‘Somewhere Over the Rainbow’: The Post-Soviet Transition, the Market and the Mythical Process of Convergence

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Abstract

At the core of thinking about the post-communist transition has been the goal of convergence with the advanced West. This article accepts the legitimacy of this goal but argues that the prospects for its achievement are not good. Neo-classical theorists have misled and continue to mislead policy makers about the ease with which the goal can be achieved and the necessary conditions. The global pattern of growth and development suggests that ‘convergence’ is not a general characteristic of the world economy. A realistic appraisal of the potential in the transition bloc has therefore to address both regional problems and the overall pattern of global inequality.

The ambition of fully sharing the relative prosperity of the advanced West remains a powerful one across the world. It is certainly possible for a minority in the less advanced countries to obtain not only the average levels of wealth to be found in the advanced world but even levels comparable with the top groups. Indeed this, to an extent, already occurs in every poorer society, as even a cursory glance at the lifestyles of those with power shows. Since these are less advanced and less prosperous societies than those of the advanced world, the ‘equality’ of the few can only be achieved by enormous inequalities in income and wealth for the many. For the desire of catch-up to be meaningful for the mass of the population in the less advanced world, what is needed is for these societies to experience a long-run pattern of development in which they consistently grow faster than the advanced world so that a dynamic of convergence can occur. It is elementary arithmetic that if output per head in the advanced world grows at 2% while in the less advanced world it grows at 3% then some convergence will occur. If the rates of growth are equal there will be no convergence. If the advanced world grows at 2% and the less advanced at 1% then, despite the absolute improvement in conditions in the latter, the income gap will grow.

The search to close the gap with the advanced world has been an ever-present...
factor in the economic and social history of the former Eastern bloc societies over the last century and a half. It was expressed in an especially sharp form in the mobilisation of resources under command planning to enable, first, Soviet Russia and then the post-1945 Soviet-type economies to, in Stalin’s famous phrase, ‘catch up and overtake’. For several decades, commentators in both East and West believed that this was exactly what was happening and that centralised dictatorial control had managed to break the cycle of relative backwardness which appeared to have characterised the situation of this region for so long. By the 1980s the idea of ‘overtaking’ was clearly an illusion and catch-up itself was failing, with the result that the gap between West and East in Europe was increasing again. Moreover, the fact that ‘the success’ that had been obtained was based on an enormous consumption squeeze meant that for ordinary citizens, even though the per capita income figures might prima facie suggest progress, their own patterns of consumption remained far removed from what, in societies increasingly penetrated by images of the West, they aspired to.\(^1\) A widespread belief therefore developed within these societies, encouraged by Western governments, economists and policy makers, that if they were opened up more to the world economy, and their economic organisation shifted to market determinants of allocation, they would be rewarded by a feasible capitalism that would allow sustained convergence.

This article argues that this optimism was and is false and that it rests upon a misunderstanding of the convergence process and its conditions. We first review some of the demonstrably misleading claims that have been made, and continue to be made, for the catch-up potential in the former Eastern bloc. We then review some of the key issues and components of catch-up that optimistic accounts ignore before finally reviewing the potential for further progress in the former Eastern bloc in the light of the aspirations towards convergence.

**In the Shadow of the West**

The desire to live a dignified and equal life has been a powerful force making for social change throughout history. In 1989 the communist regimes fell because they had failed to live up to their purported promise and to meet the aspirations of wide sections of their populations. Those who helped to bring them down imagined that they were taking a step towards not only political freedom but a whole cluster of related changes that would include prosperity and the capacity to lead decent lives, equal to those in Western Europe—something they believed the old regimes had denied them. This linkage was well expressed in 1989 by Miklos Vasarhelyi, who had been imprisoned as Imre Nagy’s press secretary after the suppression of the Hungarian uprising in 1956. In 1989 he told a *New York Times* reporter:

> First of all there will really be a Europe again. The countries of Central and Eastern Europe will finally get an opportunity to unite with the West. We will begin to live under the same conditions. It will take time, but socially, politically and economically we will achieve what the Western countries have already achieved. The door is now open. (Quoted in Gwertzman & Kaufman, 1990, pp. 225–226)

Though Vasarhelyi acknowledges that ‘it will take time’, the sentiment, as with so many others in the Eastern bloc at the time, was ‘sooner rather than later’.

What has actually been achieved is startlingly different. First, rather than remotely ‘living under the same conditions’, a huge transition crisis occurred in all
transition countries so that conditions for most people actually worsened. Contractions in output ranged from 20% in the case of Poland to up to 60% or more in some successor states of the former USSR. Not only was this downturn greater than that experienced by most economies in the Great Depression of 1929–33, it is without parallel in the peacetime economic history of the modern world. Second, when growth did resume, it did so very unequally. Ten years after 1989 only Poland had significantly passed its 1989 level of output per head\(^2\) and, at the other end of the scale, many transition economies appeared, at worst, to be bumping along the bottom of a long trough and, at best, to be slowly and uncertainly crawling up from the depths of the contraction. Third, this has involved an enormous human cost. The most obvious indicator of this has been the huge demographic crisis that has accompanied the transition in many states. This has been especially sharp in South-Eastern Europe and the former USSR. In the majority of transition countries birth rates fell and death rates rose (UNICEF, 2001, statistical annex). The decline in adult male life expectancy in Russia (from an already low 64 years in 1989 to 60 in 1999) is not only an extreme example of this but something that is also without parallel in the annals of peacetime demographic history—to such an extent that some comparison with the demographic crisis associated with Stalinist industrialisation seems not out of place. The accusation that the transition has involved the replacement of ‘plan Stalinism’ by ‘market Stalinism’ is in this sense not merely a rhetorical device—for it addresses not only the top–down imposition of market policies but also their consequences. Indeed, insofar as Stalin’s planners considered these matters, they could at least take some comfort from the fact that the demographic crisis associated with the Stalinist transition of 1929–33 was quickly followed by a demographic rebound (Blum, 1994, pp. 130–131). Sadly, no such demographic rebound is yet occurring today.

