Introduction

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Twenty years after the fall of the Berlin Wall saw many celebrations of this important milestone in recent history. Many conferences were organized, books were written to look back at the events, reminisce, commemorate and comment. As part of the tributes UNU-WIDER organized a conference in Helsinki in September 2009 on the theme 'Reflections on Transition: Twenty Years after the Fall of the Berlin Wall'. This conference gathered a group of top scholars who had been involved in the research on the process of transition from socialism to capitalism over the last twenty years. Contrary to many other commemorations, instead of looking back and reflecting one more time on transition policies from twenty years ago, the conference focused instead on the long-run view of transition. What is the long-run trajectory of transition countries? Did particular reform policies affect those long-run trajectories or not? What trace did communism leave on institutions and behaviour in transition countries? Are their institutions going to change much in the coming decades? If so, in what direction? What are the long-run economic prospects of particular countries or group of countries? What will be their role in the global economy in the twenty-first century?

One of the major facts that immediately stands out when looking at the transition experience is the divergence of the institutional and economic trajectories of post-communist countries. Central European and the Baltic countries appeared for many years to epitomize the success of the transition to markets and democracy. They adopted the institutions of the European Union (EU), and went on to become full-blown members. However, they were also badly hurt by the global economic crisis of 2008. How stable is their success? How real are the dangers of political instability? Might they be tempted by forms of nationalist experiments? How dangerous is the emergence of authoritarian extreme right nationalist parties?

Countries of the former Soviet Union (FSU) and of most of former Yugoslavia were generally less successful than the early reformers of Central Europe. Democratization has been rather imperfect as various countries replaced communist dictatorships with new autocratic regimes. Many countries, like Russia, became stuck in a strange no man’s land between democracy and dictatorship—elections take place but there is massive fraud. Freedom of the media remains relative and abuse of power by incumbent governments goes unpunished. The effect of economic reforms has been disappointing in many of those countries even though rich endowments of natural resources have brought substantial export revenues to some countries, such as Russia. Will those countries follow the path of Central European countries with some delay? Will they remain stuck in their current institutional settings? Might they even reverse some of the transition reforms as has been the case with the many renationalizations in Russia? Will they grow or stagnate?

China has had an extremely successful economic transition with more than 30 years of very strong economic growth, lifting hundreds of millions of people out of poverty. However, the Communist Party keeps tight control over the country and there is no sign of any evolution towards democracy. It is an ironic paradox that the most successful transition to the market, in terms of growth, has happened under communist rule. The state sector keeps a strong place in the economy and market reforms have been put on hold for many years already. China’s economic success and the severity of the global economic crisis of 2008 are seen as justifications for halting the reform process. How will China evolve in the coming years?

Will the growth slow down? Will the Communist Party keep control over Chinese society as strongly as in the last decades?

These very divergent evolutions were not predicted by researchers working on transition. Moreover, their causes are still not well understood. Scholars of the transition process have tended to analyse evolutions in transition countries in reference to the benchmark of advanced market democracies. Countries get ranked and rated in terms of their observed progress towards democracy and the market. This way of thinking is not very helpful to understand the real evolution of transition countries. How can we explain this strong divergence? Answering that fundamental question should offer a better clue to understanding the long-run evolution of transition countries rather than their position relative to some transition benchmarks. Most of the action in terms of economic and political reforms took place in the first five to ten years after the beginning of transition. We would be fooling ourselves by thinking that the observed evolutions from the next ten years reflect nothing else than temporary hurdles in an otherwise long-run gravitation to the economic and political model of Western societies. Instead of continuing to read events in post-communist countries through the lens of transition benchmarks, we need to take a fresh look and try to detect and understand the logic of their long-run evolution.

The studies gathered in this volume, authored by top scholars on transition, provide a unique and comprehensive set of contributions to better understand these evolutions. More than half of the chapters address important issues analysed in a comparative perspective across transition countries: innovation, demographic trends, inequality, evolution of political and financial institutions, the role of culture, differences in civil society development and the legacy of communism. Some studies look back at policies of governments and international institutions and provide a long-run evaluation. Finally, a third set of studies documents and interprets evolutions in particular countries and regions: Russia, East Germany, South Eastern Europe, and Central Asia.

