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ESSAY

## Normal Countries

The East 25 Years After Communism

Andrei Shleifer and Daniel Treisman

*ANDREI SHLEIFER is Professor of Economics at Harvard University. DANIEL TREISMAN is Professor of Political Science at the University of California, Los Angeles, and the author of *The Return: Russia's Journey From Gorbachev to Medvedev*.*

Twenty-five years after the Berlin Wall came down, a sense of missed opportunity hangs over the countries that once lay to its east. Back then, hopes ran high amid the euphoria that greeted the sudden implosion of communism. From Bratislava to Ulaanbaatar, democracy and prosperity seemed to be just around the corner.

Today, the mood is more somber. With a few exceptions, such as Estonia and Poland, the postcommunist countries are seen as failures, their economies peopled by struggling pensioners and strutting oligarchs, their politics marred by ballot stuffing and emerging dictators. From the former Yugoslavia to Chechnya and now eastern Ukraine, wars have punctured the 40-plus years of cold peace on the European continent, leaving behind enclaves of smoldering violence. To many observers, Russian President Vladimir Putin's autocratic grip and aggressive geopolitics symbolize a more general democratic decay spreading from the east. "The worst thing about communism," quipped the Polish newspaper editor and anticommunist dissident Adam Michnik, "is what comes after."

An anniversary is a good moment to take stock. Much has changed since the postcommunist countries -- the 15 successor states of the Soviet Union, the 14 formerly communist states of eastern Europe, and the former Soviet satellite Mongolia -- shook off Marxist tyrannies a generation ago. Not every change has been for the better. But writing off postcommunist reforms as a failure would be a mistake, and one with implications far beyond the region. Some observers, struck by China's rise and shocked by the global financial crisis, have recently cast authoritarian state capitalism as a vibrant alternative to the dysfunctions of liberal democracy. The erroneous belief that market reform has flopped in eastern Europe reinforces this delusion.

The truth is that the prevailing gloomy narrative about the postcommunist world is mostly wrong. Media images aside, life has improved dramatically across the former Eastern bloc. Since their transition, the postcommunist

countries have grown rapidly; today, their citizens live richer, longer, and happier lives. In most ways, these states now look just like any others at similar levels of economic development. They have become normal countries -- and, in some ways, better than normal.

Although they, on average, resemble their peers, the transition states have become far more diverse. Shedding the Moscow-imposed model, they have yielded to the gravitational pull of their nearest noncommunist neighbors: the countries of central Europe have become more European; those of Central Asia, more Asian. In the years to come, their paths will likely continue to reflect the competition between the same two forces: the global dynamic of modernization and the tug of geography.

## MARKET MAKERS

To understand how much the postcommunist countries have changed, recall how they started out. Politically, all were authoritarian states governed by a ruling party. Each had propagandists to tell people what to think, secret police to detect dissidence, and prison camps to house regime critics. All staged farcical elections in which the party won more than 95 percent of the vote. With the exceptions of Yugoslavia and post-1960 Albania, each took orders from Moscow, which sent tanks to Hungary in 1956 and Czechoslovakia in 1968 to crush popular uprisings.

All the communist-bloc countries had centrally controlled economies. Most or all property belonged to the state, and prices were set by planners rather than markets. Heavy industry dominated as services languished. In the Soviet Union, the military consumed up to 25 percent of GDP in the late 1980s, compared with under six percent in the United States. By 1986, Soviet factories had produced a stock of 45,000 nuclear warheads.

Satisfying consumers was not a priority. To get an apartment in the 1980s, applicants in Bulgaria had to wait up to 20 years, and those in Poland, up to 30 years; a quarter of the people filling the Soviet waiting lists were already pensioners. Car buyers in East Germany had to place their orders 15 years in advance. In Romania, the dictator Nicolae Ceausescu put all citizens on a low-calorie diet in the early 1980s to save money for repaying the country's foreign debt. He limited lighting to one 40-watt bulb per room, heating in public buildings to 57 degrees Fahrenheit, and television programming to two tedious hours a day.

The communist countries could claim some achievements. With just eight percent of the world's population, the Soviet Union and other Eastern-bloc countries won 48 percent of the medals at the 1988 Seoul Olympics and boasted 53 of the world's 100 top chess players that year. Education and literacy rates were high.