Medical practitioners, it is often said, can retain an aura of professional competence by burying their mistakes. Economists cannot have their failures so conveniently disposed of ‘six feet under’. They must therefore resort to different stratagems to maintain an aura of professional competence even in the face of so complete a misreading of the situation as that involved in the analysis of the transition in the former Eastern bloc. Several are worth identifying here. Not the least of these is the refusal to admit what was only, until recently, taken as conventional wisdom. In this respect, economists are fickle in their attachments. The Asian tiger economies, for example, were argued by many up until 1997 to embody a possible model for emulation for the rest of the world. Following the 1997 crash they have been unceremoniously dumped by many erstwhile supporters and stand today condemned for ‘cronyism’ and associated with the state-directed economies to which they were once held up as an example.

So far as the transition countries themselves are concerned, there has been an implicit rewriting of history to eliminate the earlier optimism, but in the early 1990s that optimism was widespread—moreover, it was encouraged by Western policymakers. Catch-up and convergence was offered as a serious perspective.\(^3\) Of course difficulties were anticipated but so was a quick rebound. This confidence was premised upon a positive view of the role of the West and the belief that the transition economies had positive assets (notwithstanding that many of these had been geared towards a bureaucratic, command system) in the form of relatively high levels of development and culture, good (in comparative terms) infrastructures, plentiful supply of natural resources and highly educated labour forces. These, alongside almost full literacy, capabilities in an array of industries and a ‘second
world’ level of utility provision ostensibly provided a sound platform to advance. Such endowments alongside labour costs a fraction of the West’s suggested, under the Heckscher–Ohlin theorem, dynamic economic advancement via a liberalised trading regime. It was only as the transition crisis intensified and became prolonged that a process of downgrading expectations was put in place—to such an extent that the degree of support for the earlier perspectives has seemingly been painted out of the history of recent economic thought.

Yet this mistaken optimism did not simply inform the general perspectives of politicians, policy makers and advisers and mainstream commentators in East and West. It was embodied in policy documents and perspectives which were premised initially on the assumption that the short-term costs were containable and could be easily overcome. Given the catastrophic character of the transition crisis, Poland (with a ‘mere’ 20% GDP contraction and, in 2000, GDP 28% above its 1989 output level) is often looked upon as the success story of the region, even though real wages were only 96% of 1989 levels in 1999 (UNICEF, 2001, statistical annex). Yet, in comparison with East Asia—notwithstanding the 1997 financial crisis—this is a distinctly mediocre performance. Even Poland is now once more struggling—the 2001 GDP growth forecast is just 1.9% and it is now considered to be ‘the straggler among those “first wave” countries vying to join the European Union’ (EEM, 2001). We therefore argue that there are in fact no real success stories. All transition economies have performed badly considering where they started. All transition economies have performed poorly, no matter what economic policies they have adopted and with whatever consistency, in terms of where they hope to be in the foreseeable future. This is not to deny that there are significant variations in performance. Indeed, there is a discernible pecking order with Central Europe at the top, followed by the Baltic Republics and South-East Europe, and then the European CIS countries, with the Central Asian countries performing the worst. But this is a ladder of the weak and does not alter our fundamental contention based on hard evidence (see also UN Economic Survey of Europe, 2000).

It is therefore salutary to be reminded of how far the actual experience was removed from the predicted one of mild recession. Kolodko provides the example of Poland:

The ‘liberalisation-cum-stabilisation policy’ was expected to contract real GDP by only 3.1%; in reality GDP collapsed by almost 12% in 1990 and by an additional 7.2% in 1991. Industrial output shrank by about 40% leading to mass unemployment. Despite a government forecast that unemployment would not exceed 5%, by the end of 1993 it had reached 16%. Year end inflation reached about 250% in 1990 and still exceeded 70% in 1991. (Kolodko, 1999b)

There is no excuse therefore for a disingenuous rewriting of history. As Portes wrote in 1994,

Nobody said it would be easy, and ‘nobody was right’. But we did, almost all of us, explicitly or implicitly, whatever our analysis, and we were wrong. The economic transformation of Eastern Europe has proved much more difficult, much more costly than we expected five years ago. (Portes, 1994, p. 1178)

A second defensive stratagem that is now commonly deployed is what can be called the ‘displacement argument’. Since the experience of growth has not been impress-
ive, the measure of success has to be displaced elsewhere. How this is done will be familiar to anyone reading the official annual transition reports (especially by the European Bank for Reconstruction and Development) or the surveys of ‘ten years of transition’ where ‘success’ so often centres on various transition indicators of liberalisation. Kolodko describes this as a shift from ‘ends’ to ‘means’. The issue is not now whether the transition is producing strong growth and a sustained rise in the standard of living of the mass of the population but the integrity of what are supposed to be means to this end. The focus of policy targets is not outcomes but the instruments of policy themselves. As Kolodko puts it, ‘a sound financial stance, low inflation, a stable exchange rate, and overall financial stabilisation are only the means of economic policy, whereas sustained growth and a healthier standard of living are its ends. Yet after several years of exercising these policies, neither growth nor a higher standard of living has been achieved’ (Kolodko, 1999a, p. 245). Moreover, this exclusive focus on policy instruments to the exclusion of policy outcomes can actually worsen the situation insofar as it leads to a failure to consider the wider impact of modifying the instruments. This is because the policy instruments—set to specified targets—are assumed to lead to desirable outcomes. When such targets are achieved but not the outcomes, the implications are invariably severe and not envisaged.

