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Private property - the inclusive institution which shaped dissimilar economic dynamics. Evidence from the Czech Republic and Romania

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Abstract

Following the path prescribed by Acemoglu and Robinson, development disparities can be better interpreted in the light of the effectiveness of political and economic institutions which rule society. From this perspective, the post-communist economies provide enough evidence when addressing the transition strategies followed in order to shape the market economy. Our paper analyses the impact of private property reform on the economic outcomes of Romania and the Czech Republic, as exponents of the two transition strategies. We employ a Vector Error Correction Model, followed by a Variance decomposition and a Granger Causality to emphasize the contribution of dissimilar property reforms to the economic dynamics. The results highlight that clear property rights in the Czech Republic have created the auspicious circumstances for enhancing growth and prosperity while, for Romania, it became an obstacle against economic growth.

Keywords: inclusive political institutions, inclusive economic institutions, private property, transition, development

Introduction

Reality has stressed that the institutions of private property, competition and the free market mechanism are indispensable for economic development. That is, freedom and prosperity can be best achieved through the adoption of those institutions that have proven to be successful throughout the history of the Western Europe (Frunză, 2011, p. 39).

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Institutions are the vital ingredient of civilization and economic progress. According to Hodgson, they are "systems of established and embedded social rules that structure social interactions" (2006, p. 18) or "rules of the game in society or, more formally, humanly devised constraints that shape human interaction (North, 1990, p. 3). Such regulations, irrespective of their area of application (economic, political, and social) are the core of civilization, democracy and progress because they have the role of limiting uncertainty. They boost cooperation among individuals and raise the level of trust and predictability (North, 1990). In the wide matrix of development, there is a vast body of literature dedicated to the fundamental role played by inclusive institutions (Acemoglu and Robinson, 2012; Acemoglu and Robinson, 2016; Xi, 2017; Natkhov and Polishchuk, 2017; Rodrik, 2000; Dzionek-Kozlowska and Matera, 2021; Dzionek-Kozlowska and Matera, 2020). They derive from the political institutions that guide a certain society. As Niall Ferguson has pointed out, those countries characterized by an increased governmental integrity and a political culture which acts as a shield for the rule of law and property rights has the necessary inclusive political institutions required by prosperity and civilization (2012). Conversely, the countries that were harmed by the Soviet model of central planning in the past are more likely to develop, to some extent, extractive political and economic institution. This can be comprised into what Thorstein Veblen described, in "Theory of the leisure class", as imbecile rules (Veblen, 1992).

As the existing body of literature in the field shows, inclusive economic institutions require the existence and proper functioning of inclusive political institutions. Therefore, a rather *wealth-oriented* country like the Czech Republic will have a natural predisposition towards developing such inclusive political and economic institutions compared to its neighbour, Romania, included in the category of *power-oriented nations* (Balcerowicz, 1993; Weder, 2001). Inclusive institutions are the outcome of choices made by the political class. Acemoglu and Robinson (2012) present them as just, correct institutional underpinnings where the rule of law, private property are nodal. These good practices act as a booster for development by providing equity, correctness, justice, civilization and social security (Rodrik *et al.*, 2004; Jakšić and Jakšić, 2018; Acemoglu and Robinson, 2016). Conversely, extractive institutions are damaging for prosperity (Leftwich and Sen, 2010; Adeyemi, 2012). Romania could be a representative example in this perspective given its limited progress in the first years of transition (Pop, 2007). Here, the more extractive political institutions shaped rather extractive economic institutions, especially as far as private property reform is concerned. Additionally, the poor rule of law, gross corruption, massive bureaucracy, the unclear privatization process points out relevant examples of institutional impediments for prosperity.

In the book "Civilization: The West and the Rest", Niall Ferguson provided an interesting plea for what he called "the killer apps" which explain the fabulous evolution of the Western civilizations compared to their Eastern neighbours. These killer apps could be comprised into six development boosters, such as: *competition*, *science, property, modern medicine, consumerism and work ethics* (Fergusson, 2012). Western societies have fully benefitted from all these good practices and have managed to design a sustainable path for acquiring prosperity, precisely by protecting and promoting them. Unfortunately, the Eastern countries were not able to create locally, or at least borrow, such assets and remained laggards in terms of development (Fergusson, 2012).

Since the aim of this paper is to focus on private property and its role in development rather than develop on the six “killer apps”, we further retain some aspects which argue in favour of the fundamental contribution made by the inclusive institution of private property on the growth and prosperity of the Eastern European space, namely in Romania and The Czech Republic. As satellite countries of the ex-Union of Soviet Socialist Republics (USSR), they have experienced centralized planning at a different intensity of coercion and state intervention (Osiatynski, 1992; Kowalik, 1992; Blanchard *et al.,* 1994a). Therefore, their paths outside the Soviet orbit were projected on separate transition strategies and also dissimilar economic dynamics (Blanchard, 1997; Blanchard *et al.,* 1994b).

In our point of view, from the matrix of development boosters provided by Ferguson, the *institution of private property* is the most important, acting as a prerequisite for the remaining aforementioned “killer apps”. In other words, those societies that had a tradition in protecting the private property succeeded in creating the main incentives for a positive economic dynamic. As Douglass North pointed out, “property rights are the rights individuals appropriate over their own labour and the goods and services they possess” (North, 1990, p. 33). Other authors, like Demsetz (1966), perceive private property as the capacity of the individual to control all possible outcomes that may appear as a consequence of the possession of limited resources. Another perspective is provided by Alchian and Demsetz (1973), who state that private property rights refer to the use of scarce resources in accordance with the free will of the owner.

Practically, the private ownership of the results of efforts made by individuals will stimulate the ethics of work because they feel more motivated to be responsible and efficient, given the benefit of enjoying their labour results. Labour productivity, as well as job satisfaction, will increase because the institution of private property will provide labourers with the necessary incentive to maximize the value of their work. This is the key for human cooperation, progress, innovation and civilization. This is the recipe for prosperity followed by the Western societies. In the paper “The nature of the firm”, Ronald Coase offered the explanation for the existence of firms, perceived as exponents of the institution of private property, from at least three perspectives. According to Coase, firms appear because, first of all, there are people who “prefer to work under the direction of some other person”. Second, they may occur when other people are willing to control the economic activity and to be “one’s own master” and thirdly, because in general, purchasers “prefer commodities which are produced by firms to those not so produced” (Coase, 1937, p. 390). All arguments require the pre-existence of the inclusive institution of private property. Firstly, individuals are willing to work as employees for other people only if they believe they will be rewarded for their efforts, only if they are convinced that private ownership implies such rewards. In other words, the more ethical the work is, based on fairness and discipline, the greater private incentives will be provided. This is also a motivation for those individuals willing to control the activity of firms. The private property on the resources mobilized for the company enables their will to expand the activity and boost their profit. The path towards it is "paved" with another important institution, reputation (Coase, 1937). Besides this, there is high competitiveness and improved ability to satisfy consumers' needs because, as Coase has pointed out, consumers trust the products provided by firms more than the rest of merchandise available on the market. Practically, where there is private property, there also is effectiveness, competition, work ethics and permanent innovation in serving consumers.

After 1989, the former communist countries' "return to Europe" involved the creation of a capitalist political and economic institutional framework (Mursa *et al.*, 2014). Reality has demonstrated that the ex-satellite countries of the USSR promoted a different approach to establishing the new institutional underpinnings of the market economy after the collapse of Soviet regime and, consequently, disparate perspectives with respect to private property. In such circumstances, the purpose of this paper is to highlight the massive impact of the private property reform on the economic dynamics. As Acemoglu and Robinson (2012) have stressed, the political institutions that guide a society are responsible for the effectiveness and quality of the subsequent economic institutions that they create, thus placing that society on the orbit of development or, on the contrary, of poverty. As to better visualize such influence, we have selected two countries which are representative for the two transition strategies, namely The Czech Republic and Romania.

