

Normal Countries: The East 25 Years After Communism

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Twenty-five years after the Berlin Wall came down, a sense of missed possibilities hangs over the countries to its east. Amid the euphoria that greeted the sudden implosion of communism, hopes ran high. From Bratislava to Ulaan Bataar, democracy and prosperity seemed just around the corner.

Yet, a quarter century on, the mood has changed to disillusion. With a few exceptions, the postcommunist countries are seen as failures—their economies peopled by struggling pensioners and strutting oligarchs, their politics a realm of ballot stuffing and emerging dictators.

Wars—from Nagorno-Karabakh to Yugoslavia, Chechnya, and now Eastern Ukraine—have punctured the 40 years of cold peace on the European continent, leaving behind enclaves of smoldering violence. Russian President Vladimir Putin’s consolidation of autocracy and imperial aggression seem to many emblematic of a more general rot spreading from the East.

“The worst thing about Communism,” quipped the Polish former dissident and newspaper editor Adam Michnik, “is what comes after.”¹

An anniversary is a good moment to take stock. We examine here what has changed in the countries that shook off Soviet-style tyrannies a generation ago. Gathering statistics on economic performance, living standards, health, and politics, we ask whether the facts support the prevailing narrative.

An accurate assessment matters not just for Eastern Europe. The negative view of postcommunist reform influences broader debates on global politics. Along with dire interpretations of the 2008 world financial crisis, it has caused some to see authoritarian state capitalism as the wave of the future. China is cast as a vibrant alternative to the dysfunctions of liberal democracy.

We find that objective evidence contradicts the conventional view. Media images aside, life has improved dramatically across the former Eastern Bloc. Since the start of transition, the postcommunist countries have grown rapidly. Their citizens live richer, longer, and happier lives. In most regards they look today just like other countries at similar levels of economic development.² They have become normal countries—and in some ways “better than normal.”

¹ Quoted in Tony Judt, *Postwar: A History of Europe Since 1945*, New York: Penguin, 2006, p.665.

² We focus on the countries of Eastern Europe and the former Soviet Union plus Mongolia. All these underwent both political and economic transitions after 1989, replacing central planning with markets and communist dictatorship with something else. For simplicity, we refer to these as the “postcommunist countries.” We do not include China or Vietnam, which, while embracing capitalism, retained communist political regimes; the unreconstructed communist states of Cuba and North Korea; or the successors to Marxist regimes in less developed African countries.

While on average resembling their peers, the new states of the East have become far more diverse. Shedding the Moscow-imposed model, they have yielded to the pull of a new geographical gravity, converging not with the West but with their non-communist neighbors. Central Europe has become more European, Central Asia more Asian. We suspect that over the next 25 years these countries' paths will continue to reflect the competition between the same two elemental forces—the global dynamic of economic modernization and the tug of geographic specificity.

The starting point

To understand how the postcommunist countries have changed, one must recall how they began. Politically, all were authoritarian states governed by a ruling party. Each had propaganda writers to tell people what to think, secret police to detect dissidence, and prison camps to house regime critics and other criminals. All held “elections” in which the party won more than 95 percent of the vote. Except for Yugoslavia and—from 1960—Albania, each took orders from Moscow, which sent tanks to Hungary in 1956 and Czechoslovakia in 1968 to crush popular uprisings.

All had centrally controlled economies, in which the state owned most or all property. (Polish farms and some East German firms remained private.³) Planners rather than markets set prices. Heavy industry dominated, while services languished. In the Soviet Union, the military consumed up to 25 percent of GDP, compared with under six percent in the US.⁴ By 1986, Soviet factories had produced a stock of 45,000 nuclear warheads.⁵

Satisfying consumers was not a priority. To get an apartment in the 1980s, one had to wait 15-30 years in Poland and up to 20 years in Bulgaria.⁶ A quarter of those on the Soviet waiting list were already pensioners.⁷ Wouldbe car buyers in East Germany had to place their orders 15 years in advance.⁸ To save money, the Romanian dictator, Nicolae Ceausescu, put all citizens on a low calorie diet. He limited lighting to one 40 watt bulb per room, heating in public buildings to 57 degrees Fahrenheit, and television programming to two turgid hours a day.⁹

³ Anders Åslund, *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia*, 2nd Edition, New York: Cambridge University Press, 2012, p.15.

⁴ World Bank, *World Development Indicators*, July 2014, gives a figure of 23 percent of GDP for Russia's military expenditure in 1990, citing the Stockholm International Peace Research Institute, and 5.6 percent of GDP for the US in 1988, followed by lower figures in subsequent years; Åslund (2012, p.75) gives the estimate of one quarter of GDP for Soviet military spending.

⁵ R.S. Norris and H.M. Kristensen, “Global nuclear weapons inventories, 1945-2010,” *Bulletin of the Atomic Scientists*, 2010, 66(4): 77-83.

⁶ János Kornai, *The Socialist System: The Political Economy of Communism*, Princeton, NJ: Princeton University Press, 1992, p.234.

⁷ Bertrand Renaud, “The Housing System of the Former Soviet Union: Why Do the Soviets Need Housing Markets?” *Housing Policy Debate*, 1992, 3:877-99, at p.889.

⁸ Kornai (1992, p.236).