A third and even more common stratagem is the deployment of what might be called ‘the infallible law of transition success’. Although never formalised, this law underpins the greater part of mainstream transition discussion and seems to take the following form: ‘policy makers who have the courage to create a well functioning market economy will achieve high growth’. Because this law is ‘infallible’, it allows only three positions. First, growth is occurring because appropriate market institutions and policy are in place. Second, growth is not occurring because, although appropriate institutions and policies are in place, other external factors are interfering with the drive to prosperity (e.g. war). Third, growth is not occurring because policy makers have lacked the courage to create a well functioning market economy. Thus, reviewing the transition in 1999 for the IMF Conference on ‘A Decade of Transition: Achievements and Constraints’, Havrylyshyn & Wolf (1999, p. 15) argued that, while initial conditions do matter, ‘they are less relevant for growth than are differences in policy during the transition’. From this basis they felt confident to argue that ‘the decisive factor that permits a country to move from the vicious to the virtuous circle is, in our view, the political will to impose the rule of law and establish the security of property rights’. This formulation seems to us a typical expression of this infallible law of the transition which has the happy consequence of putting the whole emphasis on will and the blame on those who lack it.

The deployment of such arguments also leads to the view that, no matter the cost, perseverance will lead to favourable outcomes. In this sense, the possibility of a market-based convergence process is still held out as a reward for those who do find the courage to follow the prescriptions of the market economists. Fischer, in a typical presentation to a Bulgarian audience (in Sofia in spring 2000), continued to emphasise the basic IMF position:

The basic lesson from a study of the transition economies is an optimistic one. Experience in the transition economies strongly suggests that if Bulgaria continues down the path of reform … these efforts will ultimately be rewarded. In country after country, determined stabilisation and structural reforms have by now successfully laid a foundation for economic
Table 1. Catch-Up Scenario offered by Brzeski & Colombatto

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<thead>
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<th>1992</th>
<th>2030</th>
<th>Annual growth rate of GDP per head (%)</th>
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<tr>
<td>Western Europe</td>
<td>15 700</td>
<td>37 300</td>
<td>2.28</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>6400</td>
<td>32 700</td>
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<tr>
<td>Hungary</td>
<td>5000</td>
<td>32 000</td>
<td>4.9</td>
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<tr>
<td>Slovenia</td>
<td>5000</td>
<td>32 000</td>
<td>4.9</td>
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<tr>
<td>Bulgaria</td>
<td>4400</td>
<td>31 700</td>
<td>5.2</td>
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<tr>
<td>Poland</td>
<td>3700</td>
<td>31 300</td>
<td>5.6</td>
</tr>
<tr>
<td>Romania</td>
<td>2200</td>
<td>30 600</td>
<td>6.9</td>
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recovery and durable increases in living standards. Of course, you don’t need me to tell you that the path of reform and restructuring is an often difficult and uncomfortable one to travel … but economic growth, with exports playing a leading role, is picking up and with a continuation of the right policies, the rewards of reform will be increasingly widely spread…. Structural reform and sustained growth will also be essential if Bulgaria is to achieve its ambition of joining the European Union in the next few years and to begin to catch up to West European living standards. (Fischer, 2000)

Elsewhere, Fischer (Fischer & Sahay, 2000, p. 6), despite acknowledging the appalling statistics, has made the astonishing claim that ‘by and large, radical reforms have worked’. Some analysts even develop more precise growth statistics to support these arguments. Kolodko, for example (despite his doubts about earlier strategies), has optimistically suggested that ‘in the coming years, the post-socialist markets will become not only rapidly growing economies, but owing to the East Asian turmoil—the fastest growing region in the world’ (Kolodko, 1999a, p. 236). Nesterenko (2000, p. 20) argues that if Russia’s production is modernised, catch-up to Western European levels will take 15–30 years. The ‘if’ here is extremely problematic, but the assumption that follows, namely of a sustained growth rate of between 6 and 8% per annum, is just not credible. Brzeski & Colombatto attempt a more sophisticated analysis by calculating hypothetical convergence scenarios based on exponential growth rates for the period 1992–2030 and then consider the technical requirements for their scenario to be successful for Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia. To this end, they take 16 West European members of the OECD which in 1992 had an average per capita income of US $15,700 and then project a 2.28% growth rate based on extrapolating the average rate for the period 1964–92. This produces an average target GDP per head of US $37 300 in 2030. Table 1 sets out the pattern they project. On this basis, eschewing longer-run projections of convergence as ‘science fiction’, they then modestly conclude that ‘the growth rates suggested by a successful convergence process for Eastern Europe turn out to be not unrealistic but nevertheless rather ambitious’.

We believe that these arguments are fundamentally false for the simple but
powerful reason of lack of supporting evidence. Bad economics informs bad policy and perhaps bad policy needs the legitimating of bad economics. Contrary to Brzeski & Colombatto, their projections are not only ambitious but unrealistic and in the world of non-science fiction.

Consider, for example, some of the problems in their analysis. We should first note that, if convergence is a realistic scenario for Eastern Europe, then some explanation might need to be offered as to why it has not already been achieved in their target group—the advanced world. In fact the OECD countries do appear to be an example of a more successful convergence club in the world economy (Dowrick & Nguyen, 1989) but the fact that the convergence process still has a considerable way to go shows that it is an intrinsically difficult and protracted process even for the strongest economies in the world.