János Kornai, the most prominent scholar of the socialist economic system and its transition to capitalism, gave the keynote lecture at the conference. He chose to revisit one of the fundamental flaws of the socialist economy: its inferiority to capitalism in generating technical progress and innovation. Even if there had not been Gorbachev or the collapse of the Berlin Wall in 1989, capitalism would have eventually proved its superiority due to its dynamism in generating innovation. This characteristic of capitalism was outlined by Schumpeter more than half a century ago. Kornai documents 87 major innovations in the world economy since 1917, the year of the Russian revolution. A good third of those are related to computers and information technology. It is remarkable to observe that socialist countries are nowhere on Kornai's list. Only in the military sector was the socialist system comparable to the capitalist system in generating innovation. The Soviets invented the Sputnik, while the US military invented email. The main culprit for the absence of socialist innovation was not the lack of fundamental research but the systemic inability of socialism to diffuse innovations. Adam Joffe, a Soviet physicist, quite ahead of his time, was one of the pioneers of semi-conductors in the 1930s, but industrial application was not developed in the Soviet Union before the USA and Asia did. Jacek Karpinski, a Polish engineer invented the first mini-computer in 1971-73 but it was never used on Polish soil. The famous Rubik's cube—developed by Hungarian Ernö Rubik—was commercialized by a US toy company. The floppy disk was first invented in Hungary but not used. It was later reinvented in Japan. The list of such examples is long. Innovation under socialism was stymied by the bureaucratic centralization of the research process, lack of rewards for innovators, the absence of competition, experimentation and flexible capital allocated to innovation. After the collapse of socialism, innovation started to blossom in transition countries. Skype was registered initially in Estonia. Graphisoft, a successful 3D graphic design for architects, was developed in Hungary. Kornai thinks that the comparison between socialism and capitalism clearly illustrates the fundamental dynamism of capitalism in its capacity to generate innovation. Behind this dynamism lies the capacity of capitalism to improve living standards. Transition has brought dissatisfaction in many countries and sometimes nostalgia for socialism, but Kornai considers that academics and politicians alike are guilty of not educating the public about capitalism's fundamental capacity to generate innovation and socialism's dismal record in that sphere. The key role of innovation under capitalism is still cruelly absent from the main economics textbooks and even more absent in speeches by politicians.

Demographic trends related to the transition process are analysed very systematically by Elizabeth Brainerd, the well-known expert on demographic trends and health issues in transition. A very important trend observable everywhere is the decline in fertility and the shift in the age of child-bearing. For example, in Hungary until the nineties, the highest rates of births occurred when women were between the ages of 20-24 years. With transition, the highest rates of birth are between the ages of 30-34, a shift of 10 years! Note that these changes can be seen as a movement of convergence with demographic trends observed in Western Europe. Another sign of convergence is the increase in extra-marital births. Overall, Brainerd notes that the increased child-rearing age and declining fertility rates have been associated with a better use of contraception compared to the communist period. They have not been associated with any increase in abortions. Tthe research Brainerd surveys shows that a higher education level is a significant determinant of lower fertility. At the beginning of the transition when fertility rates started plunging, increased uncertainty about one's economic and life environment was mentioned as a major cause of decline in fertility. Research done over the transition period shows, however, mixed results for uncertainty as a cause of lower fertility rates.

Another major demographic trend of the transition period is the large decline in life expectancy in the FSU including in the Baltic countries. Male life expectancy was as low as 61.3 years in 2007 in Russia. During the same time however, life expectancy increased in Central Europe and mortality rates fell. Improvements in diet and medical care are behind this increased life expectancy. The decline in life expectancy in Russia and other transition countries appeared puzzling at first. The phenomenon is today better understood. The large increase in mortality rates of middle-aged males is related to increases in circulatory diseases that are best explained by excessive alcohol consumption and binge-drinking. Lower relative prices of alcohol explain quite well increases in alcohol consumption in Russia. The economic consequences of the fall in life expectancy in the FSU are not yet clear. However, it does induce a drastic decline in population numbers.