We have projected our research on 3 main objectives:

1. To emphasize that *different political institutions* from The Czech Republic and Romania *have created particular economic institutions* for each country, even before the USSR collapse. Such discrepancies have become more accentuated during the transition process;
2. To explain *why reforms applied to property*, a basic economic institution, *have designed separate versions of a good practice, but with dissimilar economic outcomes* in The Czech Republic and Romania;
3. To *provide evidence* from both: *theoretically and empirically for the nexus between private property and economic development* for the particular case of the two countries.

The novelty of our approach resides, first of all, in the analysis of the private property institution and its subsequent reforms in the ex-ante moment of socialist experience and ex-post communism. There is little attention paid to the property status under communism or to the times that preceded its instauration in order to better explain the refashion of property regime during transition. We do believe that such particularities play a key role in explaining the further evolution of both: the privatization process and its direct impact on the economic outcomes of the Czech Republic and Romania. Moreover, we will emphasize this metamorphosis by following the perspective provided by Acemoglu and Robinson (2012).

Second, another significant contribution of our study is provided by the mixed theoretical-empirical approach based on a unique data set and methodological analyses for The Czech Republic and Romania, with a focus on the private property's fundamental relevance for the current economic dynamics.

The remaining of the paper is structured as follows: section 1 provides a brief literature review concerning the latest research on the private property and development nexus. Sections 2 and 3 invite the audience to explore a practical time-and-space analysis of the private property institution from the interwar period until the socialist experience. The analysis is presented separately for the Czech Republic and Romania. Section 4 presents the reforms applied, in both countries, to support the economic institution of private property and, moreover, to operate the privatization process. Section 5 offers the necessary details with respect to data and the methodological approach. Section 6 concludes.

1. Literature review

On the same wavelength with Niall Fergusson (2012), we may find the contribution of Daron Acemoglu and James Robinson (2012), who stated that the difference between poor and rich countries resides in the institutional incentives that exist in the latter group, and entirely miss from the former one. They provided the particular example of the dissimilar economic development between North and South America. While in the North, private property rights over the land were active and people had the right to vote, in the South, the practice of slavery flourished as clearly stipulated in the Constitution, discrimination was rampant and only white people could vote. The United States of America has fully benefitted from political stability. Their neighbours from the South, as Mexico, for example, suffered from an almost permanent state of instability (for example, between 1824 and 1867, Mexico had as many as 52 presidents) (Acemoglu and Robinson, 2012, p. 31). As expected, such political chaos affected property rights because it determined an increased uncertainty. Mexico was guided by poor quality institutions which sentenced the country to poverty. Competition was absent, property rights were violated through the forced expropriation of the native people in favour of those who were in power. Practically, the institutional inheritance of the countries from the South was marked by instability, dictatorship, violence and the lack of private property. This was also the situation in the communist countries.

In a society guided by instability and uncertainty, with an ambiguous property system dominated by oppression and deprivation of resources of the masses as to serve the needs of the elites, in a similar manner to the mechanism developed by the leisure class described by Veblen (1992), or furthermore, exclusively dominated by the common pool resources, the fatal accident of developing extractive political and economic institutions turns into dramatic reality. Such a reality belongs to the world of the poor and unequal people, where incentives for individuals and private enterprises are absent. Here, firms that should follow the gain of profit do not exist because there are no incentives. Unfortunately, they have no landmarks in terms of the market prices established by the demand and supply mechanism and so, there are no incentives for capital accumulation or for the use of limited resources in the most productive activities as to satisfy consumer needs. Conversely, within these societies, the "common-pool" resources are exploited and overused until their complete disappearance, providing the so-called "tragedy of the commons" (Hardin, 1968).

From a different perspective, a society that does not benefit from the advantages provided by the institution of private property will also lack in terms of work ethics. According to the political philosophy of John Locke, "[…] every Man has a Property in his own Person. This no Body has any Right to but himself. The Labour of his Body, and the Work of his Hands, we may say, are properly his" (Locke, 1690, ch. 5, sect. 27). Consequently, the lack of private property will not only bring about the problem of depletion of scarce resources, but it will also trigger conflictual relations among society members and the lack of cooperation, which is not a fertile ground for progress but, on the contrary, leads to a situation in which countries are caught in a poverty trap (Frunză, 2011, p. 44). Who is responsible for this? Acemoglu nominated *political institutions* (Acemoglu and Robinson, 2016). They decide the extent to which citizens are allowed to control the political class and to the determine it to act so as to meet their needs. What about those cases of dictatorship and coercion, such as in USSR? Like many other historical examples, in the Soviet and Socialist Republics, the power was concentrated into the hands of a supreme leader and of the Communist party, who transformed political institutions into extractive ones. This is the perfect example of when the government of a country becomes, by itself, the biggest threat for its citizens and their rights. Even though the virulence of central planning was different from one country to another, in the entire communist block, the extractive political elites have further created extractive economic institutions. They were applied by force, through collectivization, compulsory industrialization, barter-based exchanges, no freedom of speech, of religion, corruption, practically, by all means in order to defend kleptocracy; however, these were all very well hidden behind the intransigence in front of all forms of violation of social interests (Meneley, 1982).

A closer look at the political and economic institutions which guided communist nations, especially in the particular case of The Czech Republic and Romania, is more than welcome to better understand how it was possible for a centralized system to develop dissimilar economic institutions before the fall of communism, but with a long-term impact on their economic evolution.

2. The institution of private property in Czechoslovakia (ex-ante transition)

Between 1939-1959, Czechoslovakia experienced a period of high authoritarianism, with a short democratic break, after World War II. The country was occupied by the Nazi Germany in 1939 and afterwards, in 1948, by Communists. What followed was a period of widespread terror among all people who dared to protest against it, of racial persecutions run mainly against Jews, private properties were confiscated, education was prohibited; nevertheless, throughout this period of time and despite all odds, internal resistance was constant. After 1948, when the country became a Socialist Republic, the centrally planned model of economic organization was applied. Even so, the parliament managed to prepare a new Constitution, according to which special attention was paid to human rights and human freedom. The national economic system implied the nationalization of scarce natural resources, of the industrial and banking sectors, as well as the nationalization of agricultural lands. The Constitution voted in 1948[1] protected private enterprises and their personal property was declared inviolable. Actually, in terms of agricultural land, people could own a maximum area of 50 hectares (Demela and Mikula, 2015, p. 330). In time, nationalization widened, including private firms with more than 50 employees under the legal claim of compensating the owners, followed by all transportation services. The Civil Code adopted in 1950 stipulated 3 major forms of property: *the socialist one*, which referred to cooperatives or the property of the state; *the personal property, which* was inviolable and *the private property, which* was pretty much the same with the personal one (Demela and Mikula, 2015, p. 331). Ten years later, the country adopted a new Constitution which, even though clearly reconsidered the *socialist property* as the one owned by the state or the so-called national property, and the cooperative as the fundamental form of property, private property rights were still recognised (Bělovský, 2019). Small companies could continue their private activity as long as it was strictly dependent on the work provided by the proprietor and not on the workforce of other people. Under the socialist Fundamental Law, the institution of private property continued to exist, but with no significant relevance for the organization of the society. In fact, such form of property was perceived as inferior to the cooperatives of socialist property, which is why it deserved less attention.