Beyond this, the way they conduct their modelling and the conclusions they draw from it raise fundamental problems. Obviously growth rate projections to achieve a target level of income depend heavily on estimates of the initial level of per capita GDP. These are notoriously difficult for the transition countries, but the naiveté of calculations which suggest that Bulgaria in 1992 had a per capita income that was higher than Poland’s (Table 1) is perhaps best passed over quickly. Those who engage in growth projections also need to have some sense of what is involved. Thus, in their calculations of convergence paths they suggest that Romania, with a per capita income of US $2200, needs a growth rate of 6.9% whilst the Czech Republic, with a per capita income of US $6400, needs a growth rate of 4.3% to achieve the target levels. It is surely self-evident that a 6.9% rate of growth, uninterrupted over 38 years, takes us into the realms of fantasy.

Growth rate projections also depend heavily on assumptions about the components of growth. Here too the problems are immense. Take population: Brzeski & Colombatto write that ‘population, which is a key variable in the aggregate growth equation, presents least difficulty’. This cavalier confidence suggests that the authors have little awareness of the sad history of past demographic projections and the caution which demographers now employ. In fact, what Brzeski & Colombatto do is to use short-run World Bank projections which extrapolate from the demographic crisis of the years around the transition. Thus the authors manage to have the population of Poland growing by 17% in the 1992–2030 period, that of Bulgaria effectively stagnant, that of Hungary falling by 5%. Needless to say, no attention is paid to the possibility that the stunning growth they propose for their group might have migration implications—though since the authors select their target group arbitrarily, and abstract it from the areas to the east, we cannot know what scenario they believe to be realistic there.

Nevertheless, by playing around with such data and building into their model increases in labour supply, capital investment, technological change and export capabilities they prove to their own satisfaction that convergence is possible. But even in their own terms this requires a proposed annual investment rate of 35% for their group as a whole. They consider this to be attainable in the long run (since it is slightly below the rates of the old regime!). However, in the short run they note with disarming innocence that ‘there may be considerable difficulties in sustaining the volume of investment and in generating the required, especially domestic, savings’ (Brzeski & Colombatto, 1999, p. 13). It is perhaps fortunate they do not feel an obligation to spell out what these difficulties might be.

It might be thought that such a strong condemnation is uncharitable. Unfortunately, however, the experience of the recent past has a nasty habit of falsifying this
type of futurology. Brzeski & Colombatto, for example, writing in 1998–99, project growth rate figures from 1992 and are therefore forced to admit that, of their target group, only Poland appeared to be anything like on schedule. Even the Czech Republic’s GDP per head by 1997 had fallen 21% below target whereas that of Bulgaria was 42% below. This however did not deter them from pressing their case: ‘Is the optimistic scenario irredeemably doomed by the performance of the past five years? We do not think so’—from which they then deduce two convergence clusters, one likely to be more successful than the other.

Unfortunately, we cannot agree that their scenario is not doomed. In defence of their position, they suggest three arguments which we believe to be bizarre. The most substantial is perhaps that their initial base year GDP per head figures might be underestimates. There may be some truth in this but the issue is not the starting point but the possibility of the convergence process itself. To advance this as a reason for taking the scenario more seriously is a sleight of hand. The second argument is that early lack of success should not be a problem since correcting for it will only require a slight increase in the growth rate later—an argument which suggests that their enchantment with what Walt Rostow once called ‘the powerful arithmetic of compound interest’ has overcome any serious appreciation of the difficulty of jacking up already high growth rates (Rostow, 1960, p. 10).

The third and most bizarre of all is that convergence might be easier because they may have overestimated the growth rate of Western Europe. We will later briefly address the issue of the role of the advanced world in establishing positive conditions for convergence. Here we can only despair because their growth projections assume export-led growth in their target group. If Western Europe is growing more slowly than they allow, who, pray, is to buy the goods necessary to allow the growth scenario to work?

Perhaps the mistake that these authors make is to try to model the convergence process—it would be better to remain with the vagaries of Fischer. But whether expressed with numerical precision or in generalised promises of faster growth rates, these continued optimistic images of convergence are proving a disservice not only to objectivity but also to the population of transition economies where optimism has long given way to disillusionment.

We now turn to state our more general objections to convergence scenarios and why they are unlikely to deliver their promise before looking at the specific difficulties of the transition countries.

Unaeveness of the World Economy

When we look at the spatial inequality that characterises the global economy, it is a commonplace observation that spatial inequality exists within economies, between national economies and between regions internationally. We can also see even greater inequalities that stretch the ladder of development from the concentrated wealth of the G7 countries and their capitals to the most forlorn regions of sub-Saharan Africa, Latin America and Asia, where on a daily basis the population struggles to survive. It is also obvious that these inequalities tend to persist and reproduce over time. Yet most conventional economic theory and especially neoclassical theory assumes that, at least in theory, the economic mechanism can eliminate these vast inequalities in regional or country levels of development.

How one evaluates the potential for catch-up and convergence in any part of the world—including all or part of the former Eastern bloc—will depend, in part, on the
position taken in this debate, but this cannot be a purely theoretical decision because in turn the validity of these approaches themselves depends on how adequately they explain the empirical evidence of development patterns. Here we share the view, restated with force by Ormerod, that economic theory cannot simply be built axiomatically but that it must address and seek to explain the evidence of real trends in the real economy (Ormerod, 1994). In this respect, we can quickly identify a number of problems that pose uncomfortable difficulties for those who are optimistic about convergence potential and therefore doubt the degree to which unequal development derives directly from the core mechanisms of the global economy.

