Tamas Vonyo:
By how much and why did socialist economies underperform?

This paper applies panel econometrics with country-fixed effects for 16 West and 8 East European countries to isolate the differential between growth rates of socialist and non-socialist economies from supply-side determinants of relative growth performance in the period 1950-89. After controlling for catch-up potential, labour-force growth and the temporary output gap reflecting wartime destruction and post-war dislocation, being a command economy had a very large negative effect on annual growth rates: almost three percentage points between the 1950s and the 1970s, and approximately 4.3 percentage points in the 1980s. Although the results do not refute the allocative and productive inefficiency of central command, they show that socialist countries remained relatively poor partly because they were lagging behind market economies in structural development. Additionally, in the early post-war decades, Eastern Europe could not exploit its potential for reconstruction growth. This outcome was due, at least in part, to the large population losses suffered during the 1940s, which limited the supply of labour.