The collectivization in agriculture happened, though not as harsh as in other countries, allowing people to have up to 50 hectares in private ownership. Actually, at the beginning of collectivization, in the first 2 years, the process was optional. After 1950, it became compulsory, for all citizens, to enter the system (Hulicka, 1953). Therefore, property reforms provided, despite costs (huge waste of natural resources, low productivity of workers, etc.) progress in the fields of industry and

[1] Grand National Assembly (1948), *Constitution of the Romanian's People Republic* (retrieved from http://www.cdep.ro/pls/legis/legis_pck.htp_act_text?idt=1574).

foreign trade. Czechoslovakia was an important producer of machinery and military technology for the rest of its Communist neighbours. Agriculture was less productive especially due to the workforce massive relocation towards the industrial sectors (Hulicka, 1953).

As we can see, the rather "human-faced" socialism in this country promoted a different version of the state-citizens relationship. The 1968 Prague Spring was a significant moment in this respect and a proof of the country's strong attachment to freedom. This was the movement that promoted a totally different wave of reforms oriented towards political liberalisation, even democratization, and an increase in citizens' freedom – of speech, of the media and of travelling (McDermott and Stibbe, 2018). It actually inspired the USSR *perestroika and glasnost* design proposed by Gorbachev after 1985. This Czech tradition regarding the affinity to remodel the political area, the economic and even the judicial one as to restore the natural balance of freedom was perceived as a threat for the security and mainly for the stability of the Soviet bloc, especially because it could generate a precedent for the rest of the Eastern European countries. Unfortunately, there was a strong belief among the Soviets that the correct political behaviour could not be changed and, consequently, in August 1968, Czechoslovakia was invaded and local heretics were reduced to silence.

Despite all these events, the property rights reform remained rather unchanged between 1960 and 1989, meaning that private property remained alive, but with a minimum economic importance and without creating any prejudices to the interests of the state. Considering this overall background, we can draw some major importance conclusions. First, Czechoslovakia displayed, from the very beginning, a great attachment to freedom, democracy and market incentives. During all these years of occupation, a limited form of resistance remained alive and the Parliament managed to validate a constitution which defended those values even when Communists took the power. Second, the political institutions which guided the country in all those years were not totally brainwashed by the Soviet doctrine. Consequently, they allowed the appearance of rather inclusive economic institutions, even within a socialist society – the persistence of small enterprises' private ownership, of land ownership up to 50 hectares, the rather "human" process of collectivization, higher performances in the industrial production, etc., all testify for these.

Concluding, it is this background that served serve as a solid basis for the construction of a new society after the 1990 USSR implosion, which could be understood as a metamorphosis towards normality, that is, a free and a democratic society. The transition process for the country which changed its name into the Czech Republic in 1992 did not imply the unfamiliar policies of building the free market and democracy pillars from scratch, but rather of bringing the inclusive institutions that defined the society and could not be altered during the communist rule back to life.

3. The institution of private property in Romania (ex-ante transition)

In the interwar period, Romania benefitted from auspicious prospects for democracy. In 1923, the first democratic constitution clearly stipulating the means of implementing the 1921 agrarian reform was adopted. This practically extended and consolidated the *property rights of the peasants* over the expropriated and parcelled lands. This measure was an important step in defending the private property on lands by stimulating social stability (Gella, 1988). Consequently, this legal provision has significantly diminished peasants' dependence on the landlords.

The universal vote and the equality of rights are other Constitution elements which turned Romania into a democracy. Unfortunately, the country was abruptly decoupled from the positive background in 1930, when King Charles II took the throne. A Mussolini admirer, he rather resented democracy and soon had a royal dictatorship installed. The political institutions' instability remained dramatic and, with the abdication of Charles II in 1940 and the power taken over by the National Legionary state, Romania was clearly moved away from the path of democracy and freedom for the next five decades. This was the starting point of a new military dictatorship imposed by general Antonescu, a crisis which reached a climax in 1945, when the Communists came to power.

After World War II, Soviet communism expanded rapidly among the countries from Central and Eastern Europe, especially in those nations that lacked a solid democracy-related tradition. Romania had some landmarks in this respect, but the prolonged political instabilities occurred after King Ferdinand's I death were strong enough to make the country vulnerable.

The institution of property was once more jeopardized. Another land reform was applied in 1945 by the Communist party, its main declared objective being to turn the poor Romanian peasants into land workers, but the approach was different from the previous one. The expropriation was made by force and the land parcels initially taken for free by the state were practically sold to the people. The law also provided the terms of the transaction – peasants had to pay, in money or in nature, a 10% share of the land price while the rest of it had to be paid in successive instalments (money or agricultural products) in maximum 10 years (for peasants with limited land areas - 5 hectares) or in maximum 20 years (for people with no land - Law 187/23 March 1945)[2]. Expropriation included resources belonging to anyone, except the State and the Church, while the price of the land which had to be paid to become an owner was equal to the average annual harvest per hectare (1000 kilogrammes of wheat or 1 200 kilogrammes of corn). Practically, in Romania, *the law did not stipulate peasants' private property rights for their lands*. They were

[2] The Parliament of Romania, *Law no. 187 from 23 of March 1945 for the materialization of the Agrarian Reform* – published in the Official Monitor no. 68/23 March 1945. http://www.cdep.ro/pls/legis/legis_pck.htp_act_text?idt=1569).

debtors forced to receive agricultural land, to work it and to pay for using it either in agricultural products, according to some previously established quotas or directly in cash which, given their limited resources, was almost impossible.

By 1960, a totalitarian regime had been founded under the protection of the Communist Constitution of 1948. Apparently, the new fundamental law defended the equality of all citizens in front of law, private property and the right of inheritance were recognised and protected by the law, fundamental rights and civil liberties were guaranteed but, in fact, the situation was the opposite (Șerban, 2014). There was no protection provided for small enterprises and individuals' property rights were hardly defined. Art.10 of the Constitution stated that, for good purposes, as to satisfy the general interest of the people, the state could take all resources held in private property by banks, insurance companies, etc., and turn them into the *property of the people* (Constitution of the Romanian's People Republic, 1948).

The economy of the country was guided by the Stalinist model of centralized planning, but in a very harsh version, with special attention paid to massive industrialization and forced collectivization in the agricultural sector. Those who refused to accept it were convinced by force, or by threats of losing their jobs or of having their children expelled from school (Kideckel, 1982, p. 325). Everything was controlled by the state, the Stalinist influence was extremely high, no private economic activity could be undertaken in Romania in those times, especially under Gheorghe Gheorghiu Dej. Ceaușescu, Dej's successor, promoted a rather "independent" approach in terms of the countries' foreign policy. He blamed the 1968 Soviet invasion of Czechoslovakia and tended towards a weaker dependency on the USSR; however, it promoted cruel coercion when internal affairs were addressed. The Communist Party was practically everywhere, even in the citizens' private lives. The unprecedented cult of personality established by Ceaușescu highlighted that Romania hosted the greatest dictatorship coercion in the entire communist block (Weder, 2001). The picture of the dictator was compulsory in every house, public institution, thus transforming the country into a sort of police state guided by force and the omnipresent Communist Security.

In such inauspicious conditions, created by extractive political institutions, the economic rules of the game could not be effective and compatible with development, but on the contrary. The common property or the property of the people, as the Communists named it, centralized planning, economic productivity plans projected on a 5-year-horizon, the cult of personality, the fear spread by the State Security, all shaped a society convicted to poverty and an uncertain future.