The first of these is the fact that, in the long run, global inequality has been increasing. It is now well-established by comparative economic history that at the start of the nineteenth century, whatever the qualitative differences between economies in different parts of the world, the quantitative differences in per capita output were not that great (Maddison, 2001). What began to spread then was industrialised development concentrated in regions of Western Europe and North America. In the short run, this was bound to increase inequalities on any theorisation, but although there was subsequently some spread of development and the integration of an ever-wider number of areas into the global economy, this did not set in motion clear catch-up mechanisms. The overall pattern has been what Pritchett calls divergence ‘big time’ (Pritchett, 1997; also see Boltho & Tonioli, 1999). This was not what conventional economic theory then, or later, predicted.

In the long boom of the 1950s and the 1960s evidence of convergence became less ambiguous and certain convergence clubs did appear, but not on a sufficient scale to attest to there being powerful convergence mechanisms in operation.6 Outside the mainstream, therefore, a strong pessimism developed based on the idea that a more or less rigid hierarchy now existed in which the vast majority of the world’s population was destined to be stuck at the bottom of the development ladder (Baran, 1973). In one respect, this argument was clearly too pessimistic. The implication was that industrial capitalism would be restricted to the existing ‘core’ of the world economy and that the ‘third world’ would function as a raw material and agricultural periphery. Yet industrial production is now to be found in many regions across the ‘third world’ and, especially, newly industrialising economies, but a degree of industrialisation is simply not the same as convergence and catch-up, so that the majority of the world indubitably still lies on the periphery.

For convergence, what in fact is needed is sustained rapid economic growth—and here the evidence is much more unclear. The most important positive evidence for convergence potential relates to the Asian tiger economies whose experience to some extent falsified the pessimism of Baran and others. Although the gaps are still considerable, Japan no longer looks to be a unique case, but, and it is a very big but, how big an exception are these economies? That a contrast in performance exists between East Asia and the rest of the poor world is well known. If we take the years 1965–89, for example, East Asia’s real GDP per capita grew at around 5% per annum but for most other less developed countries the long-run growth rate was less than 2%, that is, a non-convergence rate. In the case of Latin America, for example, the average annual per capita growth rate of GDP between 1981 and 1990 was minus 1.0%, while in the years 1991–99 it was + 1.4%. Taking the two decades together this produces a paltry net increase of GDP per capita of less than 5%! Of course such aggregate data hide a variety of different national patterns but decomposing this performance does little to improve the picture. Of the 19 major economies in the region, 15 had negative growth rates in the 1980s, one had a zero growth rate, and
only four had positive ones—ironically, the only one to exceed an annual per capita growth rate of 2% was Cuba. The 1990s saw a better situation with only five economies now having negative growth rates (including now Cuba), but only seven of the 15 positive cases had annual growth rates of more than 2% per capita. Not a single major economy had a growth rate in excess of 2% in each decade (UN Economic Survey of Latin America and the Caribbean, 2000, preliminary data).

Deducing the potential for convergence from past performance also requires some care in terms of the sample of countries used to establish possibilities and the growth periods taken. Many commentators draw on the Penn World Tables and the data set created by Angus Maddison. The development of such long-run series has been a boon for those interested in the long-run dynamics of growth, but careless use of the data can produce strange results. In a predictive study of future world income distribution, for example, Jones argues ‘that growth miracles are occurring more frequently than growth disasters and that the related frequency of miracles has increased’ (Jones, 1997, p. 20). His evidence for this derives from an analysis of the Penn Tables, which include data on a number of Eastern bloc countries. Thus Jones is led to note Romania as an example of an economic miracle (indeed one of the most impressive) on the basis of the data for 1960–88, when Romania GDP per capita grew from 3 to 12% of US GDP per capita. Yet we know that subsequently the Romanian economy that produced this ‘miracle’ collapsed, as did the other ‘miracle’ economies of the Eastern bloc—and we also know that these economies have subsequently floundered. Ignoring this leaves us with the bizarre result that the case for the convergence potential of the future market economy is made to rest in part on the now (partially) discredited performance of state-controlled economies. Problems also arise in terms of the periodisation of growth rates. The pattern of capitalist development, for example, has been enormously uneven over time with the ‘golden age’ after 1945 presenting us with a unique period of high growth rates compared with the much less impressive performance before 1939 and after 1973. Many authors provide long-run growth rates which effectively split this golden age. Thus Jones analyses growth rates for the period 1960–88, which incorporates the exceptional performance of the 1960s. Pritchett in his more pessimistic study (using Maddison’s data) divides his growth rates into those for 1870–1960 and 1960–80. The effect of this is to attribute part of the golden age to both periods and this effectively raises the long-term growth rate in a way that would not be done if the smaller periods were used and the golden age treated separately (Pritchett, 1997; Jones, 1997).

The question that therefore arises is does the minority case support the hypothesis that a generalised convergence potential exists—but in the majority of cases this is masked by other factors? Or can we conclude that the lack of convergence in the majority of cases suggests that no such potential exists but that special factors at work allowed rapid development in a minority of economies?

