

The Inception of Capitalism through the Lens of Firms

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One-page summary

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Why? Consistent with communism providing:

1. social insurance through full employment
2. subsidized loans to bad firms

The main message

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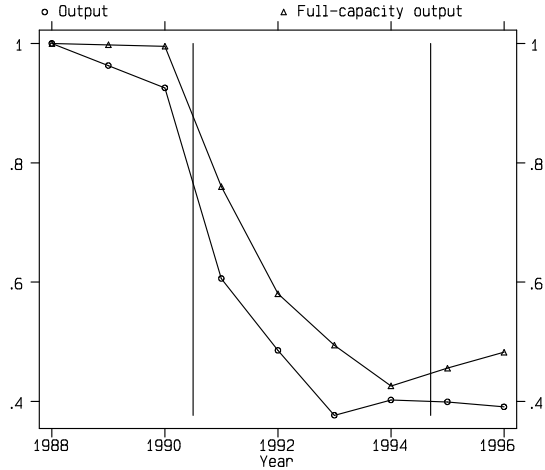
1. How does communist-capitalist transition happen?
2. Natural experiment revealing how capitalism works.
3. Pushing the Hopenhayn-model to an edge case.

Zooming in even further

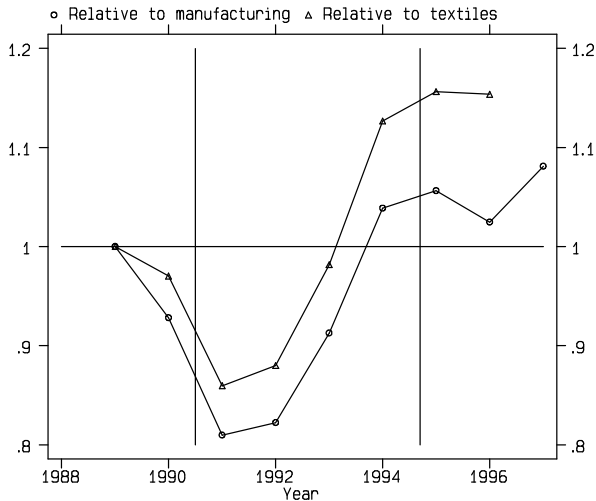
Zooming in even further

What happened to a particular weaving mill? (Fazekas and Köllő 1998, Köllő 2003, Koren, Csillag and Köllő 2019)

