16	17	18

Source: Own calculations based on GDP data in Table 1.

Table 4: **Historical experience in downward and recovery phases in the Great Depression and after World War II of developed countries**

	USA 1929=1	16 countries 1929=1	France 1939=1	Germany 1944=1	Japan 1943=1
	Downward phase				
Minimum level reached (year)	1933	1932	1944	1946	1945
Duration of decline (years)	4	3	5	2	2
Minimum level reached (%)	70	82	47	40	48
How many years before has this level been already achieved	15	9	26	32	24
	Recovery phase				
Recovery to benchmark (year)	1939	1936	1949	1953	1953
Recovery to benchmark (%)	101	101	102	101	102
Duration of recovery from trough (years)	6	4	5	7	8
Average growth rate in recovery period (%)	6.2	5.2	16.8	14.1	9.9
	Total time elapsed (years)				
Total time elapsed to return to the level in benchmark year	10	7	10	9	10

Source: Sicherl (1998), own calculations based on GDP data in Maddison (1991).

ago, i.e. more than three decades ago. The difference between the German case and the Russian case is first in the duration of the decline; in Germany, this drastic decline happened in only two years due to the historical reasons. In Russia, there was a continuous decline for nine years (from 1989 to 1998), until the recovery phase started. While from 1998, the average rate of growth in

recovery in Russia was 7.1 per cent and Russia reached its 1989 level only after 9 years in 2007, Germany reached its 1944 level in 7 years, growing at 14.1 per cent per year.

Of the post-socialist transition economies, the shortest duration of recovery from the trough to the 1989 level

Figure 1: **USA (1929–1939)**
Decline in GDP in the USA in the period 1929–1939
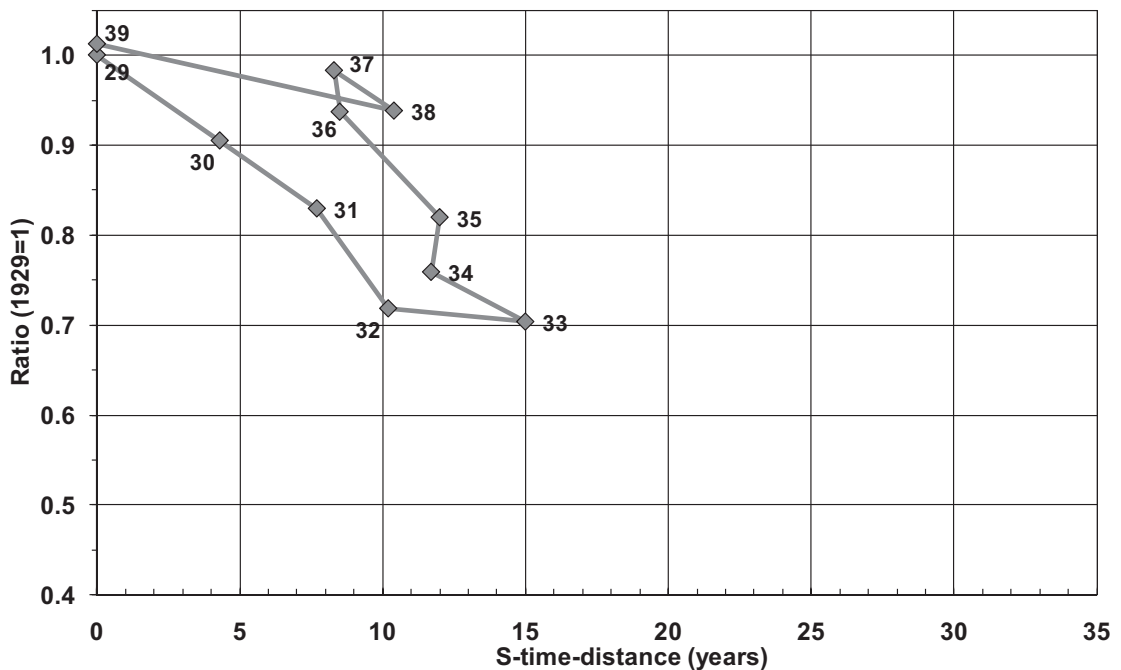**Relative static decline and lag in time for given GDP level**