⁹ Gale Stokes, *The Walls Came Tumbling Down: The Collapse of Communism in Eastern Europe*, New York: Oxford University Press, 1993, p.158; Jill Massino, “From Black Caviar to Blackouts: Gender, Consumption, and

The communist countries had some achievements. With eight percent of world population, the USSR and Eastern Europe won 48 percent of the medals at the 1988 Seoul Olympics, and boasted 53 of the world's 100 top chess players.¹⁰ Education and literacy rates were high. In 1990, the Soviet Union had more doctors per capita than any other country.¹¹

By the end, communism had few defenders. To the Czech dissident-turned-president Vaclav Havel the system was a “monstrously huge, noisy and stinking machine.”¹² Mikhail Gorbachev, the last Soviet leader, called his country's economy “a voracious, resource-squandering” system.¹³

Creating markets

And then, unexpectedly, this system collapsed. New leaders elected across the East found economies in crisis. In 1989, inflation hit 640 percent in Poland and 2,700 percent in Yugoslavia.¹⁴ By 1991, when the Soviet Union disintegrated, its output was falling by 15 percent a year.¹⁵

To a greater or lesser extent, all postcommunist countries enacted reforms to free prices and trade, balance budgets, cut inflation, create competition, privatize state enterprises, establish market institutions, and construct social welfare programs. These measures reshaped the economies of the East.

A few statistics tell the story. From command economies, the postcommunist countries became on average *more* market friendly than the rest of the world. By 2011, they averaged 7.0 on the Fraser Institute's index of economic freedom, compared to a global average of 6.8. The most reformed, Estonia, ranked right between the US and Denmark.¹⁶

Lifestyle in Ceausescu's Romania,” in Paulina Bren and Mary Neuburger, eds., *Communism Unwrapped: Consumption in Cold War Eastern Europe*, New York: Oxford University Press, 2012, pp.226-47.

¹⁰ Calculated from www.olympic.org/seoul-1988-summer-olympics, population from World Bank, *World Development Indicators*, July 2014; chess ratings at <http://fidelists.blogspot.com/2008/03/january-1988-fide-rating-list.html>.

¹¹ US Congress, Joint Economic Committee, *The Former Soviet Union in Transition*, M.E. Sharpe, 1993, p.855, gives figure of 4.42 doctors per 1,000 of population for USSR in 1990; World Bank, *World Development Indicators*, July 1994, has Uruguay in second place with 3.7 per 1,000 population.

¹² Vaclav Havel, “The Art of the Impossible,” (first speech as President of Czechoslovakia), translated in *The Spectator*, 27 January, 1990, pp.11-13.

¹³ Quoted in Vladimir Mau and Irina Starodubrovskaya, *The Challenge of Revolution: Contemporary Russia in Historical Perspective*, New York: Oxford University Press, 2001, p.181.

¹⁴ Fabrizio Coricelli and Roberto Rezende Rocha, “Stabilization Programs in Eastern Europe: A Comparative Analysis of the Polish and Yugoslav Programs of 1990,” Washington, DC: World Bank, 1991, pp.6, 22.

¹⁵ Anders Åslund, “Russia's Economic Transformation,” in Michael Alexeev and Shlomo Weber, eds., *The Oxford Handbook of the Russian Economy*, New York: Oxford University Press, 2013, pp.86-101, at p.90.

¹⁶ James Gwartney, Robert Lawson, and Joshua Hall, “2013 Economic Freedom Dataset,” published in *Economic Freedom of the World: 2013 Annual Report*, Fraser Institute, 2013, www.freetheworld.com/datasets_efw.html.

In most places, state-owned industrial dinosaurs gave way to private firms, which now produce 70 percent of output in the median postcommunist country.¹⁷ Industry shrank, and services swelled from 36 to 58 percent of output on average.¹⁸ In no other region has international trade grown as fast, with exports plus imports soaring from 75 to 114 percent of GDP on average.¹⁹ From trading largely with each other, the postcommunist states have reoriented towards the markets of Europe. By 2012, exports to the EU made up 69 percent of the total in the median East European country and 47 percent in the median former Soviet republic.²⁰

In short, the postcommunist countries have metamorphosed from militarized, overindustrialized state-dominated systems to service-oriented market economies based on private ownership and integrated into global trading networks. No longer distorted to fit Marxist blueprints, their economic structures, trade, and regulatory environments today look very much like those of other countries at similar income levels.

The impact of the reforms has been profound. But evaluations differ. The reforms are often blamed for poor economic performance in Eastern Europe—either because they were fundamentally misconceived or because they were implemented in too radical a fashion. Thus, two questions arise. First, was economic performance poor? And, second, did reform strategies affect outcomes as influential critics contend?

Economic performance

To assess economic performance, a logical—although problematic—starting point is national income. It is problematic because under communism much of the output recorded by accountants was worth far less than they claimed.

First, factories over-reported production in order to get bonuses, inflating GDP by up to five percent. Second, many goods—although counted in the statistics—were of such shoddy quality that consumers refused to buy them. Third, investment spending paid in part for hoards of materials and huge construction sites that were never completed—items that created no value but still showed up in GDP. Fourth, the benefit of massive Soviet defense outlays was at least questionable.

Much of the reported slump early on—half of it, by one estimate—reflected cuts in these fictitious or largely worthless activities.²¹ How little of officially recorded national income ended up in citizens' pockets in many communist countries is suggested by the data on household consumption. Whereas in most countries, more than 60 percent of

¹⁷ Figure as of 2010, European Bank for Reconstruction and Development, *EBRD Structural Change Indicators*, accessed August 2014, at <http://www.ebrd.com/pages/research/economics/data/macro.shtml>.

¹⁸ World Bank, *World Development Indicators*, July 2014,

¹⁹ World Bank, *World Development Indicators*, July 2014,

²⁰ Figures assembled from various sources: see Table 1.

²¹ See discussion in Åslund (2012, pp.70-77).