One remarkable but also puzzling trend that is concentrated in the Caucasus is the increase in sex ratios at birth. Azeri official statistics give a ratio of 1.168 in 2008, and was above 1.1 in Armenia (in 2001) and Georgia (in 2002). These figures are comparable to sex ratios at birth observed in China and India which are considered quite dramatic. No such trend has however been observed in Central Asia.

The evolution of income inequality in the transition process has always been a matter of concern as scholars believed the introduction of the market economy would inevitably lead to an increase in inequality. The question was how strong that trend would be. Branko Milanovic, one of the world's experts on income inequality presents in his contribution the latest findings on trends in inequality in transition countries in a chapter co-authored with Lire Ersado. They do this using a new data base for 26 countries between 1990 and 2005, compiled from household survey data. Milanovic and Ersado show that the most dramatic changes in income inequality occurred in the very first years of transition, between 1990 and 1995. In that period, the income share of the top decile increased from 20 to 25 per cent while the bottom decile lost out from 4.5 to 3 per cent. That picture has remained pretty stable in the following15 years. Theythen portray a comprehensive picture of the trends and policies and their effects on the rich and the poor in transition countries. Contrary to the view that growth benefits the poor via a trickle-down process, Milanovic and Ersado find that growth has not been beneficial to the bottom decile but to the top decile. Similarly, inflation has hurt low incomes but not top incomes. Reforms have overall not been favourable for the poorest 50 per cent (the lowest five deciles) while they were definitively favourable for the top two deciles. Government expenditures have been on the whole neutral and did not really benefit the poor in a redistributive manner. Democracy on the other hand proved favourable for the bottom six deciles, neutral for the next three, and bad for the top decile. Small-scale privatization and policies favouring entry of small businesses has benefited the bottom five deciles but had a negative effect for the top three deciles. The latter finding is rather surprising. Large-scale privatization, unsurprisingly, did not benefit the poor but was good for the top decile. Infrastructure reform was found to be bad for the poor as it was related to privatization and the introduction of fees while it benefited the top two deciles. The effects of infrastructure reform counterbalance the pro-poor effects of small-scale privatization. To summarize, growth, inflation, democracy, economic reforms, privatization and infrastructure reform are the main variables that have affected inequality one way or another. Only democracy and small-scale privatization benefited the poor. All the rest benefited the rich and hurt the poor.

The divergence in political institutions is one of the major long-run phenomena observed in transition countries. Dan Treisman—a well-known Russia observer and one of the most famous political scientists studying transition processes—reviews the evolution of political systems since the collapse of communism. He argues convincingly that the Polity scores give us a more nuanced and realistic measure of the evolution of political institutions in transition countries compared to the Freedom House indices that are also very popular among researchers. Freedom House ranks, for example, Russia only one step away from a pure autocracy like the United Arab Emirates. Russia has however elections, a democratic constitution, and some freedom of the press, even though all these are obviously imperfect. Estonia is seen as a perfect democracy in the Freedom House rankings but not in the Polity score because of well-known discrimination against Russians living in Estonia.

Looking at the evolution of various countries across time, Treisman distinguishes between the following groups. Central Europe and the Baltic countries sprinted towards democracy. Central Asia never really entered the race. The Balkans started with a sprint, but then jogged on. Croatia and Serbia did a late sprint. A final group including Russia, Ukraine, Georgia, and Armenia sprinted to the edge and then stalled. How to explain these differences? The distance of a country from Düsseldorf accounts for 58 per cent of the variation in polity scores. However, this geographical explanation stops being significant when one includes in the regressions dummy variables for the FSU and the proportion of Muslims in a country. Those variables affect negatively democracy scores. The most convincing explanation for the FSU effect is the length of life under a communist regime which was longer in the FSU (over 70 years) than in Central Europe (slightly over 40 years). Many other variables are not significant such as: being an oil exporter, having belonged to a former empire, ethnic fractionalization, the percentage of Catholics or Protestants. To summarize, the main determinants in variation of Polity scores in former communist countries are the length of time under communism and the percentage of Muslims in a country. There is so far no generally accepted theory for why those variables matter, a topic that requires further research.