A proper evaluation of this problem must take into account other elements. The normal presumption is that the global economy will tend to produce long-run growth, albeit at varying rates. Short-run crisis can reduce output but these shortfalls should be made up in the next stage of the cycle. It now appears that in some instances crises can be so deep as to hold down output growth over several cycles so that in the medium to long term there is no sustained growth and even regression in output per head. The most obvious case where this applies is in sub-Saharan Africa where, as Collier & Gunning put it in an analysis that derives from a conventional neoclassical perspective, ‘since 1980, aggregate per capita GDP … has declined at
almost 1% per annum. The decline has been widespread: 32 countries are poorer now than in 1980. Today sub-Saharan Africa is the lowest income region in the world … It is clear that Africa has suffered a chronic failure of economic growth’ (Collier & Gunning, 1999, pp. 3–4). Easterly & Levine (1997), in another analysis associated with the World Bank, use even more apocalyptic language, suggesting that sub-Saharan Africa ‘fits the classic definition of tragedy: potential unfulfilled, with disastrous consequences’. The language here is telling: ‘a chronic failure of economic growth’, ‘the classic definition of tragedy’, ‘potential unfulfilled’. Were these terms to be used about one economy experiencing an average annual decline of output per head over two decades, they would present problems for a theory based on convergence, but these epithets are being used for about 32 of the 48 economies of sub-Saharan Africa. Indeed the problem that this presents for optimism about convergence is even greater in as much as over the period 1965–97 only two of the 48 sub-Saharan economies have sustained growth rates that have brought any degree of convergence. Moreover, in this longer period, 14 have had negative rates of growth. Beyond this, sub-Saharan Africa (and other cases of failure elsewhere) obviously also raises a particular question for the policy makers in the transition countries. Their aspiration is obviously to emulate and even outperform the Asian Tigers but what is to stop them becoming a new area of relative stagnation and even long-term decline in the global economy?

Confidence that this will not be the case would be greater if it were possible to identify *ex ante* which economies were best placed to demonstrate a capacity to catch up. Unfortunately, as many commentators have pointed out, cases where economies do enter on a convergence path (for however long) tend to be identified *ex-post*. This is most obviously the case with the Asian tiger economies which, as late as the 1960s, did not appear to possess any magic growth ingredient to distinguish them from other parts of the world. Both to contemporary observers and with hindsight, many economies in Latin America and Africa seemed better placed to develop rapid economic growth. For example:

In the 1960s Africa’s future looked bright. On the basis (of Maddison’s 1995) estimates of per capita GDP for a sample of countries, during the first half of the century Africa had grown considerably more rapidly than Asia: by 1950 the African sample had overtaken the Asian sample … African growth and its composition were indistinguishable from the geographically very different circumstances of south Asia. (Maddison, 1995, p. 67; Sender, 1999, pp. 89–114)

At the very least, the difficulty of making accurate predictions implies a complex mix of explanatory factors—so much so that any undue optimism should be avoided.

Within the literature on convergence there is widespread agreement that although individual economies have sustained growth rates allowing for considerable catch-up, this has been less true of groups of economies. It is possible to identify what have been called ‘convergence clubs’—groups of economies where there is evidence of convergence within the group and perhaps between groups, but the rates of convergence vary significantly over time. In particular, convergence appears to have been historically strongest in the golden age of the world economy after 1945. Before 1939 evidence of more general convergence is weak and since the early 1970s the pattern is also more uncertain.7 In considering why this is so, we need to realise that the growth of the world economy is made up of two elements. One is what we can call the ‘frontier effect’—the development of the most advanced economies, where
sustained growth is heavily dependent on the rate at which the technological frontier is pushed outwards. The second is performance of countries behind this frontier, which will involve a catch-up component if they are successful. In the years after 1945 the most advanced economies, and most notably the USA, grew at a relatively stable rate. If we compare this performance with other economies at this time, it does not look particularly impressive but that is because their (‘the developing economies’) growth pattern involved a substantial catch-up element not available to an advanced economy. If, on the other hand, we compare this period with the historical pattern of growth within the advanced world, then it does look very impressive and all the more so since growth and productivity have substantially declined across the advanced world since the early 1970s (Maddison, 2001).

If convergence and catch-up is conceived of simply as a race, it might appear strange that this should be a problem. After all, in a race where the front-runners slow down this should provide an opportunity for the chasing group to catch up. But convergence is not a simple race in which the players are independent of one another. The world economy is based on a close interdependence between leaders and followers in which the potential for convergence appears to depend heavily on conditions in the most advanced economies. Historically, when the latter are booming, the followers benefit directly and this appears to assist the convergence process. Conversely, when the advanced countries slow down, this is transmitted into a more hostile environment for convergence. Adverse multiplier effects for the follower countries in the form of reduced demand have a deleterious impact upon trade and hence lead to decline in follower country exports, and reduction in foreign direct investment to the rest of the world leads to a slowdown in taxation receipts which in turn has a negative impact on government expenditure with adverse effects on welfare and infrastructure. Such a scenario highlights the uneven playing field that is the world economy: a crisis in the developed world damages the developing world much more than vice versa.

How might positive links, such as those characterised by the golden age, be recreated? Here the picture is not very positive. The more the history of economic growth in the twentieth century is examined, the more of a puzzle the experience of the golden age after 1945 appears to be. In a recent review of the American experience and the statistical evidence of long-run productivity growth, Gordon suggests that if anything a revision of the underlying data to increase their adequacy would only make this stand out even more. This leads him to suggest, as others have done, that the ‘normal’ historical experience of the advanced economies like the US is one of slower productivity growth and it is this that must be projected into the future rather than a more optimistic return to the patterns of the golden age: ‘I deeply believe that this was a unique event that will not be replicated in the lifetime of our generation or that which follows us …’ (Gordon, 1999, p. 127). This pessimism derives from his analysis of the historical data, the pattern of slower growth characterising the last quarter of the twentieth century that seemed impervious to diverse attempts by policy makers to shift growth to a higher level, and the failure of the so-called information revolution to have much impact on growth and productivity rates. If this pessimism is correct, and we believe that it is, then the hope that a strong convergence process could be stimulated by a highly buoyant and booming world economy over several decades is one that should not be seriously entertained by those who wish to see a speedy improvement in the relative and absolute position of the poorer parts of the world.