Figure 2: **Hungary (1989–2001)**
Decline in GDP in Hungary in the period 1989–2001
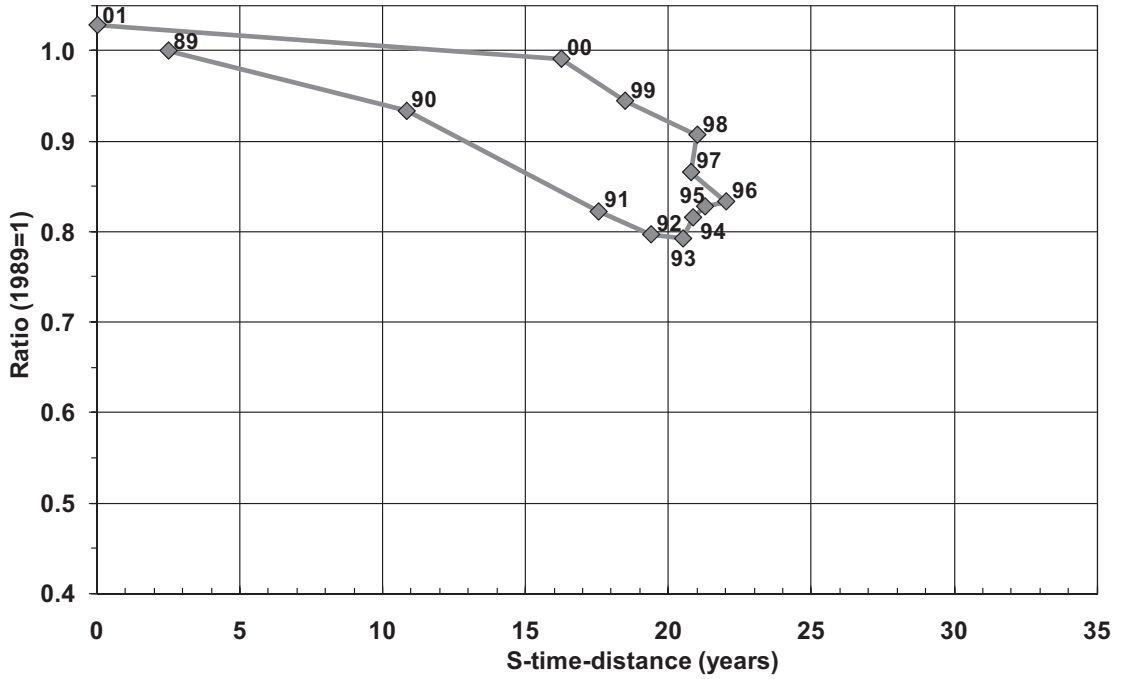**Relative static decline and lag in time for given GDP level**