The introduction of financial systems was one of the most difficult reforms in transition countries. Katherina Pistor—one of the world's most renowned experts in legal institutions and a very keen observer of institutional reforms in transition countries—does not redo the whole history of financial reforms but instead assesses some of their main current weaknesses in the light of the 2008 crisis that has challenged much of our thinking on financial systems. She points to the fact that in transition countries financial liberalization was associated with the delegation of the role of ultimate guardian over the financial system to supranational authorities. The standards of the EU and of the International Monetary Fund were adopted. Privatization of banks to foreign-owned banks meant a surrender of monitoring to foreign regulators. This created a stark trade-off. On the one hand, drastic liberalization led to a strong development of the financial sector. On the other hand, national governments abdicated and surrendered the governance of their financial markets to supranational and foreign governments. In an ideal world, such an abdication should not pose big problems. However, national regulators are rarely independent from political pressures. Such pressure would lead them to favour the home bank and its jobs over foreign subsidiaries, especially if they are located in small transition countries. One solution to this problem would be the creation of one central European regulator for financial markets. Proposals in this direction have however been blocked by several European countries. A second option would be to adopt an effect-based regulatory power as is the case for example in anti-trust law. Effect-based regulatory power means that domestic law can apply abroad as long as decisions of foreign entities broach domestic laws. This is how for example Microsoft, a US company, can be sued in Europe for anti-competitive behaviour. However, Europe is not ready for such regulations. Pistor fears that the costs of abdicating governance over one's own financial system will become clearer over time despite trends towards more harmonization of financial regulation.

The effects of culture have not been much taken into account in transition debates. Gérard Roland takes up the theme of cultural inertia in the context of transition. Using various questions from the World Values Survey over the last 20 years, he shows that despite the massive institutional changes taking place in transition countries, values and beliefs of citizens in those countries have not changed much. Comparing the USA, the EU, and transition countries on a number of indicators indicating attitudes towards less government intervention in the economy and attitudes towards more democracy, he finds a remarkable stability of the three regions over time. In the USA, there are strong preferences for democracy and against authoritarian government as well as strong preferences for little government intervention in the economy. The picture is similar for EU countries except that there is more preference for government intervention in the economy. A stark finding is that for transition countries, there are stronger preferences for authoritarian forms of government and for more government intervention in the economy. These preferences have hardly changed since the fall of communism. They are not necessarily the result of life under communism. New research indeed documents long-run cultural effects of living together under a former empire. Interestingly, if one were to make extrapolations hundred years ago of where China, Russia, and Central Europe would stand today in terms of their economy and institutions, the picture might be quite accurate. The question is raised of whether communism was not a historical anomaly disturbing the low frequency evolution of countries. Cultural inertia is certainly one important factor in these low frequency movements.

Leonid Polishchuk takes a close look at the discrepancy between institutions prima facie and how they work in reality. This discrepancy between reality and formal institutions is quite strong in some countries. Formal institutions are often misused and abused. For example, in Russia, bankruptcy law has been misused by unscrupulous creditors to raid companies that are otherwise financially sound. Intermediaries which are supposed to facilitate transactions have been used as cover to hide corrupt activities and make them more difficult to detect. Courts and sub-national governments have been captured by powerful interest groups. How can one explain the misuse of institutions? The public may be indifferent to misuse because of weaknesses in collective action, low social capital or a limited history in non-despotic government in their country. Formal laws, often imported from abroad might contradict existing social norms and culture. Government reaction against misuse of institutions in Russia has been particularly blunt. After media reports of abuse by NGOs serving as tax shelters, there was a strong crackdown on them. Government elections were cancelled to fight sub-national capture but Russia turned instead into a unitary state.

The topic of collective action and civil society is taken up in the chapter by Bruszt, Campos, Fidrmuc, and Roland. They show that under communism in the 1980s protest activities were much more widespread and repression less strong in Central Europe, and to a certain degree South Eastern Europe, compared to the FSU. They have built an original database based on dissident activities and their repression across transition countries. These differences in dissident activity and repression are taken to measure the difference in strength of civil society across countries. They find that these differences can explain differences in the choices of political regimes. Countries having a more vibrant civil society opted for parliamentary regimes as opposed to presidential regimes with strong executive powers in countries where civil society was less developed. These differences account also for stronger support and progress of transition reforms. Differences in civil society development can thus have far-reaching and long-run institutional consequences.