This was the general background which marked the beginning of the transition process for Romania – a country dominated by high political uncertainty, poor standards of living, industry and agriculture which, due to excessive exploitation, failed to provide prosperity and, most importantly, the survival of the Communist Party after the fall of the regime in 1989. The truth is that it only faded away and was partially covered by a new political class animated by the same old communist mentality and wearing the attractive mask of democratic values. There were no legal underpinnings to support the institution of private property during Communism, there was no resistance against the regime, and the good rules promoted by King Charles I were too faded away to restore the balance in favour of the people. They eventually got tired of dictatorship and coercion and lost their good landmarks. Consequently, the premises of creating a favourable step-by-step transition in order to leave communism behind and build a totally new society remained almost non-existent in 1989. These were the circumstances which marked the rather devious path of the step-by-step transition to the market economy in Romania.

4. The privatization process in the Czech Republic and Romania

After the USSR implosion, the creation of a new institutional background to support the existence and the proper functioning of freedom, democracy and free market mechanisms turned out to be the biggest challenge. The "Velvet revolution" marked the starting point of such transformation. From that moment on, Czechoslovakia and beginning in 1993, the Czech Republic has fully benefitted from the enormous advantage of both: a massive civic force willing to restore democracy and freedom and stable political institutions which paved the road to development and inclusive economic institutions through efficient market-oriented reforms (Randhawa, 2002; Giannaros, 2008; Lowalika, 1992). Additional to this favourable pre-transition institutional basis, which combined the limited but already existing inclusive economic institutions and civic resistance against planned economy, the Czech Republic had another advantage – the relatively sound public finances and limited external debt. These circumstances made it easier for the government to implement market reforms (Frait, 2000, p. 117).

The enactment of the *lustration law* in 1991, which directly targeted the former communist political elite and forbade it to participate in the democratic exercise was the first condition to secure the road towards democracy. The aim of this law was to defend national security and public safety and mainly to have the trust as well as the rights and regulations shaped for building capitalism and democracy (David, 2003, p. 392) protected by law. Art. 1 of the 1992 Constitution clearly stipulated that "*The Czech Republic is a sovereign, unitary and democratic rule of law based on respect for the rights and freedoms of man and citizens*" (Constitution of Czech Republic, 1992)[3]. In Romania, such a legal project of lustration was never conceived, thus allowing the former communist members to join the new political class which shaped the transition path towards the third way capitalism. In the 1991 Romanian Constitution, according to Article 134, the

[3] Czech National Council (1992), *Constitution of the Czech Republic* (retrieved from https://www.ilo.org/dyn/travail/docs/1967/Constitution%20of%20the%20Czech%20Republic.pdf).

Romanian economy was defined as a market economy while in article 135 (1) and (6), it was clearly specified that the State defends property (public and private one), with the guarantee that private property is inviolable (Constitution of Romania, 1991)[4].

Concerning transition, the hardcore of the shock therapy embraced by the Czech Republic was the privatization process. It definitely targeted the transfer of control from the state to the hands of private investors. Consequently, the Czech government established a mixed set of privatization methods consisting of: *restitution, small scale privatization, large scale privatization, voucher privatization and investment privatization funds.* In Romania, the privatization scheme started with the Law on the Reorganization of State Enterprises (Law 15/1990)[5] which divided the former state companies into two separate groups – those which are strategically important for the national economy that will remain under the tutelage of the state, the so-called autonomous administrations. These were the large enterprises and covered almost half of Romanian economy. The latter group was represented by commercial enterprises, which became the target of the privatization process (Law 15/1990). Later, in 1991, another Law (58) regulated the privatization process of Commercial enterprises. Here, two institutions responsible for the ownership duties of the State, namely the State Ownership Fund (SOF) and a number of five Private Ownership Funds (POFs), were stipulated. SOF had a 70% share of every commercial company, while the rest of 30% was redistributed to the POFs. Those POFs consisted in private organizations but, given their 30% in total company assets, their contribution to the privatization process remained limited. Practically, the entire privatization scheme was a failure. Afterwards, Romania applied Management- Employee Buy-Out (MEBO) but its direct effects were not prominent. Obviously, in a country deeply affected by severe central planning, the employees of commercial companies did not have either the necessary capital, information about what this process implied, or even the experience to restructure the old enterprises and to raise their productivity, so this was another scheme doomed to end up as a total fiasco (Earle and Telegdy, 1998, p. 316).

The Restitution model was only applied in the Czech Republic and assumed that small enterprises were either offered back to their owners from the pre-socialist experience or sold to domestic or foreign investors, while medium size and large companies were sold. At the end of 1995, according to the data provided by World Development Report, 32% of the medium and large size enterprises were sold to foreign owners, 22% were privatized by equal access vouchers, 9% by restitution to their previous owners and only 10% of the firms remained in the hands of the state

[4] Chamber of Deputies of Romania (1991), *Constitution of Romania* (retrieved from http://www.cdep.ro/pls/dic/site2015.page?id=339).

[5] The Parliament of Romania, *Law 15 from 7 August 1990* (retrieved from http://legislatie.just.ro/Public/DetaliiDocument/755).

(World Bank, 1996, p. 53). The Czech Republic started transition with a 4% share of private sector on GDP in 1990 and reached 44.2% in 1993 (Kotrba and Svejnar, 1994, p. 147). At that time, Romania registered little progress in this respect, and there is no precise statistical data related to this. Moreover, as the World Bank report has pointed out, in Romania, most lands could not be returned to their previous owners given the non-agricultural use under collectivization and small firms did not exist to be returned to their initial proprietors. In fact, the data on foreign direct investments (FDI) inflows as percentage of GDP from 1994 provide clear evidence of the little progress made by Romania in terms of private property establishment and protection. While the Czech Republic had a proportion of almost 4% of attracted FDI in GDP in 1994, Romania had 1.1% (World Bank, 1996, p. 64). Restitution was not included in the original plan of privatization materialised by the Czech government, but it benefitted from the strongest attention for those small enterprises or lands which formerly belonged to the local citizens. In Romania, this never happened!

Concerning *small scale privatization*, this practice was also only applied in the Czech Republic. It is important to point out that it played a significant role, property being transferred to those individuals who enjoyed the citizen and permanent resident status. It was implemented through public auctions and the law stated that an enterprise could be sold to a foreign investor only if it failed to be sold in a public auction (Kotrba and Svejnar, 1994, p. 156). As a result, at the end of 1992, over 22 238 units were privatized under this scheme (Kotrba and Svejnar, 1994, p. 159).

Large scale privatization was also a component of the process, but was shaped in a rather flexible way, by admitting the practice of direct sale, auctions, the use of vouchers, the scheme of a joint stock enterprise. Obviously, transaction costs were highly dependent on the approaches used as well as on the credibility and status of the potential buyer (Kotrba and Svejnar, 1994, p. 164). By the end of 1993, more than 4 893 companies were privatized under this multifaceted scheme of large-scale privatization, respectively: 431 firms by public auctions, 424 by public tender, 1 359 by direct sale, 1 327 by the model of joint stock firms and 1 352 by unpaid transfer (Kotrba and Svejnar, 1994, p. 166). The correspondent for Romania in the case of this practice could be identified in the "mass Privatization", as described above, that followed the MEBO practice, though with poor results.

Concerning *voucher privatization,* this was a component of the large privatization process of the Czech Republic. Not all enterprises could sell vouchers, but only the selected ones from the Joint stock category, and only to a limited extent. Based on a voucher book, the strategy was effective and every Czech citizen, a permanent resident over 18 years old could pay to register for such a book for a fee of almost 35$ a month. After registration, they could bid for the vouchers of any company on the voucher scheme (Kotrba and Svejnar, 1994, p. 169). The bidding process was organized by the authorities, namely the Ministry of Finance and interested individuals were informed with respect to the price and number of vouchers available on the market. Practically, this privatization model determined competition among citizens who wanted to buy vouchers on the stock exchange and the money obtained was invested to increase productivity. In Romania, MEBO provides a similar perspective but, in this case, only employees could buy coupons and only from the enterprises they were employed by. But there was no information provided in this respect, so many people did not know what to do with these coupons.