This brings us to another factor that needs to be considered—that of the stability
of the growth rate in the shorter to medium run. There are innumerable examples in the past and more recent economic history of societies achieving high rates of growth. The problem is to sustain them for long periods. Long-run growth projections obviously pay little attention to the issue of the volatility of the growth process. This volatility arises because of the cyclical instability of the capitalist system, a point so obvious that we would hesitate to make it were it not for the way in which it is casually ignored in much of the optimistic literature on convergence. The long-run rate of growth of any economy is obviously its performance over several economic cycles. The fact that some economies can grow faster than the average over parts of a cycle or even over one or two cycles does not mean that they do this over several cycles.

There are worse problems to consider. There may be reason to fear that when an economic crisis hits a weaker economy, then it can have a deeper and more disturbing impact than in an advanced society. If this happens, two related problems immediately occur in the convergence pattern. The first is that significant fall-back might be created that can negate earlier achievements. The second is that even if a high rate of growth is quickly re-established it will be on a lower basis. The arithmetic is again elementary but too often ignored. If a crisis pulls an economy down at say 5% a year for two years, if it then grows at 5% for the next two years it will not recover its earlier position since the base of the calculation of the growth rate is smaller. To put the point in its simplest form: falling off a rock face is easy; climbing back up is much harder. Worse still, climbing back up and closing the relative gap is harder still because while you have been falling and climbing back up to where you were, the other climbers may well have continued to advance up the rock face.

Convergence involves a fourth problem. Catch-up is essentially an emulative process. It involves two elements—technical and allocative efficiency. One is a gain in productivity within a sector or enterprise, whilst the other is a shift in factors of production from areas of relatively low to higher productivity—most obviously for developing countries a shift out of the agrarian sector and into industry. The core component of catch-up is not so much increased technical efficiency as these sectoral shifts. Indeed, Gomulka (1986) argued that such growth, termed ‘extensive growth’, was the major reason for the Soviet Union’s early rapid expansion. Such sectoral shifts have also underpinned the higher growth rates of other economies (particularly East Asia) and necessarily so, because they represent an inherent part of the development process. It also follows from this that the gains from such shifts are not unlimited—diminishing returns set in. Indeed, the convergence path should not be seen in terms of a straight line but an asymptotic curve. The move, therefore, to full catch-up inevitably requires improving technical efficiency towards what Gomulka terms the ‘technology frontier area’, yet this has proved an immensely difficult task for transition and developing countries.

Are we then implying that no convergence is possible? Our argument does not preclude the possibility that an occasional economy might be able to emulate the exceptions of Japan or even the East Asian Tigers, but it does mean that this possibility cannot, on past and present evidence, be generalised.

Feasible Convergence

If full convergence *vis-à-vis* the developed world is a pipe-dream at the moment, then is a more modest, feasible goal possible? In his 1983 book *The Economics of*
Feasible Socialism  Alec Nove undercut illusions about the possibility of reforming the Soviet-type system. For Nove, the test of ‘feasible’ was to ask: ‘What would be a workable, feasible sort of socialism which might be achieved within the life time of a child already conceived’. His reply was that this test of feasibility could not be met by a strongly centrally-directed economy—that instead, the command economies had to make use of the market mechanism. Now that the former command economies have wholeheartedly adopted the market mechanism, rather than full catch-up, we ask here the question, what is the likelihood of a ‘feasible’ convergence whereby at least a significant move towards the living standards of the advanced market economies can be realised.

Such a goal might be, for example, the reaching of GDP per capita levels akin to the three poorest EU members (Greece, Portugal and Spain). Indeed it is precisely this scenario that has been provided by Morita (2000). Morita argues that GDP based on purchasing power parities provides a defective picture of GDP and convergence. He argues that if growth rates for Central and East European countries (CEEs) are calculated on the basis of dollars at market exchange rates, these are high in almost every year of the transition period. Morita argues that the discrepancy between the real GDP and dollar-denominated GDP is explained by the continuous appreciation of currencies in real terms (because devaluation has generally been less than inflation). However, he does not show what this gap is. Instead, what he presents are per capita GDP (1998) figures for Hungary, the Czech Republic and Poland, and comparisons with Greece, Portugal and Spain. This might indeed be a feasible scenario yet what is provided are gaps in GDP growth rates between CEE and the EU3 of between 3 and 10%. Taking this, convergence is achieved within 10 to 30 years. We argue that such figures are just not credible. The basis of Morita’s belief that CEE can achieve high growth rates is EU membership, which, in turn, will lead to the real appreciation of their currencies. Morita, suggesting that history can repeat itself, argues that CEE can look forward to 10% growth per annum (measured in dollars) for at least 10 years after entry into the EU—and hence achieve a more than 7% per annum growth differential over the EU3. Well, in this case, not only can history not repeat itself but history did not exist in the first place: the EU3 did not grow at 10% per annum for 10 years after EU accession (or indeed for any year).

Fundamentally, however, basing convergence on the rapid appreciation of currencies post-EU accession is highly suspect. What is important is that currency figures across countries reflect real living standards and real resource usage. This is precisely why comparisons of GDP are increasingly calculations based on PPP figures (or, in Maddison’s case, ‘adjusted PPP’) rather than nominal exchange rate GDP figures.