Convergent with previous studies on the institutional picture of transition is the contribution by Gur Ofer, a well-known veteran observer of socialism and transition, who analyses the institutional legacy of communism in Russia. He argues that authoritarianism opened the door to corruption. The tradition of opposition to government has been turned against post-communist governments and no culture of civil duty has emerged. The new elites have developed a general mentality of shirking and cynicism and a widespread hypocrisy. There is a lack of moral outrage against government capture as was clear in the privatization process but this cynicism and passivity have become very widespread. The new regime inherited, among the negative inheritance from communism, a high level of human capital and a strong national research capacity. However, the low level of trust and social capital and the bad institutional environment are ruining even these meager positive inheritances.

Various studies look back not only at institutions but also at economic policies and economic performance. Erik Berglöf, the current chief economist of the European Bank for Reconstruction and Development (EBRD) and an important contributor to transition debates presents with Lise Bruynooghe, Heike Harmgart, Peter Sanfey, Helena Schweiger, and

Jeromin Zettelmeyer, also from the EBRD, an assessment of the progress in transition in various regions. The EBRD currently takes a broader view of transition looking more than before at the quality of institutions supporting markets. In their assessment, Central Asia seriously lags behind in all sectors of the economy in terms of its reform process. In Russia, Eastern Europe, and the Caucasus, market development is seriously hampered by strong state interference in various sectors, the lack of an adequate legal framework (or its effective implementation), and an unfavourable business environment. In South Eastern Europe, there is a mix of small, medium and large challenges, with smaller challenges in two EU countries, Bulgaria and Romania. Despite gradual alignment of regulation with EU standards, further work is needed in most countries to implement international best practice and strengthen the implementation capacity of regulatory authorities. In Central Europe and the Baltics, transition gaps are by now mainly small, with the exceptions of sustainable energy, transport and financial institutions, where medium-sized transition gaps remain. All countries have aligned their institutional frameworks with EU norms, and remaining challenges relate mainly to improving efficiency, productivity, and competition. There are sectoral differences with industry being usually more problematic than agri-business for example. The study provides a comprehensive gap of the transition gaps remaining in different sectors in different countries. An interesting aspect of the chapter is that transition countries are not only compared among themselves but also to other developed and developing countries. For example, the institutional quality in Central Europe and the Baltics is higher than in China and India. The obstacles to business in the FSU (tax rates, political instability, and access to finance) are higher than the average for developing countries, which is not the case for Central Europe. Russia, Romania, Kazakhstan, and even Romania, rank very low in terms of management practices, lower than China. Central European countries have caught up with EU management practices but still are behind Germany. The chapter highlights strong divergences among the evolution of transition countries in new areas that had been less the subject of research before.

Giovanni Andrea Cornia—a former director of UNU-WIDER, who took many initiatives on research in transition—examines the structural changes that have taken place in transition economies. Some common trends are detectable in all countries. The share of agriculture and industry went down whereas the share of services went up. Similarly, all countries have experienced a significant reduction in energy consumption per capita. He identifies four clusters of countries. The first cluster consists of countries specialized in exports of manufacturing products. Roughly half the countries were in this category in 1996 but many of them have joined the second cluster, that of tertiarized economies reflecting the general deindustrialization in transition countries. The third cluster is composed of oil and ores exporting countries and includes Azerbaijan, Kazakhstan, Turkmenistan, and Russia. This is the group that has had the fastest economic growth since 2000. The last cluster is composed of countries dependent on remittances from emigrant workers and aid. It includes Albania, Armenia, Kirgizstan, Macedonia, Tajikistan, and Uzbekistan. This group has been relatively stable in the last ten years.