Investment Privatization Funds (IPFs) illustrated a complementary way of operating the transfer of state property to the hands of private investment funds, or commercial banks by buying vouchers, and was also a practice specific to the Czech model of privatization. The first voucher allocation stage was a victory in terms of achievements, meaning over 5 980 vouchers obtained by the Czech citizens and 4 290 vouchers bought by privatization funds (Kotrba and Svejnar, 1994, p. 175). In Romania, nothing remarkable happened in this respect.

When addressing the evolution of private property in the two countries, with a particular focus on the reforms applied to materialize the privatization of the old state enterprises, we can identify the same separate roads, paved with dissimilar performances. While the Czech Republic was able to design a wide variety of flexible but efficient procedures in order to boost and support the transfer of state ownership to the hands of private companies or individuals, Romania lacked this strategic vision. The uninspired measures proposed for privatization exerted but the same hunger to have power maintained at the hands of politicians. The state had to be in control of everything in the so-called private sector. The minds of those who were the "spoiled children" of Communism were not prepared and did not want to enhance a real transformation of property in Romania. Those who were in charge with the failed privatization represented the extractive political institutions that doomed the future of the country to underdevelopment. What they did with the privatization process highlights a clear example of rather extractive economic institutions – because private property, even though stated in the Constitution, had lacked consistency in the real economic life.

Such dissimilar realities deeply confirm the theory of Acemoglu and Robinson (2012). The Czech Republic is the positive example, where inclusive political institutions, with a long tradition, going as back as socialist times, managed to further perpetuate inclusive economic institutions, namely a performant reform applied to private property. This economic institution was not only better designed than in Romania, but it was deeply protected by the law and market mechanisms, with a positive impact on the long-run development. Currently, we find the Czech Republic among the group of developed economies. Conversely, Romania provides the unsuccessful example in which the extractive political institutions preserved from the socialist experience acted as a sort of "invisible hand", by further creating rather extractive economic institutions. During the first decade of transition, private property failed as an economic institution.

5. Data and methodology

For the purpose of emphasizing the fundamental contribution of the "killer app" of private property to the economic development of the Czech Republic and Romania, we have employed a mixed methodological approach based on *Vector Error Correction Model* following the Johansen approach, *a Variance decomposition and a Granger causality analysis.*

The data used in order to materialize these empirical investigations are presented in Table 1 below. As independent variables we have first opted for the *legal system and property rights* provided by Fraser Institute. This variable precisely highlights the inclusiveness of the private property institution and therefore, the core of our theoretical endeavour. Private property rights are the most important institution of the market economy, but its consistency is defended and guaranteed by the existence of the rule of law and this is precisely what our variable manages to outline. The second independent variable is *political stability and absence of violence* provided by the World Bank – Worldwide Governance Indicators, which captures the risk of political institutions to become unstable and violence-oriented which, in the terms of the New Institutional Economics mean extractive institutions and to destabilize, thus, by violent means, the path towards civilization and development. The third independent variable is *foreign direct investment (FDI) as net inflows (current US $)*, a variable provided by the World Bank – World Development Indicators database. The reason for choosing this indicator is that the FDI net inflows point out the confidence that foreign investors have in a certain economy. Indirectly, large FDI inflows highlight the level of soundness and inclusiveness of the political and economic institutions of a country (Fabry and Zeghni, 2010).

As dependent variable, we have selected the *GDP per capita* for the VEC Model because it captures the economic performance and the level of development of nations worldwide. Our series are available for the period 1995-2018. The definitions of variables and data sources are presented in Table 1.

Table 1. Definition of variables and data sources

Variable	Definition (from data source)	Data source	Time period
Legal system and property rights	Area 2 (Legal system and property rights) – from the Index of Economic Freedom - focuses on the protection of persons and their rightfully acquired property. Security of property rights, protected by the rule of law, provides the foundation for both economic freedom and efficient operation of markets. Freedom to exchange, for example, is fatally	Fraser Institute	1995-2018

	weakened if individuals do not have secure rights to property, including the fruits of their labour. When individuals and businesses lack confidence that contracts will be enforced and the fruits of their productive efforts protected, their incentive to engage in productive activity is eroded.		
Political stability and absence of violence	Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.	World Bank Governance Indicators	1995-2018, missing data for 1995, 1997, 1999 and 2001
Foreign direct investment (FDI) as net inflows (current US $)	Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise which is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. Data are in current U.S. dollars.	World Bank, World Development Indicators	1995-2018
GDP per capita	GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars.	World Bank World Development Indicators	1995 - 2018

Source: Authors' representation

In order to materialize our empirical endeavour, we have employed several analyses. First, a Johansen Cointegration test was applied to check if there is any long-term relationship (any cointegrating equations) between our dependent variable and the selected independent variables. If Johansen cointegration test provides a positive feedback, then a Vector Error Correction Model (VECM) will be applied.

For the VECM analysis, our variables must meet two conditions: (1) to be integrated in the same order and (2) must not be stationary in level, because VECM will automatically transform our data into stationary series after computing the first difference (Asteriou and Hall, 2011). Third, as to determine the extent to which the variation of GDP per capita occurs, as our dependent variable relies on its own variance, we have used the *Variance decomposition* analysis. This will tell us if an impulse applied to our independent variable will be able to determine a fluctuation of GDP per capita. We are interested in pointing out if an impulse or innovation of the quality of property rights will generate a variation of the GDP per capita on a ten-year horizon or not. Fourth, we have chosen Legal System and Property rights and GDP per capita and we have employed a *Granger causality analysis* to determine whether there is a unidirectional or bidirectional relationship between these two variables on the short run. Practically, for each country, we will conduct a Johansen Cointegration, VECM, Variance decomposition and Granger causality to extract some relevant information concerning the impact of private property on the economic development. Since the selected variables have different measurement units, a natural logarithm transformation was applied.

Table 2. Descriptive statistics of the selected variables for the Czech Republic and Romania

	GDP_CAP_CZ	LSPR_CZ	PS_CZ	FDI_CZ	GDP_CAP_RO	LSPR_RO	PS_RO	FDI_RO
Mean	16152.26	6.343889	0.942778	7634.150	6914.702	5.829500	0.194500	4944.876
Median	18520.89	6.350000	0.990000	7723.120	8433.635	5.810000	0.185000	4093.464
Maximum	22804.58	6.540000	1.110000	13815.66	12398.98	6.310000	0.600000	13667.82
Minimum	6029.040	6.190000	0.330000	1699.915	1633.010	5.360000	-0.380000	263.0000
Std. Dev.	5488.120	0.102104	0.184097	3590.295	3551.340	0.285997	0.207529	3542.093
Skewness	-0.715379	0.190852	-2.350580	0.060058	-0.355189	0.201426	-0.492738	0.904270
Kurtosis	2.065634	2.003078	8.137968	2.198821	1.656249	1.985513	4.554902	3.185675
Sum	290740.7	114.1900	16.97000	137414.7	138294.0	116.5900	3.890000	98897.52
Obs.	18	18	18	18	20	20	20	20

Source: Authors' representation in EViews

As we can observe from Table 2, a simple comparative analysis between the two economies places The Czech Republic on a much better position than Romania. The GDP per capita for the former country is more than double compared to the latter. Also, for the case of the Czech Republic, we can see that the difference between the Mean value and the Standard deviation is much higher than for Romania. This highlights the fact that, during 1995-2018, the distribution of GDP per capita had a lower level of homogeneity for the Czech Republic than for Romania. These larger variations of the economic output for the selected timespan can be interpreted in the context of the rapid economic development of the Czech Republic compared to the rather slower economic dynamics followed by Romania.