Figure 3: **Germany (1944–1953)**
Decline in GDP in Germany in the period 1944–1953
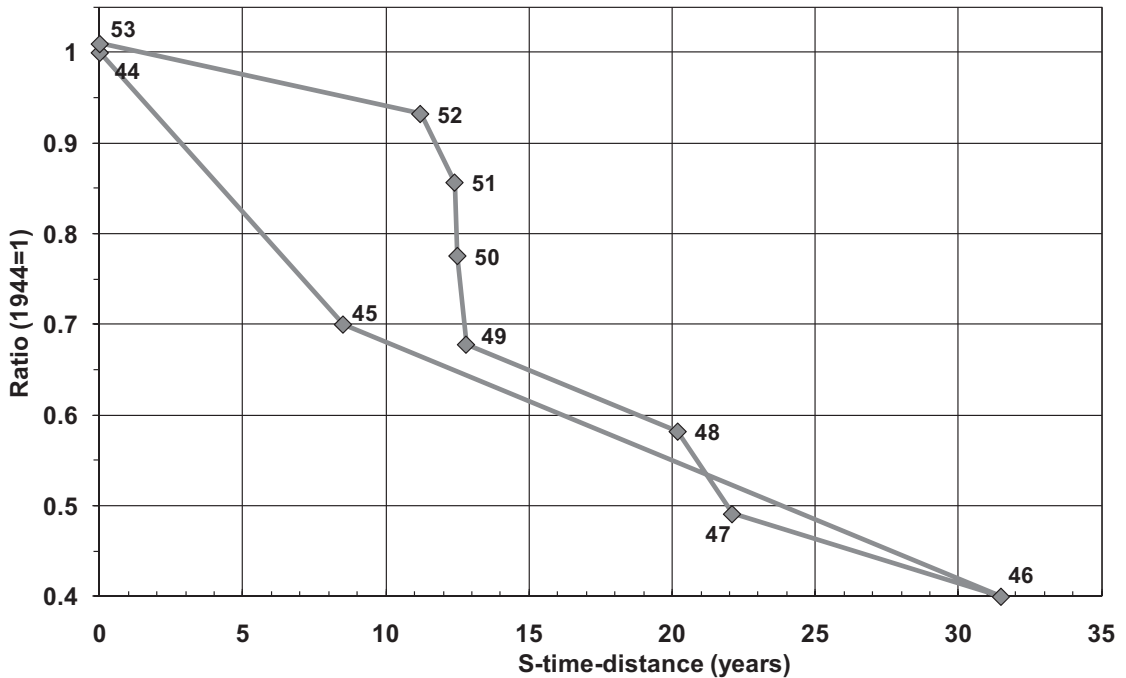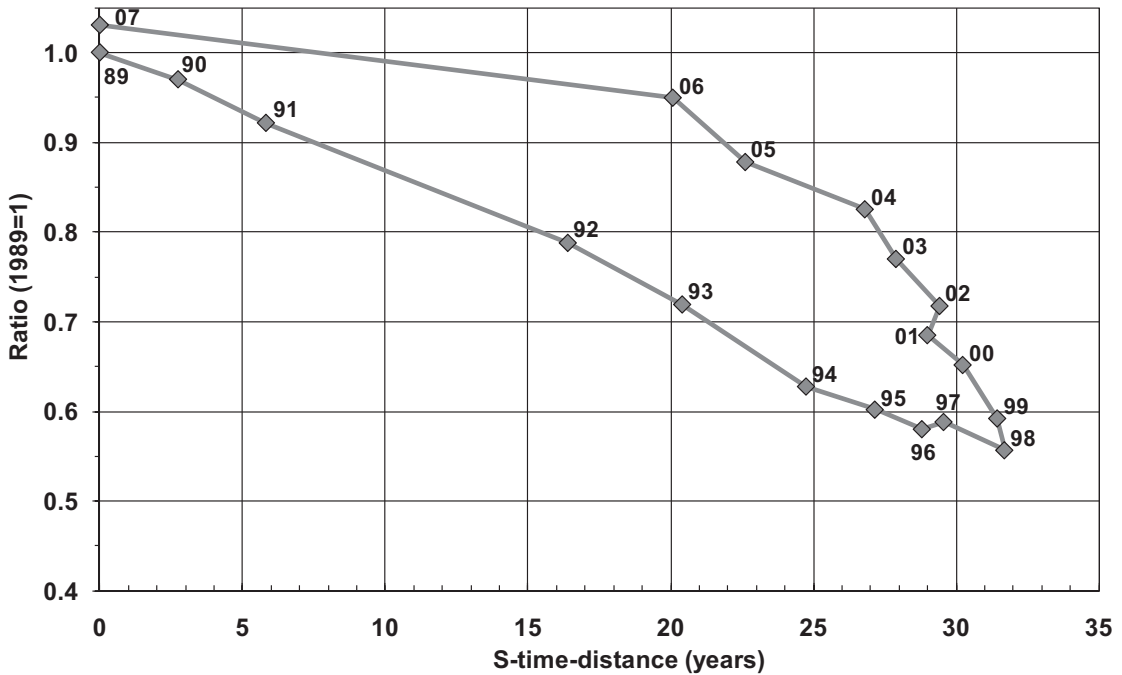**Relative static decline and lag in time for given GDP level**