GDP goes towards household final consumption, in Russia in 1990 less than one third did, and in Azerbaijan less than one quarter.²²

Still, even if we take official GDP figures at face value, the picture they reveal does not fit the pessimistic narrative. Despite the initial contraction, the median postcommunist country (Uzbekistan) grew slightly faster between 1990 and 2011 than the median country elsewhere in the world (Norway). While Norwegian GDP per capita increased by 45 percent, Uzbekistan's rose 47 percent. Bosnia and Herzegovina—where income grew by more than five times—was the third fastest in the world between these years. Albania, which grew 134 percent, came 16th and Poland, growing 119 percent, 20th. All three outpaced such growth engines as Singapore and Hong Kong.²³

The increase in consumption was equally dramatic. In the median postcommunist country, household final consumption per capita grew by 53 percent between 1990 and 2011, compared to a median increase of 45 percent elsewhere in the world. Consumption in Poland soared 146 percent, a rise that equaled Korea's, while Russia's consumption more than doubled, growing faster than in 82 percent of countries.

Of course, the path for states changing economic systems crossed a steep valley, whereas that for most others sloped gently uphill. Along the way, many postcommunist states had years of high inflation and unemployment. Still, by 2012 inflation had stabilized almost everywhere and the annual rate had dropped below the world median. Unemployment moved towards the global average after 2000 but still remained several percentage points higher.²⁴

²² Figures from the Penn World Tables (PWT), version 8.0, variable *cs_h_c* (share of household consumption at current PPPs).

²³ Figures from the Penn World Tables (PWT), version 8.0. For making comparisons between countries in a given year, we use estimates of GDP or consumption expenditure adjusted for purchasing power parity (PPP). To compare growth rates over time, the appropriate metric is GDP per capita in constant local currency units; changes in PPP-adjusted figures would include changes in countries' relative prices mixed in with changes in real output. We use the series *rgdpna* (real GDP at constant 2005 national prices, in million 2005 US dollars), and divide by the population data from the World Bank, *World Development Indicators* (WDI), July 2014, to generate real per capita GDP. We use Penn World Tables for income and consumption as its coverage for the postcommunist countries is more complete. For population data, however, we use WDI because the PWT series appears to be quite inaccurate. For instance, its figure for China's population in 2011, 1.324 billion, is about 16 million lower than the Chinese census of November 2010 reported (and population was growing, not falling; http://web.archive.org/web/20131108022004/http://www.stats.gov.cn/english/newsandcomeingevents/t20110428_402722244.htm). The WDI figure was much closer. For India, PWT 8.0 gives a population of 1.241 billion for 2011, 31 million more than in the 2011 Indian Census, which gives 1.210 billion (http://www.censusindia.gov.in/2011-prov-results/paper2-vol2/prov_results_paper2_indiavol2.html). Again, the WDI figure, 1.221 billion, is much closer. Such data choices affect the conclusions only slightly. The estimated change in GDP per capita between 1990 and 2011 is: 45 percent (postcommunist) and 46 percent (others) using the PWT 8.0 data on both GDP and population, and 47 percent (postcommunist) and 43 percent (others) using the WDI data on both. Using the WDI data, one can calculate the medians for growth in 1990-2012: 50 percent (postcommunist) and 45 percent (others). None of these support the view that the postcommunist countries have underperformed significantly relative to others.

²⁴ WDI data.

Standard of living and health

Given that so much output under late communism was fictitious or wasted, it helps to examine concrete indicators of living standards. Many of these suggest dramatic improvements.

Even as GDP fell in the early 1990s, more and more postcommunist citizens were buying cars. Between 1993 (the first year with comprehensive statistics) and 2011, the average among the postcommunist states went from one passenger car for every 10 people to one car for every four, almost as high as the rate in Israel. In Lithuania, Slovenia, and Poland, there are now more cars per person than in the UK.²⁵

From an information technology backwater, Eastern Europe surged ahead. The number of phone lines per capita grew twice as fast as elsewhere, edging past Latin America. By 2013, cellphone subscriptions per person, at 1.24, had overtaken the West. Internet users—averaging 54 percent of the population—are more widespread in the postcommunist world today than in any region except Western Europe and North America.²⁶

Communist citizens were rarely allowed to travel abroad. In 2012, residents of these countries made almost 170 million international tourist trips.²⁷ Back home, they occupied larger apartments. Living space rose—at least where statistics were available—by 99 percent in the Czech Republic, 85 percent in Armenia, 39 percent in Russia.²⁸ Thanks to mass housing privatization programs, rates of home ownership rocketed to some of the highest in the world. In all 20 postcommunist countries for which data were available, the share of housing owned by occupants exceeded 75 percent, and in 11 the rate was over 90 percent. That compares to 67 percent in the UK and 53 percent in Germany.²⁹

They also ate better. In seven of the nine former Soviet republics that publish statistics on this consumption of fruits and vegetables shot up. Ukrainians, for instance, ate 58 percent more vegetables in 2011 than in 1991, and 47 percent more fruit. Figures are harder to find for Eastern Europe, but some tell a similar story. In Hungary, vegetable consumption was up 35 percent by 2005, while fruit consumption had risen 15 percent. Poland, the Czech Republic, Slovakia, Hungary, and Slovenia experienced what medical researchers described as “probably the most rapid decrease in coronary heart disease ever observed,” because of substitution of vegetable oils for animal fats.³⁰

²⁵ Data from UN Economic Committee for Europe, Transport Division, (<http://w3.unece.org/pxweb/Dialog/Saveshow.asp?lang=1>), supplemented for recent years in some countries from WDI, plus figures for Tajikistan from Tajik state statistical agency. In place of 2011, final reading is for 2010 for Kyrgyzstan, 2009 for Canada, and 2008 for Turkmenistan.

²⁶ All from WDI.

²⁷ WDI data.

²⁸ Figures from various sources, see Table 2.

²⁹ Various sources, see Table 3.

³⁰ Witold Zatonski, Hannia Campos, and Walter Willett, “Rapid declines in coronary heart disease mortality in Eastern Europe are associated with increased consumption of oils rich in alpha-linolenic acid,” *European Journal of Epidemiology*, 2008(23): 3–10, at p.6.