Yet in its waning years, communism had few defenders. To Vaclav Havel, the Czech Republic's dissident turned president, the system was a "monstrously huge, noisy, and stinking machine." Years after leaving power, Mikhail Gorbachev, the last Soviet president, characterized the economy he once oversaw as "voracious" and "resource-squandering."

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

All the postcommunist governments enacted reforms -- designed to deregulate prices, unleash trade, balance budgets, cut inflation, create competition, privatize state enterprises, and construct social welfare programs -- although some pursued them with greater speed and vigor than others. These reforms reshaped their economies. Abandoning central

planning, the postcommunist countries became, on the whole, more market friendly than the rest of the world. By 2011, they averaged 7.0 on the index of economic freedom compiled annually by the Fraser Institute, a Canadian research group, compared with the global mean of 6.8. The most fully reformed of the pack, Estonia, ranked right between Denmark and the United States.

In most places, state-owned industrial dinosaurs gave way to private firms, which began to account for a greater share of GDP. The median share of private-sector output in the postcommunist countries now stands at 70 percent. Heavy industry shrank, and, on average, services grew from 36 percent to 58 percent of national output between 1990 and 2012. In no other region of the world has international trade expanded as fast, with the average volume of imports and exports together soaring from 75 percent to 114 percent of GDP. After decades spent trading largely with one another, the postcommunist states swiftly reoriented themselves toward foreign markets in Europe and elsewhere. By 2012, the share of exports they sent to the eu had grown -- to a median value of 69 percent for the eastern European countries and 47 percent for the former Soviet republics.

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

These changes notwithstanding, observers often blame postcommunist reforms for poor economic performance in the transition states. Two common charges are that the reforms were fundamentally misconceived and that they were implemented in too radical a fashion. Such criticism raises two questions: first, whether the states' economic performance has indeed been poor, and second, whether more radical strategies resulted in worse outcomes than more gradual approaches. The short answer to both questions is no.

#### UP THE LADDER

A logical starting point in assessing a country's economic performance is its national income, but any comparison that uses Soviet-era figures must be taken with a grain of salt. For various reasons, much of the output that communist-era accountants recorded was worth far less than they claimed. Factories overreported production in order to win bonuses, inflating GDP figures by as much as five percent. Many goods they did produce were of such poor quality that consumers refused to buy them. Governments launched huge construction projects that were never completed (but still counted as investment spending, augmenting GDP values) and sustained massive defense outlays of highly questionable value. Very little of the countries' official national incomes ended up in citizens' pockets. In 1990, for instance, household consumption in most noncommunist countries represented more than 60 percent of GDP. But in Russia, this measure stood at less than one-third of GDP, and in Azerbaijan, it fell below one-quarter.

Much of the economic slump recorded in the early years of the postcommunist transition -- half of it, by some estimates -- reflected cuts in fictitious output or worthless investments. But even if the official figures are taken at face value, the picture they reveal is brighter than is generally assumed. Despite the initial contraction, the median postcommunist country in terms of growth (Uzbekistan) expanded slightly faster between 1990 and 2011 than the median country elsewhere in the world (Norway). Whereas Norway's GDP per capita grew by 45 percent between these years, Uzbekistan's rose by 47 percent. Bosnia, where national income increased by more than 450 percent, had the world's third-highest growth rate over that period. Albania came in 16th, expanding by 134 percent, and Poland placed 20th, at 119 percent. All three outpaced such traditional growth engines as Hong Kong and Singapore.

The rise in consumption was equally dramatic. From 1990 to 2011, household consumption per capita in the postcommunist countries grew, on average, by 88 percent, compared with an average increase of 56 percent elsewhere in the world. In Poland, household consumption grew by 146 percent, a rise that equaled South Korea's. In Russia, the level increased by more than 100 percent.

Regular people saw significant improvements in their living standards. Car ownership, a good gauge of disposable income, rose in the postcommunist space even as GDP fell in the early transition years. Between 1993 and 2011, the average number of passenger cars climbed from one for every ten people to one for every four. In Lithuania, Poland, and Slovenia, there are now more cars per person than in the United Kingdom.