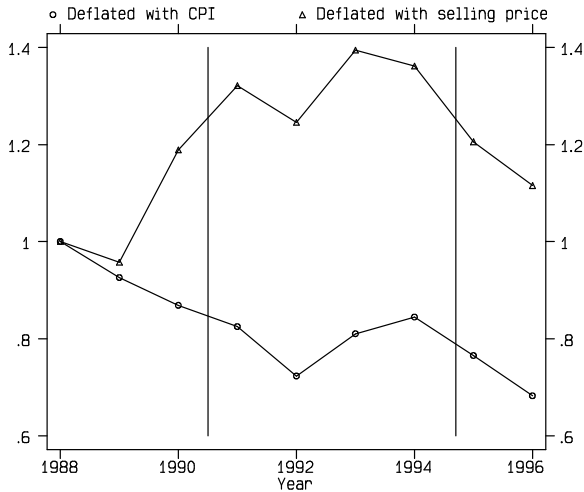
Output fell sharply after restructuring



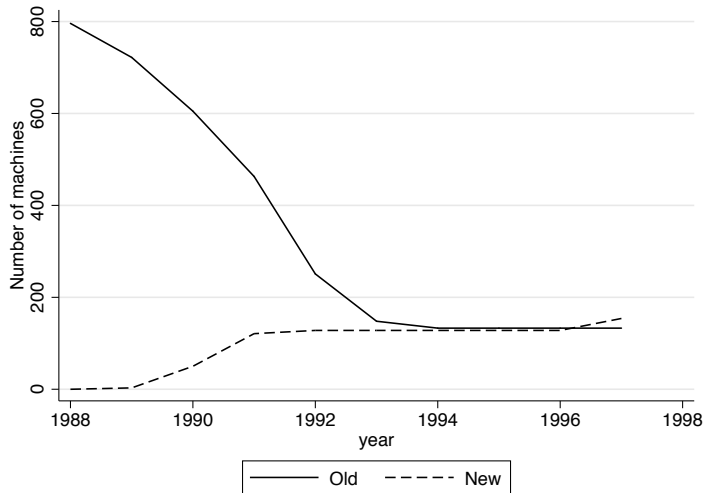
Prices fell sharply even relative to textile sector



Real wage increased sharply with liberalization

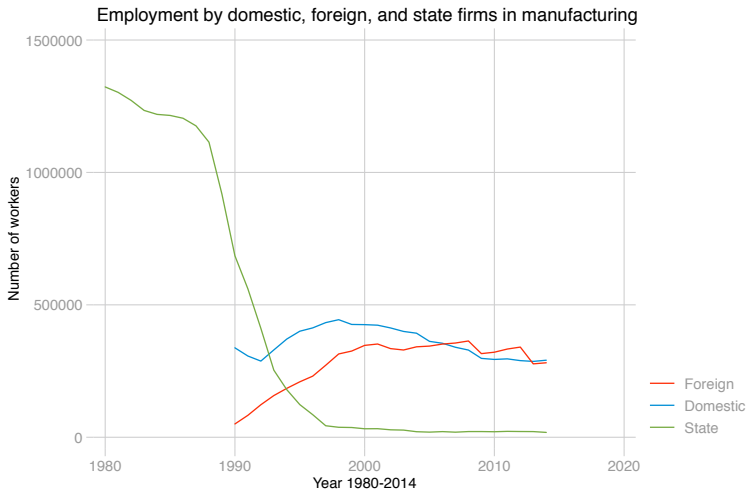


Old machines were replaced with new, skill intensive ones

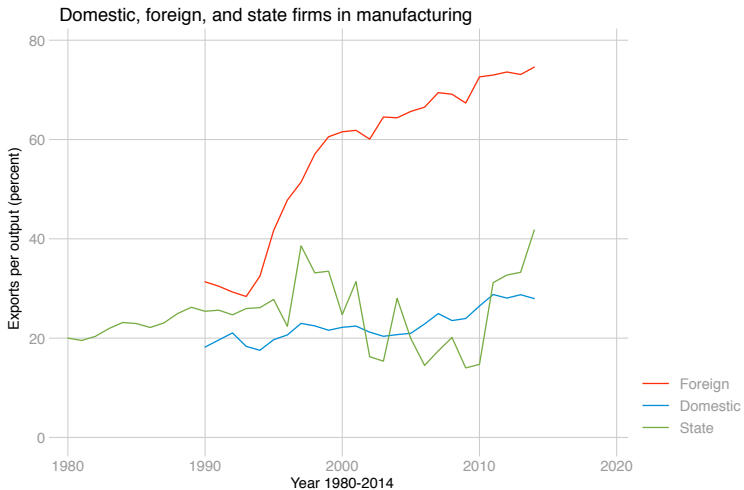


FDI and liberalization

Foreign owners expanded employment the most



The biggest difference between domestic, state and foreign firms: Market access



Conclusion

What's wrong with communism?

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1. Prices are messed up.
2. Incentives are opaque.

The soft budget constraint

- ▶ Communist firms are subject to the soft budget constraint (Kornai 1986).
- ▶ In fact, most parts of large organizations are.

Conclusion

- ▶ Communist-capitalist transition teaches us about
 1. liberalization
 2. soft budget constraint
- ▶ Both are more generally applicable.
- ▶ Explore further:
 1. survival of SBC in SOEs
 2. new firms and entrepreneurship
 3. access to foreign capital, technologies, markets