More postcommunist citizens attended college. Access to tertiary education, already high, surged even more after 1989, increasing by 33 percentage points on average. By 2012, more secondary school graduates enrolled in higher education in the average postcommunist country than did so in Switzerland.³¹

Poverty often increased in the early transition, along with income inequality. But in recent years both the poverty rate and the Gini coefficient were significantly *lower* in the postcommunist countries than in others at comparable income levels.³² Although available statistics may miss part of the picture on inequality, the stereotype of oligarchs and beggars appears off target.

Communism left behind a blighted environment, and not just around Chernobyl. East Germany discharged more than seven times as much sulfur oxide per capita as West Germany, and more than three times as much as the US.³³ Things have improved. On average, the 11 postcommunist EU members have slashed emissions of nitrogen oxides, sulphur oxides and carbon monoxide each by more than 50 percent since 1990.³⁴ Twelve post-Soviet republics cut the release of harmful pollutants into the air from stationary sources by 66 percent on average between 1991 and 2012.³⁵ This happened even as postcommunist economies grew.

Newspapers overflowed with accounts of soaring mortality amid the stress of transition. On average, however, life expectancy *rose* from 69 years in 1990 to 73 years in 2012.³⁶ The speed of improvement was two thirds faster than in the communist 1980s. Russia's life expectancy today, at 70.5, is higher than it has ever been.³⁷ Infant mortality, already low, fell faster in percentage terms than in any other world region.³⁸

Eastern Europe is infamous for unhealthy binge drinking. However, average alcohol consumption *fell* between 1990 and 2010—from 7.9 to 7.6 liters of pure alcohol a year per resident aged over 14.³⁹ There were exceptions—drinking rose in Russia and the Baltic states—but even in Russia recorded consumption in 2010, 11.1 liters, was lower

³¹ WDI data.

³² Poverty data are percent poor under the national poverty rate from WDI; we use the average of available years between 2009 and 2013. Gini index is the estimated Gini index of inequality in equivalized household disposable income, from the SWIID database (Frederick Solt, "Standardizing the World Income Inequality Database," *Social Science Quarterly*, 2009, 90(2): 231-242. SWIID Version 4.0, September 2013.), using the average of available years between 2008 and 2012.

³³ Kornai (1992, p.179).

³⁴ European Environment Agency, *European Union Emission Inventory Report, 1990-2012*, 2014, (<http://www.eea.europa.eu/publications/Irtap-2014>). See Table 5.

³⁵ Various sources, see Table 6.

³⁶ Data from WDI.

³⁷ Rosstat, *Rossiisky Statisticheskyy Yezhegodnik* 2013.

³⁸ WDI data.

³⁹ Data for recorded alcohol consumption in liters of pure alcohol consumed per year per person aged 15 and over, 1990 to 2010 except for Moldova and Turkmenistan (1992-2010) and Macedonia, Tajikistan, and Uzbekistan (1992-2009). From World Health Organization, Global Information System on Alcohol and Health, <http://www.who.int/gho/alcohol/en/>, accessed August 2014.

than that in Germany, France, Ireland, or Austria. (Of course, more drinking might escape the statisticians in the Slavic region.) Smoking among adult males was high—42 percent on average—but about the same as in Asia.

In short, almost all statistics suggest a dramatic improvement in the quality of life since 1989 for citizens of the average postcommunist country—an improvement that rivals and often exceeds those in other parts of the world.

Politics and corruption

The promise of 1989 was not just to improve living standards. Many hungered for a state that would respect civil rights and allow citizens to choose their own leaders. How have political regimes changed since then?

The most common measure—the Polity2 index—rates countries on a scale that we adjusted to run from 0 (“pure dictatorship”) to 100 (“pure democracy”). In 1988, the regimes of Eastern Europe, the Soviet Union, and Mongolia scored from 5 (Albania) to 40 (Hungary), averaging 20, around the ratings of Egypt and Iran. For countries as economically developed as they were, their political systems were abnormally authoritarian.⁴⁰

After the popular revolutions of 1989-91, the average shot up to 68 in 1993 and 76 in 2013. Democracy was surging worldwide in these years. But in the postcommunist countries, it surged faster. Today, the average postcommunist country is exactly as democratic as its income level would predict. Of 29 postcommunist countries, 22 are rated 80 or higher, the threshold to be considered democratic, and six have perfect scores of 100.

These countries also demilitarized. Where Soviet defense spending had risen to 25 percent of GDP, none of the successor states, including Russia, now spends more than five percent.⁴¹ Despite their new internal borders, the former Warsaw Pact countries have cut one million troops. The Soviet nuclear stockpile—inherited by Russia—shrank from 45,000 to 4,500 warheads, most in storage.⁴² Notwithstanding the conflicts in Yugoslavia and Chechnya, postcommunist countries were no more likely than others to experience war or civil war in a given year.⁴³ Nor did they have a significantly higher rate of deaths in war or guerrilla violence, either in absolute numbers or per capita.

Postcommunist officials have a reputation for graft. Indexes of “perceived corruption” typically grade Eastern Europe harshly. Are such judgments deserved? Of course,

⁴⁰ Data from Polity IV, 2013 update, <http://www.systemicpeace.org/polityproject.html>. We treat the individual republics of the USSR, Yugoslavia, and Czechoslovakia as independent units; using the three countries as single observations would yield a median of -7.

⁴¹ Data from WDI, citing the Stockholm International Peace Research Institute.

⁴² See <http://www.armscontrol.org/factsheets/Nuclearweaponswhohaswhat>.

⁴³ Data from Correlates of War project, <http://www.correlatesofwar.org/datasets.htm>.

measuring actual corruption is extremely hard. Still, the NGO Transparency International surveys respondents in many countries, asking whether they came in contact with state agencies in the previous year, and if so whether they paid a bribe.⁴⁴ In 2010-13, a *smaller* proportion (23 percent) reported paying a bribe in the average postcommunist state than in others (28 percent). Their rates of corruption were high but—for their levels of economic development—absolutely typical.