In information technology, as well, eastern Europe has surged ahead, evolving from a backwater to an overachiever. By 2013, the region's cell-phone subscriptions per person, at 1.24, had overtaken the rate in the West. The postcommunist world now boasts a higher percentage of Internet users -- 54 percent of the population in the average country -- than any other region except North America and western Europe.

The citizens of the postcommunist states also travel more than ever before; they made almost 170 million foreign tourist trips in 2012. And back home, they occupy larger apartments: since 1991, living space per person has expanded by 99 percent in the Czech Republic, 85 percent in Armenia, and 39 percent in Russia. Thanks to mass housing-privatization programs, rates of homeownership have surged to some of the highest worldwide. People have been eating better, too. In seven of the nine former Soviet republics that publish relevant statistics, consumption of fruits and vegetables has shot up. Ukrainians, for instance, ate 58 percent more vegetables and 47 percent more fruit in 2011 than they did 20 years earlier. The Czech Republic, Hungary, Poland, Slovakia, and Slovenia experienced what medical researchers described in 2008 in the *European Journal of Epidemiology* as "probably the most rapid decrease in coronary heart disease ever observed" after consumers began substituting vegetable oils for animal fats.

When it comes to social mobility, statistics contradict the stereotype of societies split between oligarchs and beggars. University enrollment rates, already high, climbed even further after 1989, rising by an average of 33 percent by 2012. Also by 2012, in the postcommunist countries, the average share of secondary-school graduates who chose to continue their studies was higher than the corresponding percentage in Switzerland. Although the rates of both poverty and income inequality often increased early in the transition, these rates are now lower in the postcommunist states than in other economies with comparable income levels.

Governments are also doing more to ensure that citizens breathe cleaner air. Communism left behind a forest of smokestacks, but since 1990, the 11 postcommunist countries that joined the EU have slashed their emissions of carbon monoxide, nitrogen oxides, and sulfur oxides -- by more than half. Even as their economies grew, 12 post-Soviet republics cut the release of harmful pollutants from stationary sources into the atmosphere by an average of 66 percent between 1991 and 2012.

And despite the frequent accounts of soaring mortality amid the stress of transition, the region's demographic trends are far from bleak. On average, life expectancy in the postcommunist states rose from 69 years in 1990 to 73 years in 2012. Even in Russia, long portrayed as a demographic disaster zone, life expectancy now stands at slightly over 70 years -- higher than it has ever been. Infant mortality, already low, fell faster in the postcommunist countries in percentage terms than in any other region between 1990 and 2012. Average alcohol consumption inched downward, too, from 2.1 gallons of pure alcohol a year in 1990 to 2.0 gallons in 2010. There have been exceptions: drinking

rates rose in Russia and the Baltic states. But even Russia's 2010 average of 2.9 gallons was lower than that of Austria, France, Germany, or Ireland.

Important as such advances in living standards are, the most fundamental transformation in the former Eastern bloc was political. The citizens of most of the transition states live under governments that are more free and open today than at any point in their history. Even against the backdrop of democracy's global resurgence in recent decades, the extent of political change in the former Eastern bloc is remarkable.

A few numbers tell the story. Using the most common measure of political regimes, the Polity index, compiled by the Center for Systemic Peace, we placed countries on a scale from zero (for pure dictatorships) to 100 (for the strongest form of democracy). In 1988, the Eastern-bloc states ranked between five (Albania) and 40 (Hungary), averaging a score of 20, which was close to the ratings of Egypt and Iran. Given their levels of economic development, the communist countries stood out as abnormally authoritarian. After the revolutions of 1989–91, the regional average shot up, reaching a score of 76 in 2013. Today, the average postcommunist country is exactly as free as one would expect it to be, given its income. Six receive the top score, on par with Germany and the United States.

#### HEADING HIGHER

The postcommunist countries today are far from perfect. But most of their deficiencies are typical of states at similar stages of economic development. On several counts, they perform better than their incomes would predict, and in the few cases where they lag behind, they are almost always headed in the right direction.