Membership of the EU has, however, been considered a panacea for Central and East European countries since the earliest days of the transition, and it seems there is merit in this belief. Baldwin et al. (1997) have analysed the long-run benefits and budgetary costs of CEE membership of the EU under two scenarios. The first views CEE membership as entailing only the standard elements, that is, single market access and the common external tariff. The second scenario additionally assumes that membership promotes CEE investment by substantially lowering their country-risk premia. Under both scenarios the EU 15 countries are, in aggregate, projected to gain approximately €10 billion in real terms (Germany, France and the UK gaining about two-thirds of the total). Baldwin et al. argue that EU membership enormously benefits CEE—with real incomes rising from (without transfers) €2.5 billion (conservative estimates) to €30 billion. If farm and Structural Funds transfers are
included, these range from €23 billion (conservative estimates) to €50 billion. However, they maintain that even the generous estimates understate the full gains. Striving for EU membership (and adopting the *acquis communautaire*) has disciplined all EU economies and enabled them to resist special interest calls for bad policy. They conclude that delay in EU membership can have negative effects on CEE economies and societies.

All this seems very promising and a powerful case for speedy enlargement to the East, but unfortunately it does not shed much light on the rate of feasible convergence such enlargement might bring. We provide these scenarios to acknowledge that EU membership may yield significant overall benefits which, in turn, may drive the process of convergence forward. However, evidence is, at the very least, ambiguous. Budd (1997, p. 559) makes the point that ‘the liberal assumptions of the Single European Market and the fiscal criteria of the Maastricht Treaty will not reduce regional inequality. In the absence of fiscal activism at a regional level, reliance on market forces will only exacerbate the existing core-periphery structure of Europe’s regions’. As proof of this assertion, he shows that the degree of disparity between the weakest and strongest regions of the then EU12 during the 1980s (prior to the accession of Austria, Finland and Sweden in 1995) had slightly worsened. It needs acknowledging that at the heart of the EU project is an understanding of the likely worsening of income differentials from its free trade area and, in consequence, a plethora of ‘fiscal activism’ has been set in place—dominated by the various ‘Objectives’ of the EU Structural Funds as well as the Common Agricultural Policy.

The undoubted success of Ireland seems to provide a counter to Budd’s reasoning but, owing to its small size and concentration in the high-tech sector, cannot be taken as an exemplar for the CEE countries. In fact, Dunford & Smith 2000, pp. 180, 192) reject the argument that integration brings catch-up. Instead they argue that the significant technological gaps between East and West will be difficult to close. Though they accept that there will be areas where convergence does occur (notably some of the major urban centres), they assert that the region will be marked by inequality and uneven development.

One glaring example from the region nonetheless forces us to take an extremely cautious view: that of the former East Germany. No other country (now a region) in the modern era has received the level of direct assistance (tax on West Germans, investment, fiscal transfers) that East Germany has. Yet the eastern länder languish and catch-up with their Western neighbours is still not in sight. However, there has been ‘feasible’ convergence, but the implications of this are stark: if an economy that has benefited from so much sustained assistance for a decade still struggles, then how much more difficult it is for the other transition economies. We do not intend to explore here the peculiarities of the East German case but only to remind ourselves that the task for even a feasible convergence is enormously formidable, and by no means guaranteed. Mencinger (1999, p. 12) implicitly takes note of this when he makes the sobering point that ‘the initial positive effects of institutional changes on the economic performance of CEE countries have been waning rapidly and that catch-up effects might end soon. The gap between EU and CEE countries might expand rather than shrink’.

Indeed, this is exactly what has been happening (UN Economic Survey of Europe, 2000). To paraphrase Pritchett, in the transition economies the past decade has certainly seen ‘divergence big time’. Given the current and projected state of the world economy, the future does not look too bright—the main engine of growth, the US economy, is experiencing a slowdown whilst the world’s second biggest econ-
omy, Japan, has been stagnant for a decade. Nor can the EU provide the sort of growth needed for catch-up. Thus, rather than a virtuous cycle of strong growth and convergence, divergence seems set to continue.

Notes
1. For example, Nove (1988) argues that in the Former Soviet Union increases in real wages between 1960 and 1985, given as 125% by official statistics, were in fact at most only 20%.
3. This was famously expressed as the ‘return to Europe’ by Lipton & Sachs (1990) in their influential paper that formed the basis of advice to the Solidarnosc government in 1989. Indeed, this was what was hoped for by the mass of the population in those heady days.
4. The analysis of convergence and divergence depends upon the units used. The usual focus is upon national economies. But this gives the same weighting to China and India, with nearly a third of the world’s population, as to two small economies. It is therefore sometimes suggested that units should be weighted by population, but this too can be misleading. GDP per head can average very different patterns within economies and this is obviously the case in both India and China. Since data do not exist on a wide enough basis for a global regional analysis we focus here on national units.
5. Neoclassical approaches recognise that failure can be self-reinforcing in the absence of the proper functioning of markets but assume that what they defined as ‘proper’ functioning is both attainable and would produce equalisation if it existed (see Haynes & Husan, 2000).
6. Boltho & Tonioli’s calculations (1999, pp. 6–7) suggest that, comparing the periods 1820–1900, 1900–50 and 1950–92, the long-run rate of divergence has decreased for their global sample but is still significant.
7. See Maddison (2001). Some of the literature as it applies to national economies and regions within Europe is reviewed in Haynes (2001).
9. These figures, however, have been challenged by Rodrik (1997), who argues that there is no guarantee that the risk premia will fall in all CEE or by the amount estimated. Moreover, he disagrees with the estimated rise in the level of capital stock and argues that the bureaucratic/political costs of enlargement (‘gridlock’ costs) will be far higher than Baldwin et al. (1997) indicate.

References
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