Figure 4: **Russia (1989–2007)**
Decline in GDP in Russia in the period 1989–2007
Relative static decline and lag in time for given GDP level

was achieved in Poland (4 years), Slovenia and Slovakia (6 years). For Hungary, the Czech Republic, Bulgaria, and Estonia, the duration of recovery was about eight years; for Russia, Lithuania, Latvia, and Romania, the duration of recovery was from 9 to 14 years.

This means that with the exception of Poland, Slovakia, and Slovenia, the performance in terms of duration of recovery from the trough for the post-socialist transition economies has been worse than the recovery in the USA; this conclusion is strengthened when looking at the experience of the average of the 16 developed countries in the Great Depression where the time of recovery from the trough was only four years.

The summary indication of both the downward and the recovery phase is total time elapsed (years) from the starting benchmark levels to the return to these levels. This time is shown in Table 3 for transition economies and in Table 4 for developed countries. For the total time elapsed to return to the level in benchmark year for developed countries in Table 4, we can see that this time varied between 7 and 10 years; for transition economies in Table 3 from 6 to 18 years. Roughly, we can make two sets of comparisons.

Figure 5 shows the severity of depression as measured by the time series of S-time-distance from the GDP levels already achieved earlier. The fall of the USA in the

Great Depression is visualised by comparison with the transition depression in the five transition economies with smaller falls (Poland, Slovenia, Slovakia, Czech Republic, and Hungary). For three countries (Poland, Slovenia, and Slovakia), the total elapsed time was less than 10 years as in the case of the USA, for Czech Republic and Hungary more than that.

The fall in the other six transition economies was much more similar to the severity of the fall in the depression of Germany and Japan after WWII, as also shown in Figure 6. Here, the total time elapsed (years) from the starting benchmark levels to the return to these levels was for Germany and Japan after WWII about 10 years; for the six transition economies between 13 and 18 years.

It should be mentioned that the transition economies that entered the European Union are in general much better positioned than the rest of the post-socialist transition economies in Central and Eastern Europe and in the Commonwealth of Independent States. It means that the general conclusions about the less satisfactory performance in recovery from the transition depression in relation to the performance of developed countries in the Great Depression and in the recovery from the WWII could also hold for many of these countries. The startling contrast with experience of China in its transformation poses additional questions about the relative performance of the analysed transition economies in the historical perspective.

