Does History Matter for Development for the 21th Century?

Hungary and Slovakia

Vienna Technical University
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Why Should History Matter in Considering Today’s Performances

- Julius in Taxi

- When Discussing Hungary or Slovakia typically initially conditions at the beginning of the transition are a function of development under socialism

- However, socialism might be much faster forgotten than other longer-term processes which influenced Hungary and Slovakia for centuries
Path Dependence

- Hungarian elites try for last 180 years to introduce policies which would lead to convergence to Austria or wider Western Europe;
  - 1830 Count Szechenyi
  - 1867-1914
  - Communists
  - Transition

- Slovak first try was the reform of Ivan Miklos of 1998-2006

- However, never really succeeded;

- How to understand (and model) such a situation???
East

- Economic laws run into some contradictions once applied to societies outside the Western world ... Maybe less so when you are in the semi-periphery.

- Question how to define the experiences of non-Western societies not as variants of the West, but as different phenomenon.
Maybe we should deal with two distinct problems:

- Core countries main issue is to adapt to ongoing technological change
- Periphery countries main issue is how to overcome consequences of economic inferiority produced by the progress of the core
Explanation of Periphery

- Marxist style: problem is in exchange: typical export pattern of peripheral economy consists of ‘lower-ranking’ goods (labor intensive); which are exchanged for ‘higher-ranking’ goods; surplus is transferred from the labor intensive to the capital-intensive economy;

- More standard: reject surplus value and unequal exchange, include differences in income elasticities of demand for the products of the core and the periphery, terms of trades, and so
History

- Literature linking history to economic development exists;
- Different lines of research (see later);
- All deal with the long-run effects of European expansion and colonization on today’s developing countries

- Maybe to Understand the *Lagging Behind the West* of Hungary, Slovakia and Others one should consider this approach and to link history and economy
History: First Line of Research; La Porta et al.

- La Porta, Lopez-de-Silanes, and Shleifer, “The Economic Consequences of Legal Origins,” *Journal of Economic Literature*, (2008);

Message: Countries with legal systems based on British common law offer greater investor protection relative to countries with legal systems based on Roman originated civil law;
Other studies show that legal origin is also correlated with other country characteristics, as military conscription, labor market regulation, contract enforcement.

This suggests that legal origin may have larger effects than originally assumed in La Porta et al. (1997, 1998). But this questions the validity of their use of legal origin as an instrument for investor protection.
History: First Line of Research; La Porta et al.

- This line of research might not be useful to understand the lagging behind, as legal system in Hungary, Slovakia similar in spirit to western Europe;
History: Second Line of Research; Acemoglu et el.


- In colonies with a better disease environment Europeans had larger settlements; in these colonies – during colonial time - institutions emerged that protected property rights

- In colonies where European mortality was high, settlement low, colonizers did not have an incentive to establish strong property rights and instead extractive rent-seeking institutions.
History: Second Line of Research; Acemoglu et al.

- Geography, disease cannot easily explain lagging behind the West, as geography, and disease rather similar between European East and European West.
History: Third Line of Research;


- Engerman and Sokoloff: different experiences in the Americas can be explained by initial differences in endowments of land and geography suitable for growing globally traded crops like sugar, which were best grown on large-scale plantations using slave labor.
History: Third Line of Research;

- This line of research might be most useful;
- How institutions protecting privileges of the elites helped to keep the economy on slower growth path
Why Should History Matter in Considering Today’s Performances: Multiple Equilibria and Path Dependence

- New studies to test empirically existence of multiple equilibria;
- Examine cases where there has been an extremely large shock to an equilibrium. The studies then test whether the shock causes a movement from the previous equilibrium to a new equilibrium.

- Davis and Weinstein (2008) the effect of bombings on 114 Japanese cities during WWII; They find that after bombing, the cities returned to their pre-bombing populations, regained their shares in total manufacturing output, and regained their pre-existing industrial composition; these results point towards the existence of a unique stable equilibrium of production, rather than the existence of multiple equilibria.
The Slovak policy makers inherited from the former Czechoslovakia an attitude to stable currency and monetary policy.

Stable currency was typical for the period of the existence of the Czechoslovak state; (Rašín, Engliš, Potáč, Klaus) but also afterwards in the Slovak Republic (Mikloš, Masár, Jusko, Šramko)
Historical Observations on Slovak Economy: Currency and Monetary Stability

- When large exogenous shocks affected the Visegrad region, Czechoslovakia was typically able to keep stable value of currency, while in Hungary and in Poland currency on some occasions underwent heavy weakening, and high inflation.

- The stylized fact that the Czechs and Slovaks preferred stable currency seen clearly at 1920-25; also after the WWII, during communist period and in today’s economies.
Exchange rates of Visegrad countries, 1913-1939

**US cents of contemporary gold content per unit of currency**

Hungary korona (1913-1925), Pengo (from 1925 on); Czechoslovakia koruna. Note in the pre-1934 parity a fine ounce of gold was $20.67, and after 1934 onwards $35.00. Note that increasing number means appreciation of the domestic currency. Source: M.C. Kaser ed. The Economic History of Eastern Europe 1919-1975, Clarendon Press, Oxford, 1985, p. xii.

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*(Annual averages, national currency units per dollar)*

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Julius Horvath
Historical Observations on Slovak Economy: Convergence

- Limited evidence of convergence within the former Soviet bloc.

- However, convergence was occurring in the former Czechoslovakia.

- Resources were being transferred to Slovakia in order to promote its catching up with the Czech lands. Note the difference between real and disposable on next slide.

- In addition, Slovakia’s industrialization occurred during socialist period.
### Historical Observations on Slovak Economy: Convergence

#### Evidence on Convergence in the Former Czechoslovakia

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<td>0.799</td>
<td>0.776</td>
<td>0.812</td>
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References

- Nunn, Nathan The Importance of History for Economic Development, mimeo, October 2008
- Horvath, Duncker und Humblot book