Take graft. The region routinely scores poorly on indexes measuring perceived corruption. This performance is not surprising given that such gauges are constructed in part from surveys of international businesspeople, who are likely to be influenced by the region's seamy image in the global media. But the rates of bribery reported by citizens of the postcommunist countries on anonymous surveys paint a different picture. These rates, although high, are typical for countries at similar income levels. Polls conducted between 2010 and 2013 by the watchdog group Transparency International showed that fewer people reported paying bribes in the average postcommunist state (23 percent) than in other countries (28 percent).

When it comes to armed conflict, too, the region does not differ from other places with comparable development levels. Notwithstanding the wars in the former Yugoslavia, Chechnya, and now Ukraine, the postcommunist countries were no more likely than similarly developed states to experience conflicts or civil wars during the past 25 years. Nor did they report higher rates of deaths in wars or guerrilla violence, either in absolute numbers or per capita. And although the Ukrainian conflict is too recent to be included in these calculations, it is unlikely to significantly alter these results, unless the hostilities there spiral out of control.

Behind these data stands the region's dramatic demilitarization: whereas the Soviet Union's defense expenditure once reached 25 percent of GDP, none of its successor states, including Russia, spends more than five percent today. Even as their alliance disintegrated, the former Warsaw Pact states managed to shed one million troops.

Inflation and unemployment are two other cases in point. In the 1990s, most of the postcommunist countries suffered years of rising prices and joblessness. Still, by 2012, inflation had stabilized almost everywhere; the median inflation rate in the postcommunist economies actually dropped below the global median. And although unemployment

remains several percentage points higher in the transition countries than in comparable states, it has declined since its peak level around 2000.

Recent years have also seen improvements in another area in which the postcommunist states have trailed the rest of the world: their citizens' happiness. According to the latest round of the World Values Survey, conducted in 2010–14, the region is catching up here, too. On average, 81 percent of people polled in the postcommunist countries reported being either “very” or “quite” happy, compared with 84 percent worldwide. For their income levels, these countries are no longer particularly depressed -- even though their residents do express unusual dissatisfaction with their jobs, governments, and educational and health-care systems. Suicide rates, still relatively high, have fallen substantially since the end of communism.

## RULES OF ATTRACTION

This study of averages obscures the vast variation that has emerged since the demise of Moscow-imposed uniformity. Today, the contrast between diverse postcommunist states is striking. Poland has blossomed into a free-market democracy whose income has more than doubled since 1990; Tajikistan remains a war-scarred and overwhelmingly poor dictatorship, headed by the same leader for more than 20 years.

One recurring explanation for the divergence of economic outcomes is that in some countries officials undermined performance by pursuing reforms too aggressively. According to this logic, a slower, more methodical approach enabled other countries to accomplish more successful transitions. “Gradualist policies lead to less pain in the short run, greater social and political stability, and faster growth in the long [run],” the economist Joseph Stiglitz argued in his 2002 book *Globalization and Its Discontents*. “In the race between the tortoise and the hare, it appears that the tortoise has won again.” This explanation appealed to those in the former Soviet bloc who saw their privileges threatened by liberalization and to those in the West who distrusted market forces. But it was wrong: by the mid-1990s, countries that had embraced reforms wholeheartedly were outperforming those that had delayed them.

A simple look at the data supports this conclusion. To measure the pace of reform, we drew on indicators developed by the European Bank for Reconstruction and Development, adjusting them to assign each country an annual score between zero and 100, based on how closely it resembled a free-market economy. We labeled those that rose more than 40 points in their first three years of transition “radical reformers.” Nine states met this benchmark: the Czech Republic, Estonia, Hungary, Kyrgyzstan, Latvia, Lithuania, Poland, Russia, and Slovakia. We called countries whose scores rose by 25 to 40 points “gradual reformers,” and those with a rise of less than 25 points “slow reformers.”

Comparing the economic performance of these three groups reveals that quicker and more thorough reforms entailed less, not more, economic pain. To be fair, at the outset of their transition, many countries in the radical group did experience a slightly greater fall in output than the gradual reformers did. But after three years, the radicals surged ahead, far outpacing the gradualists. Meanwhile, slow reformers fared the worst and continue to trail behind the other two groups today.