Figure 5: **S-time-distance measure of the fall: How many years earlier had the GDP level already been achieved? – comparing USA in the Great Depression and five transition economies**
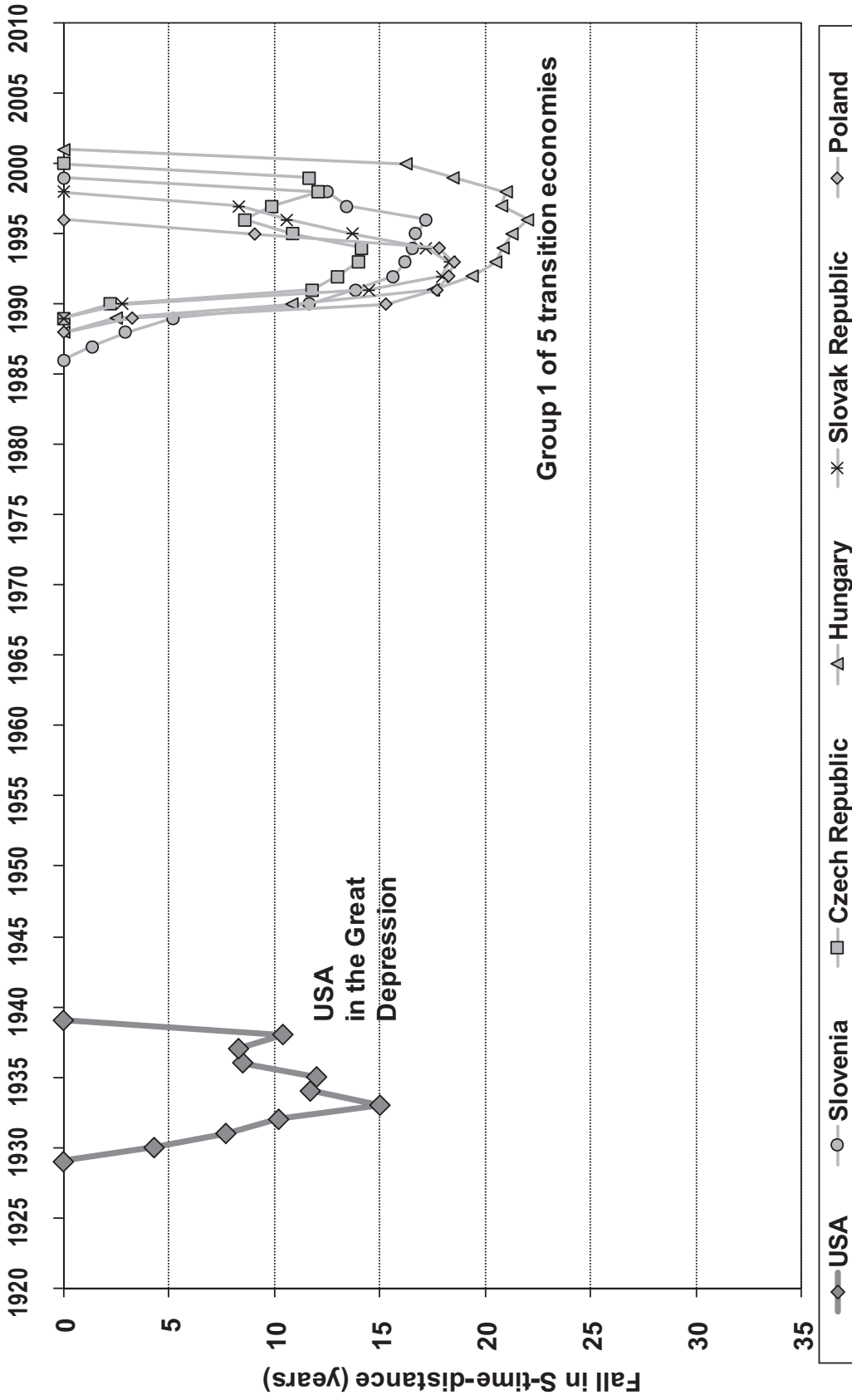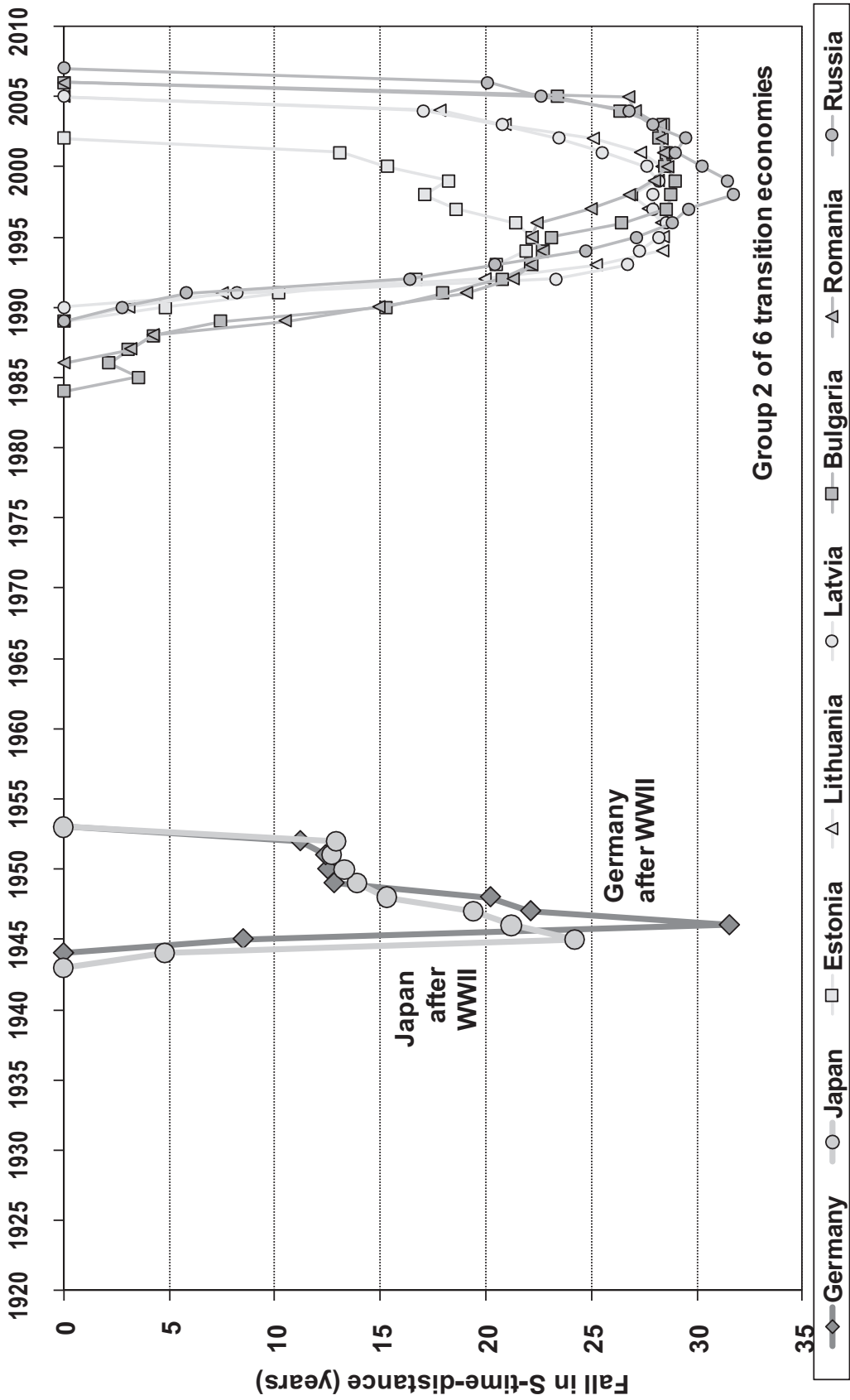
Figure 6: **S-time-distance measure of the fall: How many years earlier was GDP level achieved – comparing Germany and Japan after WWII and 6 transition economies**