Let us not forget that, in the current world ranking, the Czech Republic is among the *developed economies* while Romania only managed to join the group of emerging economies.

Concerning the *legal system and property rights,* the average for the Czech Republic was higher, stressing that this country managed to create more inclusive economic institutions (private property) than Romania. The data confirm the fact that, from the very beginning of the transition process, the Czech Republic has been relatively stable in terms of private ownership protection. The variations between the minimum, the median and maximum levels are extremely low. For Romania, we can detect more pronounced fluctuations in establishing and enacting the economic institution of private property. The debut of transition was a rather shy one from this perspective. In the literature, it is stated that good political institutions determine the appearance of good economic ones. So, from the point of view of *political stability and absence of violations,* the same trend can be detected. Generally, it takes values from -2.5 up to 2.5, where a lower value indicates political instability. While the Czech Republic shows better performances and a low level of homogeneity of the series, meaning that, in all these years, significant progress has been made in order to strengthen the quality of political institutions, to reduce uncertainty and promote trust, Romania reveals a long period of higher instability, uncertainty and risks, all with a direct negative impact on the long run economic prospects. The value of FDI net inflows certifies once more that the increased effectiveness of political and economic institutions has raised the interest of foreign investors for the economy of the Czech Republic. Romania requires a general improvement in terms of institutional efficiency as to be able to attract higher FDI flows in the future.

6. Results and discussions

In order to apply the Johansen Cointegration Test, by using the Correlogram diagnostics and the Augmented Dickey Fuller (ADF) test, we have checked all selected variables. The results pointed out that this condition was satisfied for both: the Czech Republic and Romania. To establish how many lags we must take into consideration for the Johansen Test and VECM, we have applied an unrestricted VAR. The Lag Length Criteria, the Akaike and Schwartz criteria, as well as Schwarz criteria have revealed that there should be lag=1 for both: Romania and the Czech Republic. The outputs of the Johansen Cointegration tests for both nations are presented below.

Table 3. Johansen Cointegration results

Czech Republic

Unrestricted Cointegration Rank Test (Trace)			
No. of CE(s)	**Trace Statistic**	**0.05 Critical Value**	**Prob.**
None*	55.13693	47.85613	0.0089
At most 1	29.59730	29.79707	0.0527
At most 2	13.09583	15.49471	0.1113
At most 3	1.265331	3.841466	0.2606
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)			
No. of CE(s)	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob*.**
None*	25.53963	27.58434	0.0493
At most 1	16.50148	21.13162	0.1969
At most 2	11.83050	14.26460	0.1172
At most 3	1.265331	3.841466	0.2606

* denotes rejection of the hypothesis at the 0.05 level

Romania

Unrestricted Cointegration Rank Test (Trace)			
No. of CE(s)	**Trace Statistic**	**0.05 Critical Value**	**Prob.**
None*	140.2952	63.87610	0.0000
At most 1*	54.64669	42.91525	0.0023
At most 2*	29.65337	25.87211	0.0161
At most 3	9.320220	12.51798	0.1615
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)			
No. of CE(s)	**Max-Eigen Statistic**	**0.05 Critical Value**	**Prob*.**
None*	85.64854	32.11832	0.0000
At most 1*	24.99332	25.82321	0.0440
At most 2*	20.33315	19.38704	0.0364
At most 3	9.320220	12.51798	0.1615

* denotes rejection of the hypothesis at the 0.05 level

Source: Authors' representation in EViews

The results of the Johansen Cointegration Test, presented in Table 3, have fully validated the long-term nexus between the economic development reflected in GDP per capita and the degree of institutional inclusiveness, especially private property, FDI and political stability. For the case of the Czech Republic, the analysis pointed out one cointegrating equation while, for Romania, there are three cointegrating equations. In such circumstances, we can proceed to the next step of applying VECM.

For the case of the Czech Republic, the equation of the VECM is

D(LGDP_CAP_CZ) = C(1)(LGDP_CAP_CZ(-1) - 4.43909128261*LLSPR_CZ(-1) - 0.738985988829*LPS_CZ(-1) - 0.523581131531*LFDI_CZ(-1) + 3.08768636303) + C(2)*D(LGDP_CAP_CZ(-1)) + C(3)*D(LLSPR_CZ(-1)) + C(4)*D(LPS_CZ(-1)) + C(5)*D(LFDI_CZ(-1)) + C(6)*

From Table 4 below, we can see that R-squared is 0.3217, meaning that our independent variables, legal system and property rights, political stability and the absence of violence, as well as the FDI net inflows explain a proportion of 32.17% of the GDP of the Czech people. The coefficient C1 has a negative sign and it is statistically significant, an aspect which highlights the influence on the long-term perspective between our above-mentioned variables. This is very important because it points out the enormous importance of inclusive institutions in the positive economic evolution of the country. Also, if we take a look at the P value associated to the model, it is less than 10%, which shows us that the model is well fitted.

Table 4. Estimation of the VECM equation for the Czech Republic

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.032989	0.116335	-0.283574	0.0320
C(2)	0.392889	0.283528	1.385715	0.0933
C(3)	-2.963643	0.584406	-1.146741	0.0758
C(4)	0.066958	0.168284	0.397889	0.0983
C(5)	0.000853	0.042316	0.020159	0.0843
C(6)	0.042170	0.033130	1.272855	0.0093

R-squared	0.321749	Mean dependent var	0.059804
Adjusted R-squared	0.183453	S.D. dependent var	0.113365
S.E. of regression	0.112600	Akaike info criterion	-1.259384
Sum squared resid	0.139467	Schwarz criterion	-0.965308
Log likelihood	16.70476	Hannan-Quinn criter.	-1.230152
F-statistic	1.043637	Durbin-Watson stat	1.933402
Prob(F-statistic)	0.069895		

Source: Authors' calculations in EViews

The equation of the VECM for Romania is presented below:

D(GDP_CAP_RO) = C(1)(GDP_CAP_RO(-1) - 121.547258612*LFDI_RO(-1) - 402.828067064*@TREND(95) - 428.225695175) + C(2)*(LLSPR_RO(-1) - 0.0524805681421*LFDI_RO(-1) - 0.00941097868993*@TREND(95) - 1.17192633418) + C(3)*(LPS_RO(-1) - 0.672194837112*LFDI_RO(-1) + 0.0445520780277*@TREND(95) + 6.92369590887) + C(4)*D(GDP_CAP_RO(-1)) + C(5)*D(LLSPR_RO(-1)) + C(6)*D(LPS_RO(-1)) + C(7)*D(LFDI_RO(-1)) + C(8)*

The results emphasized in Table 5 above highlight a stronger influence of 86.99% coming from legal system and property rights, political stability and absence of violence and FDI net inflows on the level of GDP per capita. The situation can be explained in the light of Romania's incremental need to further develop more inclusive institutions. In a certain way, this result validates the theory of Acemoglu and Robinson (2012) according to whom a higher affinity towards rather extractive regulations (political and economic ones) will limit economic development. Our results are consistent with the ones of Castiglione *et al.* (2015) and Oto-Peralías and Romero-Ávila (2017) which confirm the nexus between economic performance and legal institutions. As in the case of the Czech Republic, the coefficient C1 is negative and statistically significant at a level of 5%, stressing the overwhelming impact of the institutional quality of the country's GDP per capita. Also, F statistic is lower than 5%, meaning that the model applied to Romania is, also, very well fitted.

