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Market transition or path dependency? Changing effects of income determinants in the Czech Republic, Hungary, Poland, Russia, and Slovakia, 1991–2002

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Abstract

A major issue in the market transition debate on transitional societies is the extent to which changing economic institutions are responsible for the changing stratification order in post-Communist societies, as assumed by the Market Transition Theory (MTT). Advocates of path dependent transformation processes assume varying transformation processes across post-Communist societies. They have criticized the MTT of being insensitive to the different paths of transformation post-Communist societies go through and the way this will influence changes in the effects of income determinants. This study will test the extent to which trends in the effects of income determinants converge across post-Communist societies. A cross-national and across time comparative research design will be employed, analyzing 61 cross-sectional, standardized surveys for five Central and Eastern countries covering the period 1991–2002. Results from modified weighted least squares regression analyses show an increasing trend in the effect of years of education on standardized personal income for all five countries as predicted by the MTT. Income effects of years of experience, private sector employment and gender do not show increasing trends for all countries, contradicting the MTT. The empirical trends in effects of income determinants are to a great extent consistent with Stark's typology of privatization strategies, giving some support to the theoretical notion of path dependent transformation processes.

Keywords: Market Transition Theory; Path dependency; Income determinants; Post-Communist societies

1. Introduction

The post-Communist countries in Central and Eastern Europe provide a unique opportunity to investigate the consequences of socio-economic change in determining income. Under Communism, these countries had a redistributive economy, which is characterized by massive intervention of the state, with the prices of labor and goods determined by the state. In contrast, a market economy is less centralized and prices are agreed upon by buyer and seller. The shift from a redistributive economy to a market economy suggests changes in the allocation of resources and persons, and as a result, the effects of income determinants will also change.

How the effects of income determinants have changed during processes of market transformation has been studied extensively. Much of the literature is centered on the Market Transition Theory (MTT). The MTT generally describes how the process of marketization influences the effects of income determinants. In this respect, it is

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treated as a general theory that can be used to explain changes in the effects of income determinants in various contexts, where a redistributive economy has been replaced by a market economy. However, studies on China and Central and Eastern Europe (CEE) have raised theoretical and empirical inconsistencies of the MTT (Fligstein, 1996; Nee, 1996; Oberschall, 1996; Parish & Michelson, 1996; Stark, 1996; Szelényi & Kostello, 1996; Walder, 1996; Xie & Hannum, 1996).[1] Heavily debated issues are the diminishing role of political capital, its consequences for the political elite, and the extent to which changing economic institutions are responsible for the changing stratification order.

This study primarily focuses on the discussion to what extent changing economic institutions are responsible for changes in the effect of income determinants. The MTT has been criticized of being primarily focused on market transformations and that it has not enough attention for the variety of institutional contexts in which market reforms have been introduced (Walder, 1996). In this respect it assumes that post-Communist economies develop towards a predetermined end-state: redistributive economies change into market economies (Stark, 1996). In this line of reasoning, convergence to a single set of stratification outcomes, like power and income is expected (Parish & Michelson, 1996). This discussion raises an interesting question: To what extent do trends in the effects of income determinants converge across post-Communist societies?

The alternative theoretical ideas propose that the changing stratification order is dependent on the institutional legacy from the Communist era and the way in which market reforms have been introduced. The socioeconomic paths towards centrally planned economies were different in these countries, which left different institutional traces during the Communist era, and each country followed its own path away from the command economy, hence the term path dependency (Stark, 1992). Countries like Hungary and Russia were agricultural societies through the second half of the twentieth century, with various mixtures of private and public ownership (World Bank, 2004). In some Communist societies, market mechanisms had already been introduced during the Communist era. Although the ‘velvet revolutions’ in CEE occurred approximately simultaneously, the paths towards decentralization of the state-centered redistributive economies were different (Domanski, 2000; Gerber & Hout, 1998), due also to the differences during the Communist era. This brings us to another interesting research question: Can possible different trends in the effects of income determinants across post-Communist societies be related to different path dependent transformation processes occurring in these societies?

The criticisms raised by the proponents of path dependency do not necessarily negate the MTT. In this study, we propose that the criticisms should be regarded as a call for specifying the conditions under which the effects of income determinants change as predicted by the MTT and under which they do not, also suggested by Nee and Cao (1999, p. 825). Walder (1996, p. 1068) formulates this emphasis on specifying market conditions as follows: “The question is not to what *degree* markets have emerged, but what *kind* of market economy is emerging in different regions.”

This calls for a comparative research design in which several countries can be compared over time. However, most of the studies investigating the influence of market reform on determining income use time as an approximation of the transformation process. Some scholars choose to analyze one country at two points in time (e.g., Reilly, 1999) or in some specific year before and after the start of the transformation process (e.g., Flanagan, 1998; Orazem & Vodopivec, 1995, 2000; Róna-Tas, 1994; Vecerník, 1995). The observed changes are interpreted as resulting from the transformation process. However, the longer the time span, the better the measure, because expected changes will have a better chance of showing up (Walder, 1996). Instead of comparing the effects at two points in time, other scholars analyze trends in the changing effects of income determinants in a country over longer periods (Brainerd, 1998, 2002; Campos & Jolliffe, 2002; Dessens, Jansen, & Nelissen, 1998; Domanski & Heyns, 1995; Gerber & Hout, 1998; Keane & Prasad, 1999; Vecerník, 2001).

Given the argument that transitional societies experience different transformation processes, some scholars have analyzed income determinants for several countries separately in 1 year to determine to what extent the transformation process has changed income determinants in those countries (e.g., Diewald & Mach, 1999; Hanley, 2000; Zhou & Suhomlinova, 2001). Others have analyzed several countries separately over 2 or more years, looking at how income determinants have changed over time within each country (e.g., Chase, 1998; Filer, Jurajda, & Plánovský, 1999; Kostello, 2002; Newell & Reilly, 2000).

Using time to measure market reforms is based on a crude assumption that as time progresses market reforms will expand. Authors who have investigated the influence of market reforms on income determination in differ-

[1] This is just a short overview studies published in a theme issue of the American Journal of Sociology often referred to as the ‘market transition debate’.