The gradual reformers eventually caught up to the radical reformers, but not before suffering many years of costly underperformance. Compared with those countries that eagerly embraced free markets, the gradualists took longer to recover their previous levels of household consumption and to stabilize inflation. And insofar as one can tell from the available statistics, unemployment hit the slow reformers, such as Armenia and Macedonia, harder than the rest of the transition states. Altogether, there is no evidence that a gradual approach reduced the pain of transition. All signs

point in the opposite direction: it was the hares, not the tortoises, who won. Many of the tortoises eventually caught up, but only after a more grueling trek.

Apart from this variation, another striking pattern leaps out from any map of the region. Old predictions that all the transition countries would come to resemble Western states never panned out. The countries have indeed been converging, but toward a different target: their neighbors. In numerous ways, the postcommunist states have become more like the noncommunist countries nearest their borders.

The Baltic states have drawn closer to Finland, and the Caucasus countries have moved toward Iran and Turkey. The Central Asian states have grown more similar to Afghanistan and Iran. The central European countries have approached Austria and Germany, but with the occasional tug from neighbors to their east. There are a few exceptions to this pattern -- most notably Belarus, which has become far more authoritarian than nearby noncommunist states. But in most cases, having escaped Moscow, the former Soviet satellites sped outward, merging into their local environments.

The characteristics of each state's nearest noncommunist neighbors in 1990 offer powerful hints about how that state would evolve thereafter. Taking into account the starting point of every country, the more wealthy, democratic, and economically liberal its noncommunist neighbors were, the more wealthy, democratic, and economically liberal it would ultimately become. This convergence manifested itself in more subtle ways as well -- for instance, in rates of college enrollment, levels of alcohol consumption, and even life expectancy. Sometimes, neighbors directly influenced the countries' development prospects, as when Islamist militants attacked Tajikistan from across the Afghan border or when German companies set up manufacturing plants in the Czech Republic. But a more important driver of convergence was probably underlying cultural features that predated both communism and current national boundaries.

## GREAT EXPECTATIONS

Ten years ago, we argued in this magazine that Russia had become "a normal country," whose economic and political flaws mirrored those of other states at similar levels of development. We speculated that its growth would continue, modernizing its society along the way. This prediction came true: Russia's GDP per capita has increased another 39 percent since 2004, and its Internet penetration has quadrupled, overtaking that of Greece.

Turning to politics, we outlined two possible scenarios. The first posited "increased democratic competition and the emergence of a more vigorous civil society." The second foresaw a "slide toward an authoritarian regime that [would] be managed by security-service professionals under the fig leaf of formal democratic procedures." Our guess was that Russia would chart a course lying somewhere between those two extremes -- a conjecture that turned out to be far too optimistic. In the end, Russia's president chose the second option.

Putin's authoritarian turn clearly makes Russia more dangerous. But it does not, thus far, make the country politically abnormal. In fact, on a plot of different states' Polity scores against their incomes, Russia still deviates only slightly from the overall pattern. For a country with Russia's national income, the predicted Polity score in 2013 was 76 on the 100-point scale. Russia's actual score was 70, on par with Sri Lanka and Venezuela.

If Russia grows even richer without liberalizing politically, it will indeed become anomalous. Only three groups of countries are wealthier than it is today: developed democracies, oil-rich dictatorships (mostly in the Persian Gulf),

and commercial city-states such as Singapore and Macao. Russia obviously cannot become a city-state, and it does not possess enough natural resources to become an Arabian-style dictatorship. (Its annual income from oil and gas amounts to about \$3,000 per citizen, compared with \$34,000 for Kuwait.) So it will apparently have to choose between experiencing stagnation and pursuing economic development in tandem with greater democratization. At present, the Kremlin seems committed to the first option, but its preferences could change with time.

Yet Russia's growing authoritarianism should not distract from the remarkable progress in the postcommunist region as a whole. Twenty-five years ago, the countries of the Eastern bloc represented an alternative civilization. To imagine them quickly converging with the global mainstream required a certain chutzpah. Yet that is exactly what they have done. The transition has had its disappointments. But overall, the changes since 1989 have been an outstanding success.

It is time to rethink the misperception of this period. Market reforms, attempts to build democracy, and struggles against corruption did not fail, although they remain incomplete. The claim that a gradual path of economic reform 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. Rather, it demonstrates the superiority and continuing promise of both.

*Note: Full sources and data for this essay are available [here](#) [1].*

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