Table 5. Estimation of the VECM equation for Romania

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-1.103831	0.184143	-5.994409	0.0005
C(2)	-78245.43	1.702808	-4.595083	0.0025
C(3)	15.45777	473.2113	3.266567	0.0137
C(4)	0.197037	0.227298	0.866869	0.4147
C(5)	0.139402	13063.72	3.168624	0.0157
C(6)	-0.004758	358.3192	-2.513055	0.0402
C(7)	-1.012961	564.6282	-3.488952	0.0101
C(8)	18.66633	208.0103	0.897375	0.3993

R-squared	0.869965	Mean dependent var	647.9713
Adjusted R-squared	0.739930	S.D. dependent var	1187.713
S.E. of regression	605.6986	Akaike info criterion	15.95517
Sum squared resid	2568095.	Schwarz criterion	16.33280
Log likelihood	111.6638	Hannan-Quinn criter.	15.95115
F-statistic	6.690245	Durbin-Watson stat	2.065022
Prob(F-statistic)	0.011326		

Source: Authors' calculations in EViews

Both models were investigated to see if they meet the basic requirements for residual diagnostics, by checking for serial Correlation (LM test), Histogram – Normality Test, as well as for Heteroskedasticity, by applying Breusch-Pagan-Godfrey Test. The results have underlined that no problem was identified in this respect. Next, we will employ a Variance decomposition to investigate, for a ten year- horizon, the influence of our independent variables which reflect the inclusiveness and effectiveness of the institutional area, on the GDP per capita.

Table 6. Variance decomposition of GDP_capita for The Czech Republic

Period	S.E.	LGDP_CAP_CZ	LLSPR_CZ	LPS_CZ	LFDI_CZ
1	0.109786	100.0000	0.000000	0.000000	0.000000
2	0.187966	93.56088	4.611888	0.000116	1.827112
3	0.252496	91.06924	6.552223	0.042428	2.336108
4	0.307761	89.48222	7.738879	0.063999	2.714897
5	0.354129	88.75700	8.352399	0.070901	2.819703
6	0.395185	88.23608	8.763989	0.076929	2.923005
7	0.432479	87.90518	9.027184	0.081753	2.985882
8	0.466762	87.66717	9.219202	0.084470	3.029153
9	0.498665	87.48779	9.363472	0.086659	3.062076
10	0.528670	87.34700	9.475866	0.088463	3.088666

Source: Authors' calculations in EViews

As the output from Table 6 illustrates, on a short period of time, of four or five years, the GDP per capita evolution highly depends on its own innovation. When the perspective is changed and the time span is increased up to ten years, an interesting feedback for the Czech Republic is provided. In a decade, an impulse applied to the legal system and political rights will be able to determine a change of the GDP per capita of almost 9.48%. This underlines that, in terms of private property, there is a permanent need for innovation, given the continuous economic evolution. Our analysis has stated, once more, that the Czech Republic relies on very solid and stable political institutions. In ten years, a change in this area will contribute with a 0.9% increase to the GDP per capita while an increase of the FDI net inflows will determine a growth of GDP per capita of almost 3.09%. The results are also consistent with the ones of Huberts (2018), according to whom integrity is compatible with good governance and thus, with progress. On the other hand, our results are on the same wavelength with the ones of Bayar and Sasmaz (2019), or Ganic and Hrnjic (2019), who confirm the positive contribution of FDI on prosperity.

Table 7. Variance decomposition of GDP_capita for Romania

Period	S.E.	GDP_CAP_RO	LLSPR_RO	LPS_RO	LFDI_RO
1	605.6986	100.0000	0.000000	0.000000	0.000000
2	773.2191	62.23008	5.984715	26.85481	4.930395
3	990.7066	38.50315	31.02826	26.76981	3.698780
4	1158.362	29.55801	34.56641	31.92109	3.954486
5	1189.357	28.50297	34.49635	33.21442	3.786263
6	1210.507	28.27606	35.94996	31.11319	3.660797
7	1231.109	28.12004	37.16326	31.15970	3.556998
8	1251.548	27.36209	37.83258	31.19089	3.614439
9	1275.868	26.50240	39.48871	30.34289	3.666000
10	1285.850	26.17507	38.97147	31.18380	3.669665

Source: Authors' calculations in EViews

As a country that has experienced a different transition path, the situation in Romania is totally different. If we analyse the context on a short time span, i.e. of 3-4 years, the variation of GDP per capita by its own innovation is sharply decreasing from 100% to 29.55% in 4 years, reaching 26.17% in ten years. The interesting fact is that specifically those variables which reflected the degree of inclusiveness of the private property and that of political institutions become more and more important for development. Consequently, an improvement of the legal system and private property is able to generate an increase of the GDP per capita by almost 39% in ten years. Also, an increase of political stability and absence of violence will determine an expansion of GDP per capita by 31.18% in a decade projection. The limited impact on the FDI sector remains rather the same, with a poor influence of 3% in 10 years, because this sector is also highly dependent on what is happening at the institutional level.

Practically, our results from Table 7 confirm the ones previously exposed in the literature. They fully validate our research objectives by proving once more, with clear data, that Acemoglu and Robinson's thesis is valid and that past experiences really act as a sort of "invisible hand" that guide the pace of social and institutional transformation, with a direct impact on prosperity. The last step of our empirical endeavour consists in a Granger causality analysis in which we check whether there is a short-term influence of the private property, reflected by the legal system and property rights, and an economic outcome pointed out by the GDP per capita. The results are presented in the tables below.

Table 8. Granger causality analysis – the Czech Republic

Null Hypothesis		F-Statistic
Lag=1	LLSPR_CZ does not Granger Cause LGDP_CAP_CZ	3.28497 (0.0850)**
	LGDP_CAP_CZ does not Granger Cause LLSPR_CZ	2.31038 (0.1442)
Lag=2	LLSPR_CZ does not Granger Cause LGDP_CAP_CZ	1.47991 (0.0656)**
	LGDP_CAP_CZ does not Granger Cause LLSPR_CZ	0.90147 (0.4245)
Lag=3	LLSPR_CZ does not Granger Cause LGDP_CAP_CZ	2.67486 (0.0875)**
	LGDP_CAP_CZ does not Granger Cause LLSPR_CZ	1.55811 (0.2437)

Note: ** denotes significant at 10%, meaning that we can reject the null hypothesis.
Source: Authors' calculations in EViews

According to Table 8 the obtained results, for the case of the Czech Republic, the analysis only confirmed a *unidirectional causality* coming from the GDP per capita to the legal system and property rights, for lag equal to 1, 2 and 3. This means that the economic outcomes of the country from one, two or three years ago can influence the quality of private property. The reverse influence was not validated. Such an effect partially validates the institutionalist theory, according to which there is a biunique relationship between the economic development and the quality of institutions but, for the case of a successful country, which managed to design effective reforms to materialize the transition to the market economy, which placed the privatization process and the inclusive institution of private property at the core of its reforms, the Granger analysis result becomes understandable. The Czech Republic benefits from a performant institutional basis when dealing with “the killer app” of private property, meaning that there is no necessity for further improvement, but for subsequent adjustments to the market needs.