4. Discussion

The use of the conventional term 'transition economies' to describe the selected countries is used in the narrow meaning of transition from the previous socialist system towards market based capitalist system. This black-and-white distinction is of course a great simplification. Within the capitalist system, there are substantial differences in the institutional arrangements and in the value systems, as illustrated in seven cultures of capitalism by Hampden-Turner and Trompenaars (1993). Equally on the other side there were large differences, e.g. between the central planning system in the USSR and the market-oriented self-management system in the former Yugoslavia. The use of the conventional term 'transition economies' should thus not imply that such differences are neglected but rather simply to indicate that the development transition is combined with the abovementioned transition of the political and socio-economic system.

Not only do the results show slower recovery of production in post-socialist transition countries, they have been accompanied by several other negative developments. In several of the analysed countries the external debt increased, and social cohesion mostly decreased. The question is why the positive effects of introducing a new system with greater freedom of expression and a much greater choice and opportunities to exploit the latent potential were not able to overshadow decisively and more immediately the consequences of dismantling the old system. There are two extreme positions. First, nothing better could have been accomplished. Second, while the expectations in the beginning might have been too optimistic, a lack of innovative approach instead of imitation, and lack of wisdom and of political will to promote the societal synergy are to be blamed.

The ambition of this article is to present some statistical findings, to initiate questions and provoke deliberations rather than to provide competent answers to this historical task. Only some general comments can be added. There may be some obvious reasons for greater recovery in GDP than in industrial production, the priorities might have changed.[1] In transition countries industry was overemphasised, and sixty years after the Great Depression industry does not play the same role in development than at that stage or after the war. Also, the creation of employment opportunities may be more difficult, and its modality has been undergoing radical changes. While these megatrends might have made the recovery more difficult now, the much greater stock of available technical progress and openness of the

[1] In the earlier restricted paper for the Economist Intelligence Unit (Sicherl, 1998) decline and recovery in industrial input until 1996 showed that the rate of growth of industrial output in the post-socialist transition economies was much slower than that of developed countries in the Great Depression.

world markets must have been working in the opposite direction.

Following Schumpeter (1954), one should look also for factors that have influenced the transition experience at the level of social organisation and prevalent attitudes. The urgent need for drastic change was obvious; the previous system did not fail only because of human rights issues, but particularly because of the growing economic inefficiency. This means that the initial conditions for effective and efficient decision making were not favourable. What made the situation much worse was the lack of appreciation of the complexity and difficulty of the transition towards a new economic and social system. It is the quality of the change that matters, not simply the dismantling of the old system.

Boulding (1992) states that economic development is fundamentally a learning process and very little else. In this sense, much more new learning has to be done in transition than in recovery from the depressions in capitalist economies, but the potential for improvement has been accordingly higher. It seems that less than optimal performance has been partly due to the lack of knowledge and wisdom, and partly because of diverse views and interests. Indiscriminate copying of institutions and regulations instead of understanding their true nature, interrelationships and requirements for their success in practice meant that policy makers did not realise that in an economy that is in great disequilibrium, the practical effects of the same institutions and regulations will not be the same. Dilemmas and options about the institutional arrangements and policy instruments are wide open, as the notions of 'market economy' and 'multi-party democracy' also have different forms in developed capitalist countries, with different balance between competition and coordination. The differences between coordinating mechanisms are in a study (CPB 1997) related to four fundamental trade-offs: flexibility versus commitment, incentives versus solidarity, diversity versus scale, and experimentation versus certainty.

Transition countries should have learned from the history that in the depth of a depression *laissez faire* is not an appropriate policy and should not confuse the needed deregulation with it. Many arrangements and incentives work well only in an environment of effective law and order. Coordination and cooperation alongside regulated competition are necessary conditions for societal synergy, which is the base for capacity to innovate and adjust to the changing environment in order to deal with the problems of transition and international competitiveness.

The transition processes, in the narrow meaning of the term, and development processes should not have been considered as identical. China has enjoyed high growth performance for a long period of time without going

through all of the transition requirements 'prescribed' by transition economics. Namely, insisting that one should estimate the position of a country predominantly or even exclusively on the basis of 'transition' indicators as advocated by some organisations would be a serious mistake both in evaluating development distances or growth potential. This means that the simplistic prescription of deregulation has not been the proper advice; it should promote removing obstacles to entrepreneurship through re-regulation according to development needs and not *laissez faire*.

There is a much deeper trend of change taking place in the world. All countries, not only those that followed the path of transition in the narrow meaning of change from a socialist system to capitalist system, need to adjust to the challenges of technological change and globalisation. Institutions will always be an important factor of development, but they will be changed institutions and arrangements, and the path dependency implied in transition economics will have to undergo serious examination. Not only should the focus on development and growth be much more important: the process should also be understood as a process of transformation and re-regulation that is considerably broader and more demanding than just transition in the narrow sense or even transition to the EU institutional and legal framework (Sicherl 2002).

5. Conclusions

The statistical overview of the relative positions, the experience in the decline and performance in the recovery phase of major depressions in the developed countries in the past and in transition economies in the last two decades raises interesting questions. The appropriate answers and guidelines are very complex economic, social and institutional issues for which there are no ready-made recipes.