For much of the transition period, postcommunist citizens were less likely to say they were happy than their peers elsewhere. But in the latest round of the World Values Survey, conducted in 2010-14, that gap had closed.⁴⁵ Worldwide, 84 percent reported being “very” or “quite” happy. In the average postcommunist country, it was 81 percent. For their income levels, they were about as happy as one would expect.

Normal countries?

Twenty-five years ago, the countries of the Soviet Bloc represented an alternative model, even civilization. To imagine them quickly converging with the global mainstream required a certain chutzpah. Yet that is exactly what they have done.

As simple statistical tests confirm, the postcommunist countries are today indistinguishable in most regards from others at comparable stages of economic development. The structures of their economies, consumption patterns, reported corruption levels, and political systems are all normal for their income levels.

Where they do differ, it is often because they look “better than normal.” Their citizens enroll in higher education at higher rates, buy more mobile phone subscriptions, and use the internet more than in comparably developed countries. Their health systems inoculate more children and prevent infant mortality more effectively. Measured poverty and inequality are lower.

They are not perfect. Unemployment remains several percentage points “too high.” Postcommunist citizens smoke and drink more than typical for countries with their GDP per capita. (Since alcohol consumption increases with national income, this actually makes them look more developed than they are.) Such vices notwithstanding, life expectancy is on average exactly as high as income would predict.

Although no longer unhappier than their peers, postcommunist citizens do appear unusually discontented with their social surroundings. They express significantly less trust in government (although not in ordinary people) and greater dissatisfaction with their jobs, living standards, education and healthcare systems.⁴⁶ Their suicide rates,

⁴⁴ See <http://www.transparency.org/gcb2013>.

⁴⁵ See <http://www.worldvaluessurvey.org/WVSONline.jsp>.

⁴⁶ Data from Gallup World Poll, as in Human Development Report 2014 dataset, various years between 2007 and 2012.

although they are now *lower* than they were under late communism, remain relatively high.⁴⁷

Hares and tortoises

On average, the postcommunist countries have transformed their economies and political systems, becoming typical for their—rising—income levels. That has meant a lot of progress. But the average masks huge variation. Communism imposed uniformity. Freed from Moscow’s brace, postcommunist countries have diverged from one another, spreading out on almost all dimensions.

Why did some countries do much better than others? Why is Poland today a liberal market democracy whose income has more than doubled since 1990, while Turkmenistan has become a sultanistic petrostate with an economy rated less free than Yugoslavia’s under late communism?⁴⁸

While the full answer is not yet known, one that is widely believed is clearly mistaken. From early on, critics claimed that reforms had failed in certain Eastern European states because they had been pursued in too radical a manner. Countries that proceeded more slowly and methodically were said to have fared better.

As Nobel laureate Joseph Stiglitz put it: “gradualist policies lead to less pain in the short run, greater social and political stability, and faster growth in the long [run]. In the race between the tortoise and the hare, it appears that the tortoise has won again.”⁴⁹

This view appealed to those in the East whose privileges were threatened by liberalization and those in the West who distrusted market forces or felt excluded from the debate. But it was wrong. By the mid-1990s, countries that had embraced radical reform were outperforming those that had delayed.

To measure the pace of reform, we use indicators constructed by the EBRD. Each year, the bank’s experts rated postcommunist countries on how closely they resembled a free market economy. We label “radical reformers” countries that in their first three years of transition moved up more than 40 points on the EBRD’s scale, recalibrated to run from 0 to 100. (We date the transition from 1989 in Eastern Europe, 1990 in Mongolia and the former Yugoslavia, and 1991 in the former Soviet Union.) “Gradual reformers” increased by 25 to 40 points, and “slow reformers” by less than 25 points. The “radical reformers,” by this definition, were Poland, Hungary, the Czech and Slovak Republics, Estonia, Latvia, Lithuania, Russia, and Kyrgyzstan.

⁴⁷ Data from World Health Organization database, age adjusted standardized death rate per 100,000 from intentional self-harm, all ages, both sexes.

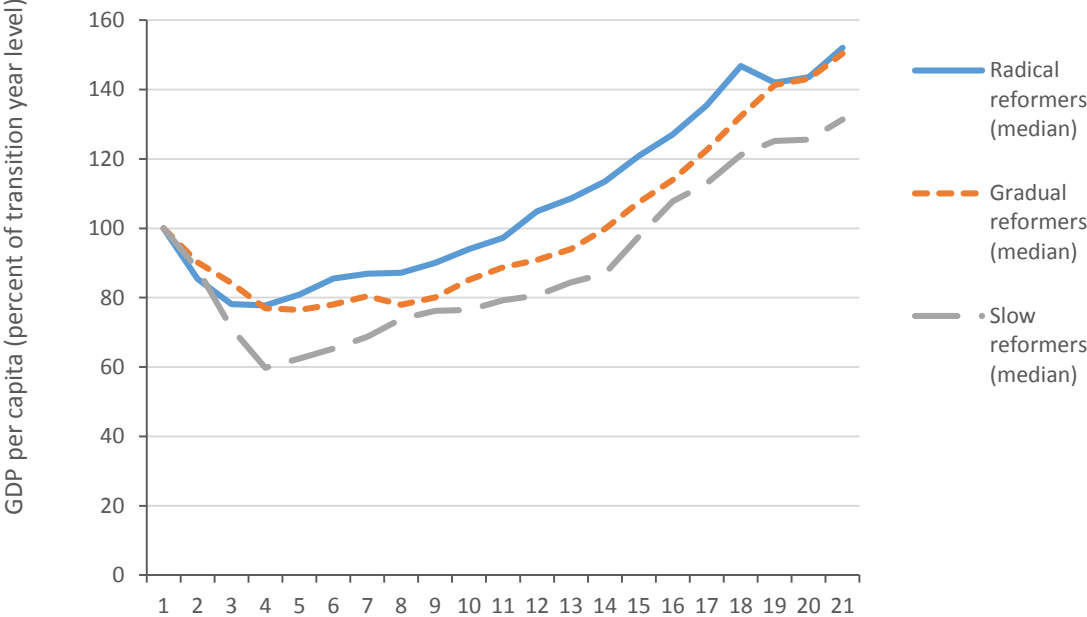
⁴⁸ EBRD Transition Indicators for rating of market economy—in 1989, Yugoslavia scored 1.58 compared to 1.50 for Turkmenistan in 2010, the final year of the ratings.