Table 9. Granger causality analysis – Romania

Null Hypothesis		F-Statistic
Lag=1	LLSPR_RO does not Granger Cause LGDP_CAP_RO	4.50943 (0.0464)*
	LGDP_CAP_RO does not Granger Cause LLSPR_RO	5.75848 (0.0263)*
Lag=2	LLSPR_RO does not Granger Cause LGDP_CAP_RO	0.89985 (0.0521)**
	LGDP_CAP_RO does not Granger Cause LLSPR_RO	2.81997 (0.0876)**
Lag=3	LLSPR_RO does not Granger Cause LGDP_CAP_RO	0.55658 (0.6522)
	LGDP_CAP_RO does not Granger Cause LLSPR_RO	1.50926 (0.2555)

Note: * denotes significant at 5%, ** denotes significant at 10%, meaning that we can reject the null hypothesis.
Source: Authors’ calculations in EViews

The same analysis but applied to the case of Romania as revealed in Table 9 provide a different profile for our variables. On the short run, for lag equal to 1 and 2, we can see a bidirectional relationship between the legal system and property rights and economic development. In other words, the effectiveness of the economic institution of private property from one or two years ago can impact the GDP per capita level in Romania, as well as what is happening at the economic output level, which is also likely to influence the condition of the institutional component. For lag 3, causality disappears. Considering these results, which fully confirm the vision of the New Institutional Economics (North, 1990; Fergusson, 2012; Rodrik, 2000) and, also, the approach of Acemoglu and Robinson (2012; 2016), we can draw some important conclusions. First, the less qualitative institutions, mainly property rights, from Romania acted as an obstacle in the way of development. Second, the limited progress in the economic area will further provide subsequent limitation for the evolution of institutions. Practically, Romania is placed in a sort of “vicious circle” which only allows one exit road – the strengthening of political institutions to shape more inclusive economic ones, which will further contribute to progress.

Conclusions

In this paper, our aim has been to investigate the major contribution of the private property institution to the economic development of the Czech Republic and Romania, two countries which benefitted from different institutional underpinnings even before the communist experience, followed by different institutional matrix shaped under the communist rule, and obviously, separate transition profiles and economic outcomes after the collapse of communism. Following the approach provided by Acemoglu and Robinson (2012), the nexus between institutions and development should not be limited to the perspective of their formal and informal character and to how their interaction can serve as an obstacle or, on the contrary, as a support for economic dynamics. The investigation must go deeper, reaching their political origins. The two authors have highlighted that we must distinguish political institutions from the economic ones and that, furthermore, special attention should be paid to their extractive or inclusive character in order to better understand their impact on the economic evolution.

We have applied this perspective in our research endeavour and the analysis has revealed major discrepancies in terms of the political institutions which have guided the Czech Republic and Romania since the early interwar period. While the former country has a more than one century old solid tradition in promoting democracy, civilization and freedom, the latter country is far from enjoying the benefits of a similar support. Unfortunately, after the death of King Ferdinand I, Romania entered a climate which was permanently dominated by major political instability (royal dictatorship, legionary experience, the harsh Communist rule, all these experiences carrying away the Romanian society from the sound values and reforms started by Charles I). Such enormous differences with respect to political institutions, representative for each country (inclusive political institutions in the case of the Czech Republic and extractive ones in Romania's case) had a direct impact on the quality of the economic institutions that they created. Private property in the Czech Republic was never eliminated but rather defended, even during the communist regime. The country did promote a planned economy but with a "human face", where small private enterprises remained alive in the ocean of the centrally planned economic system, where the collectivization process was smooth and allowed peasants to have up to 50 hectares of land in private ownership, people were never treated as debtors to the state, and the burden of communism was easier to carry. At the other end, we find the case of Romania, which experienced one of the most brutal models of centralized planned economic system. The private property did not exist under Communism, collectivization was carried out by force and coercion, and peasants were turned into slaves for the State even though, apparently, they received land after the forced expropriations by the Communist state (Kideckel, 2006; Kideckel, 2010). They were forced to declare anything they produced and to pay for using those lands by offering annual quotas. State Security transformed the entire society into a police state, where nobody had the courage to protest against it. Under such inappropriate auspices, it was rather unbelievable that Romania could start over and be able to launch real effective reforms to defend democracy and the free market institutions after 1990.

During transition times, the divergence between the Czech Republic and Romania has become even more pronounced. The native affinity towards democracy and freedom endowed the Czech Republic with inclusive political institutions from the very beginning of the "great transformations" period. Consequently, the Constitution was modified in accordance with the healthy principles of the western civilized societies, and laws were adopted as to restrict the former communist party members' access to the new political environment. The lustration law became the filter in this respect. By consolidating the integrity of its political institutions, the Czech Republic managed to successfully design effective market-oriented reforms, by paying special attention to the nodal economic institution – the private property. Not only that it was clearly protected by the Fundamental Law, but the entire privatization process was shaped on the coordinates of effectiveness, trust and transparency. Romania needs to be regarded from a different angle because here, a real "incremental transformation" of the old totalitarian political institutions did not happen (Pohoață, 2009). No lustration law was applied after 1989 to eliminate from the new political class, aimed and promoted as a defender of democracy and capitalism, those people who belonged to the "spoiled" category of communists that had nothing to do with freedom and prosperity, which presented itself as. Therefore, the history points out that, in the last several decades, Romania has been guided by rather extractive political institutions, which further perpetuated its interest in rather extractive economic institutions. Here, the private property was the perfect "victim". The 1991 Constitution stipulated that private property is defended by law, being inviolable, but nothing on its protection mechanisms. The laws designed to materialize the privatization process were imperfect, deficient and totally unclear, while the mass privatization through coupons was doomed to failure from the very beginning.

The obvious impact of such dissimilar property reforms is distinguishable even today. While the Czech Republic now belongs to the developed economies group, Romania only enters the emerging economies category, but with poor economic performances.

The results of our analyses clearly confirm the world of facts and its circumscribed theoretical background. Johansen Cointegration analysis has validated the long-term nexus between institutions and development for both countries, as well as the subsequent VEC models. The solid institutional underpinnings existing in the Czech Republic have further expanded the necessary support to activate the "killer" private property "app" and generate wealth. On the contrary, for Romania, the role of institutions is more important because they lack the effectiveness of the economic institution of private property which is fundamentally required as to rescue the country from delayed development. Variance decomposition results have pointed out, once more, that inclusive regulations really matter for economic development. The case of the Czech Republic is consistent with our previous results, highlighting the fact that the country is already a beneficiary of inclusive political institutions and inclusive economic ones. From this perspective, in terms of institutional transformation, Romania has a lot to learn from the example of the Czech Republic to catch-up with other developing economies in the EU, which have also shared the harmful and painful communist experience.

With respect to the Granger causality between economic development captured by GDP per capita and institutional inclusiveness highlighted by legal systems and property rights, results have demonstrated, once more, the effectiveness of property rights for the Czech Republic. Therefore, there is only a unidirectional causality coming from GDP per capita to the legal system and property rights. The reverse causality concerning the positive impact of inclusive institutions to economic development has already been fully exploited in the first years of transition. Now, things are working by inertia. With respect to Romania, the Bidirectional causality emphasizes that there is a lot to be done in both areas – to strengthen the institutions, mainly the one of private property in order to boost development, and also, if such prosperity is obtained, this will further contribute to a subsequent improvement of the institutional component. Practically, the results underline that, in Romania, there is a lot to be done in this respect. Summarizing, our empirical endeavour validates the theoretical background according to which the Czech society has benefitted from rather inclusive political institutions which activated the "killer app" of private property to obtain prosperity while, for Romania, the situation was different. The rather extractive nature of political institutions limited the properties of the "killer app" of private property to enhance growth and economic progress.

Nevertheless, this study has some limitations, i.e., the limited availability of the data set, the fact that it was only applied to a limited number of two countries. As far as our research prospects are concerned, we intend to extend the analysis to the entire group of former communist countries to extract even more relevant conclusions with respect to the role played by private property in the matrix of development.

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