The first conclusion of the article is methodological. The novel time distance methodology offers a new perspective to the perception of severity of depressions, the additional statistical measure S-time-distance, and a tool for policy analysis and debate that is readily understood by researchers, policy makers, media and general public.

The degree of severity of the transition depression in the analysed 11 countries was at least as great as in the Great Depression in capitalist economies in the 1930s, for some of them even considerably greater. In Slovenia, Hungary, Poland and the Czech Republic, GDP fell around 20 per cent until the start of recovery, which was also the average experience of 16 capitalist economies in the 1930s. The fall in the USA was larger, about 30 per cent; the fall in Latvia and Lithuania was 46 per cent and in Russia 44 per cent. These declines of GDP were so large

that they were closer to the experience of the decline in Japan after World War II than to the experience in the Great Depression in the 1930s.

When one compares the degree of depression in terms of time distance, the comparison between the experience of developed countries in Great Depression and the selected post-socialist transition economies, it seems that the decline was less serious in the Great Depression. The lag in time for sixteen countries mentioned was 9 years and that for the USA 15 years. From the post-socialist transition economies, only the Czech Republic and Slovenia with time lags of 13 and 16 years, respectively can be compared with the value for the USA; even for these two countries such values are higher than the value for the average for sixteen developed countries in the Great Depression. For seven other post-socialist transition economies their GDP dropped to levels achieved between 21 and 32 years ago.

The above analysis has not been concerned with the long-term (potential) rate of growth of transition economies and the corresponding growth rates of developed countries. The emphasis was on a set of specific situations, i.e. the speed of recovery from trough to the levels at the beginning of depressions. In most cases, the speed of recovery from the trough was slower in the transition economies than it was in the developed countries in their recovery period in the past.

The summary indication of both the downward and the recovery phase is the total time elapsed (years) from the starting benchmark levels to the return to these levels. For total time elapsed to return to the level in benchmark year for developed countries, this time varied between 7 and 10 years; for transition economies, from 6 to 18 years. For three countries (Poland, Slovenia, and Slovakia), the total elapsed time was less than 10 years as in the case of the USA, for Czech Republic and Hungary slightly more than that. The fall in the other six transition economies was much more similar to the severity of the fall in the depression of Germany and Japan after WWII. This was about 10 years for Germany and Japan after WWII; for the six transition economies between 13 and 18 years.

The fact that GDP, or GDP per capita, is the foremost and many times the exclusive indicator in international comparisons for assessing levels of development and economic performance could lead to several biases. First, when a larger number of economic and social indicators are taken into account, it has been shown (Sicherl, 2002, 2004) that the disparity between transition economies and EU countries in other analysed indicators has in general been considerably smaller than the disparity in GDP per capita. Second, the possibility of official GDP data to portray appropriately the differences among countries leaves much to be desired. For example, it is hoped that the size of the informal economy may

lessen the disparities observed. However, for historical comparisons the effect is not so clear. Quite probably people in the Great Depression in the 1930s also tried to cushion the conditions of great unemployment with informal activities.

For many years before 1989, the selected transition economies had been experiencing diminished efficiency, not only the centrally planned economies, but also countries where some market elements had been introduced earlier. The growing inefficiencies of the previous system were the prevailing trend in the analysed countries. However, the comparison in this article is not with the previous system, but with past experience within the capitalist system. The potential for better performance had been there; there are many individual success stories and opportunities for foreign investors and domestic entrepreneurs, but the total time elapsed from the starting benchmark levels to the return to these levels in the transition depression was in most cases longer than for the developed countries in the Great Depression and after the WWII. The performance in transition was also below expectations, in many cases accompanied by deterioration in social cohesion and growing inequality, external indebtedness and unemployment. The importance of social consensus on the development strategy that is needed to carry out specific reforms indicates that the lack of it might have been one of the greatest obstacles for the successful recovery of those countries. Hopefully the change for the better is in the making.

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