⁴⁹ Joseph Stiglitz, *Globalization and Its Discontents*, New York: Norton, 2002, p.188.

Did radical reform entail greater economic cost? Figure 1 shows the path of output for the median radical, gradual, and slow reforming countries over the first 21 years of transition. Slow reformers did by far the worst. Radical reformers suffered a slightly greater fall than gradual ones in the first three years. But then they surged ahead, far outpacing the gradualists. The gradual reformers did eventually catch up—but only after suffering far more years of depressed output.

The difference is substantial. If we add up the “total loss before recovery”—that is, the area between the horizontal 100-percent line and each curve—the loss for the gradualists is about 40 percent greater—and that for the slow reformers about 140 percent greater—than that for the radical reformers (each measured relative to initial output). Had the median gradual reformer performed as well as the median radical reformer over these 21 years, it would have generated additional output equal to 1.4 times its transition year output.

Figure 1: GDP per capita during the transition
(transition year = 100)



Years since start of transition (Eastern Europe: 1989; Former Yugoslavia, Mongolia: 1990; Former Soviet Union: 1991)

Sources: GDP per capita is an index based on GDP in constant local currency units (Penn World Tables, 8.0) and population from *World Development Indicators* (July 2014); reform speed from EBRD Transition Indicators.

Radical reformers also did much better if one considers household consumption instead of income, and they also tended to reduce inflation faster. Unemployment figures are not

available before 1991, but the countries with the highest unemployment rates—Macedonia, Bosnia, Armenia—were all slow reformers.⁵⁰

One should not put too much trust in data collected during an economic revolution. Still, there is no evidence that a slower approach to reform reduced the pain of transition. All signs point in the opposite direction. It was the hares, not the tortoises, that won. Many of the tortoises eventually caught up, but after a more painful trek.

History and geography

Amid the post-1989 celebrations, many hoped that all the liberated countries would converge quickly with the West. The “end of history” seemed to imply a common destination, to be reached simultaneously by all.

But if history was over, geography was not. A pattern leaps out from any map of the postcommunist region. Countries have been converging, but towards another target—their neighbors. In multiple ways, they have become more like the non-communist countries nearest to their borders.

The Baltic states have converged towards Finland; the Caucasus countries towards Turkey and Iran; Central Asia in the direction of Iran and Afghanistan. Central Europe has approached Germany and Austria, but with the occasional tug from neighbors to its east. Of course, there are exceptions: Belarus is far more authoritarian than its nearest non-communist neighbors. But in most cases, having escaped the gravity that previously pulled them to Moscow, the satellites have sped outward, merging into their local environment.

The characteristics of each country’s nearest non-communist neighbors when the Wall fell provide powerful hints about how that country would change in subsequent years. Controlling for a country’s own characteristics, the richer, more democratic, and more economically liberal its non-communist neighbors were in 1990, the more the country developed, democratized, and marketized its economy over the next two decades. Convergence toward the neighbors shows up in more subtle ways as well—for instance, in rates of college enrolment, alcohol consumption, and even life expectancy.

While such convergence has seen Central Europe speed ahead, it has also shown Central Asia fall behind. The direct influence of neighbors is sometimes responsible, as when Islamist rebels attack Tajikistan from across the Afghan border or when German factories set up component plants in the Czech Republic. But often convergence must reflect underlying cultural characteristics that extend across national boundaries. Local traditions, frozen or repressed under communism, have reemerged, influencing a range of social practices and institutions.

⁵⁰ Using WDI data on “unemployment, total (% of total labor force) (modeled ILO estimate),” Armenia’s unemployment rate was above 18 percent, Bosnia and Herzegovina’s was above 20 percent, and Macedonia’s was above 30 percent throughout the entire period from 1991 to 2012.

Russia

Ten years ago, we argued in this journal that Russia had become a “normal country,” comparable to others at a similar level of economic development. We speculated that its growth might continue, modernizing society along the way. Since then, Russia’s GDP per capita has increased another 39 percent and its internet penetration has quadrupled, overtaking Greece.⁵¹

Turning to politics, we outlined two scenarios. The first posited “increased democratic competition and the emergence of a more vigorous civil society.” The second foresaw “an accelerating slide toward an authoritarian regime ... managed by security-service professionals under the fig leaf of formal democratic procedures.” We conjectured—far too optimistically, it turned out—that reality would end up somewhere in between. In fact, Russia’s president chose the second option.

With its overdeveloped military capability, that makes Russia dangerous. But does it make the country politically abnormal? Perhaps surprisingly, if one plots countries’ Polity2 scores against their income, Russia still lies only slightly below the regression line. It scores a 4 in 2013, on a par with Venezuela and Sri Lanka, while the average Polity2 rating for countries with income between \$15,000 and \$25,000 is a little over 5.

If Russia grows richer without liberalizing politically, it will look anomalous. Only three groups of countries are wealthier than Russia today: developed democracies; oil-rich dictatorships, mostly in the Persian Gulf; and commercial city states such as Singapore and Macau. The third path is clearly closed to Russia.

In fact, the second is too. To become an Arabian-style dictatorship requires more revenues than Russia’s resources generate. In 2011, the oil and gas Russia produced was worth about \$3,000 per Russian citizen. In Saudi Arabia, the figure was \$13,000, in Kuwait \$34,000.⁵² The choice appears to be between economic stagnation or further development combined with more democratic politics. At present, Russia’s leaders seem to be choosing the former, but that can change.

Conclusion

Twenty-five years ago, a series of largely peaceful revolutions swept away the most territorially extended tyranny that had existed since the days of the Mongol Horde. A nuclear-armed communist empire disintegrated, freeing its more than 400 million inhabitants to forge new political and economic orders.

⁵¹ WDI data. Internet users per 100 people was 13 in 2004, 61 in 2013, compared to 60 in Greece.

⁵² Michael L. Ross, 2011-04, "Replication data for: Oil and Gas Production and Value, 1932-2009", <http://thedata.harvard.edu/dvn/dv/mlross>.

The transition has had its disappointments. Central Asia hardly inspires emulation. Russia and Hungary have taken political wrong turns. But, overall, the changes since 1989 have been a remarkable success.

In most postcommunist states, life has improved, often dramatically. Citizens enjoy higher living standards, broader political rights, greater autonomy and personal dignity. Their countries resemble not necessarily those in the West, but others at comparable levels of economic development. Those levels of development have, in turn, converged towards those typical of each postcommunist state's neighborhood. The communist bloc's rigid iron curtain has given way to a pattern of gentler cartographical gradients.

It is time to rethink the misperceptions that inform debates about this period. Market reforms, attempts to build democracy, and struggles against corruption were not failures, although they remain incomplete. The claim that a gradual path of economic change would have been more effective and less painful is contradicted by the evidence. The postcommunist transition does not reveal the inadequacy of liberal capitalism or the dysfunctions of democracy: it reveals the superiority of both over all attempted alternatives. These are the lessons that future historians will draw. We should recognize them now.

Table 1: Destination of Exports of Post-Communist Countries

	EU		Other (current or former) Soviet republics		CMEA (or former members)	
	1990	2012	1990	2012	1990	2012
<i>Soviet republics</i>						
Armenia	1	39	97	30		
Azerbaijan	2	47	92	8		
Belarus	2	38	92	62		
Kazakhstan	2	50	89	14		
Kyrgyz	1	3	97	59		
Moldova	1	47	93	45		
Russia	7	47	68	18		
Tajikistan	4	4	82	20		
Turkmenistan	1		96			
Ukraine	4	25	83	39		
Uzbekistan	2		89	54		
Estonia	0	58	98	29		
Georgia	2	15	91	53.6		
Latvia	1	69	97	44.5		
Lithuania	1	61	94	47.3		
<i>median</i>		47				
<i>Eastern Europe+Mongolia</i>						
Albania		76			46.3 ^d	2
Bosnia	38 ^a	58			29.9 ^d	
Bulgaria		58			53	21 ^e
Croatia	38 ^a	58			29.9 ^d	
Czech Republic	26.5 ^b	81			37	25
Hungary	32.2 ^b	76			41 ^d	30
Macedonia	38 ^a	63			29.9 ^d	
Mongolia		6				
Poland	47.2 ^b	75			41 ^d	26
Romania	33.8 ^c	70			25	22
Serbia	38 ^a	58			29.9 ^d	
Slovak Republic	26.5 ^b	84			37	36
Slovenia	38 ^a	69			29.9 ^d	
<i>median</i>		69				

Sources and Notes:

Column 1: For Soviet Union calculated from Michalopoulos, Constantine and David G. Tarr, 1994, *Trade in the New Independent States*, Washington, DC: World Bank, pp.2, 239, and column 3. ^a figure for Yugoslavia in 1988, from OECD, *Economic Surveys: Yugoslavia 1990*, Paris: OECD, 1990, p.101. ^b Rodrik, Dani. "Foreign Trade in Eastern Europe's Transition: Early Results," in Olivier Blanchard, Kenneth Froot, Jeffrey Sachs, eds., *Transition in Eastern Europe*, Vol. 2, Cambridge, MA: NBER, 1994, pp.319-56: figures for Czech and Slovak republics are both for Czechoslovakia. ^c figure for 1991, from Romanian Statistical Agency.

Column 2: World Trade Organization, *Country Profiles*, at <http://stat.wto.org/CountryProfile/>, accessed August 2014.

Column 3: Kaminski, Bartlomiej, Zhen Kun Wang, and L. Alan Winters. 1996. *Foreign Trade in the Transition: The International Environment and Domestic Policy*, Washington, DC: World Bank.

Column 4: Statistical Committee of the Commonwealth of Independent States, *Vneshniaia torgovlia stran Sodruzhestva Nezavisimykh Gosudarstv (statisticheskii' sbornik). [External Trade of the Countries of the Commonwealth of Independent States (statistical abstract)]*, 2013.

Columns 5-6: Uvalic, Milica. 2005. *Trade Liberalization in Southeast Europe: Recent Trends and Some Policy Implications*, University of Perugia, paper, p.4; information from statistical agencies of Albania, Bulgaria, Czech Republic, Slovak Republic, Hungary, Poland, Romania, accessed August 2014. Figures for Czech and Slovak Republics in 1990 are for Czechoslovakia and those of Yugoslav republics are for Yugoslavia. ^d for 1989, ^e for 2011.

Table 2: Housing Space Per Capita, square meters per person) 1991-2011

	1991	2011	Change, percent
Azerbaijan	12	17.8	48
Armenia	15	27.8	85
Belarus	18	25	39
Georgia	18	23	28
Kazakhstan	14	18.7	34
Kyrgyzstan	12	14.5	21
Moldova	18	22.4	24
Russia	16.5	23	39
Tajikistan	9.5	8.8	-7
Ukraine	18	23.5	31
Uzbekistan	12	15	25
Czech Republic	16.6	33	99
Romania	11.6 ^a	25	116

Sources: Statistical Committee of the Commonwealth of Independent States, *15 let Sodruzhestva Nezavisimykh Gosudarstv (1991-2005) [15 years of the Commonwealth of Independent States (1991-2005)]*, 2006; Statistical Committee of the Commonwealth of Independent States, *Statistika SNG: Statistichesky byulleten*, 2012 (10, October). Wolfgang Amann, *Housing review on 23 countries in the Europe and Central Asia region*. Vienna: Habitat for Humanity, 2013, p.22. Michelle Norris and Patrick Shiels, *Regular National Report on Housing Developments in EU Countries*, Dublin: Government of Ireland, Department of the Environment, 2004, pp.28, 69.

Notes: a 1992.

Table 3: Percent of housing owned by occupant, 2012

Armenia	99.6
Kyrgyzstan	98.3
Moldova	97.4
Tajikistan	97.2
Romania	96.6
Kazakhstan ^a	96.4
Azerbaijan	94.2
Ukraine	93.5
Lithuania	91.9
Hungary	90.5
Slovakia	90.4
Croatia	89.5
Belarus	87.9
Bulgaria	87.4
Russia	87
Poland	82.4
Estonia	82.2
Latvia	81.5
Czech Republic	80.4
Slovenia	76.2
<i>Median postcommunist</i>	90.45

Other countries

Norway	84.8
Malta	81.8
Spain	78.9
Iceland	77.3
Greece	75.9
Portugal	74.5
Italy	74.1
Finland	73.9
Cyprus	73.2
Belgium	72.3
Luxembourg	70.8
Sweden	70.1
Ireland	69.6
Netherlands	67.5
Turkey ^b	67.3
United Kingdom	66.7
USA ^b	66.1
Denmark	64.3
France	63.7
Austria	57.5
Germany	53.3
Switzerland	43.8

Sources: Eurostat; Rosstat, *Zhilishchnoe khoziai'stvo v Rossii*, 2013(1): 277; European Mortgage Federation, *Hypostat 2013*, November 2013, p.101 (<http://www.hypo.org/Content/default.asp?PageID=524>).

Notes: ^a 2011, ^b 2010

Table 4: Consumption of vegetables and fruits per person, kg

	Vegetables (and melons)			fruits		
	1991	2011	Change, pct.	1991	2011	Change, pct.
Azerbaijan	65	165	154	50	75	50
Armenia	145	288	99	62	76	23
Belarus	79	144	82	35	58	66
Kazakhstan	63	195	210	19	48	153
Kyrgyzstan	73	150	105	18	29	61
Moldova	113	115	2	79	43	-46
Russia	86	106	23	35	60	71
Tajikistan	83	72.8	-12	27	40	48
Ukraine	103	163	58	36	53	47
Hungary	83 ^a	112 ^b	35	72 ^a	83 ^b	15

Sources: Statistical Committee of the Commonwealth of Independent States, *Statistika SNG: Statistichesky byulleten*, 2012 (12, December 31). Statistical Committee of the Commonwealth of Independent States, *15 let Sodruzhestva Nezavisimyykh Gosudarstv (1991-2005) [15 years of the Commonwealth of Independent States (1991-2005)]*, 2006. Statistical office of Tajikistan. M Szeitz-Szabó, L. Biró, and Gy. Biró, "Nutritional and Vital Statistical Features of the Hungarian Population: A Review About the Past 25 Years," *Acta Alimentaria* 2012, 41(2): 277-91. ^a 1990 ^b 2005.

Table 5: Change in level of emissions, postcommunist EU members, 1990-2012

	Nitrogen oxides	Sulphur oxides	Carbon monoxide
Bulgaria	-50	-70	-61
Croatia	-38	-85	-51
Czech Republic	-72	-92	-67
Estonia	-56	-85	-28
Hungary	-51	-96	-69
Latvia	-58	-83	-58
Lithuania	-58	-87	-59
Poland	-36	-73	-62
Romania	-51	-70	-17
Slovakia	-64	-89	-57
Slovenia	-26	-95	-53
<i>mean</i>	<i>-51</i>	<i>-84</i>	<i>-53</i>

Source: European Union Emission Inventory Report, 1990-2012, European Environment Agency, 2014, <http://www.eea.europa.eu/publications/lrtap-2014>.

Table 6: Emission of Harmful Pollutants Into the Air From Stationary Sources, thousand tonnes

	1991	2012	change, percent
Azerbaijan	1919	227	-88
Armenia	269	117	-57
Belarus	1153	433	-62
Georgia	300	21	-93
Kazakhstan	4278	2384	-44
Kyrgyzstan	161	37	-77
Moldova	342	15	-96
Russia	31,802	19,630	-38
Tajikistan	101	39	-61
Ukraine	8775	4335	-51
Latvia	131	39	-70
Lithuania	152 ^a	65	-57
Mean			-66

Sources: Statistical Committee of the Commonwealth of Independent States, *15 let Sodruzhestva Nezavisimyykh Gosudarstv (1991-2005) [15 years of the Commonwealth of Independent States (1991-2005)]*, 2006, Statistical Committee of the Commonwealth of Independent States, *Naselenie i usloviya zhizni v stranakh Sodruzhestva Nezavisimyykh Gosudarstv. Population, employment and living conditions in the countries of the Commonwealth of Independent States.*, 2013(1). Statistical Agency of Lithuania (<http://osp.stat.gov.lt/en/statistiniu-rodikliu-analize1>), Statistical Agency of Latvia (http://data.csb.gov.lv/pxweb/en/vide/vid_e_ikgad_vid_e/V10020.px/table/tableViewLayout1/?rxid=a79839fe-11ba-4ecd-8cc3-4035692c5fc8).

Notes: ^a 1995.