Vladimir Popov has studied the transition process in Russia since the beginning and has been critical of many of the policies followed. In his chapter he delivers his analysis of the evolution in Russia. He does not accept the notion of Russia as a ‘normal country’ comparable to Mexico or Brazil. Russia sent the first man into space, has had 20 Nobel Prize winners, has eight out of 40 Fields Medals winners, and has had a relatively good education system, and even a reasonable level of life expectations before the transition started. The reason Russia did not fare well in the transition period is, according to Popov, due to larger initial distortions but mostly to an institutional collapse that was worse than in other transition regions and led to a lower institutional capacity as a consequence. Existing institutions were thoroughly destroyed contrary to what was the case in China. However, the new ones that were imported did not take root for various reasons. Democracy was introduced fast in a context where there was no rule of law. Without the underpinning of the rule of law, Popov argues that Russia was doomed to have low institutional capacities.

Famous Harvard historian Charles Maier contributed a study on transition in East Germany, the former German Democratic Republic. It can easily be argued that East Germany should have had the easiest economic transition. It was the economic powerhouse of the Soviet bloc. Its transition happened under unification. In effect, it inherited overnight from Germany's institutions. Nevertheless, transition in East Germany is not seen as a success. As of today, unemployment in East Germany is still double that in West Germany with 13.1 per cent in the former compared to 6.1 per cent in the latter. Nowhere was shock therapy worse than in East Germany. In firms privatized in the 1990s, 70 per cent of jobs were lost. The industrial sector lost 60 per cent of its initial jobs. East German wages were too high compared to its Central European neighbours but the skills of the labour force were not on par with those in West Germany. Massive transfers from West Germany to compensate for such losses considerably strained the German economy in the 1990s, which led to cutbacks in the welfare state that led to a split among the German left. East German labour became the vanguard of an insecure workforce. The huge pains of transition and the de facto colonization of East Germany by the rich West Germans fuelled a strong bitterness in East Germany that led to support for the extreme left—a situation that would have seemed highly unlikely at the time of the fall of the Berlin Wall.

Milica Uvalic, the well-known specialist of Balkan economies, gives us an overview of the transition period in South Eastern Europe, a region that includes countries from former Yugoslavia, Albania, Romania, and Bulgaria. Former Yugoslavia also was thought to have great initial conditions for transition. Self-management and far-reaching reforms towards the market economy were already introduced as early as 1965. The Yugoslav regime was one of the most open and liberal among socialist countries. It had been since the early 1950s completely independent from the Soviet Union. Unfortunately, the cruel war unleashed after the disintegration of Yugoslavia in mid 1991 changed the situation completely. Military conflicts in Slovenia (1991), Croatia (1990-91), Bosnia and Herzegovina (1992-95), Kosovo (1998-99) and FYR Macedonia (2001) left very deep scars. The newly created states tended to pursue nationalistic and inward-oriented policies with authoritarian regimes, in particular in Croatia and Serbia. Whereas Romania and Bulgaria received aid from the EU early on, this was not the case for countries from former Yugoslavia, with the important exception of Slovenia. Transition reforms were considerably delayed in countries entangled in military conflicts but there has been a lot of catching up. Trade integration with Europe has made big advances in the last ten years. Regional trade has also been booming despite the wars. There has nevertheless been slow progress in restructuring and competition policy, also in financial reform and infrastructure.

Well-known development economist Richard Pomfret gives us a comprehensive overview of landlocked Central Asia, a region too often neglected in transition studies. Transitions in Central Asia have been very diverse ranging from rapid transition in Kyrgyzstan to very hesitant, and under Nyazov non existing, reforms in Turkmenistan. Kyrgyzstan, despite strong early liberalization stopped its reform process after 1998 and growth performance of its economy has been disappointing. Kazakhstan experienced an evolution similar to Russia with private interests capturing the reform process. Its decline in the 1990s was at least as bad. Uzbekistan was also a timid reformer, protecting its cotton industry and keeping strong foreign exchange controls at least until 2003. Tajikistan has had a civil war until 1997. Overall, Pomfret argues that endowments play a bigger role for the fate of Central Asian economies than reforms. Uzbekistan benefited from good cotton prices in the early 1990s. Turkmenistan also benefited from its endowments and from high gas prices. The same is true for Kazakhstan whose fate has strongly been linked to oil prices, low in the 1990s but higher in the following decade. Kyrgyzstan and Tajikistan are the only resource-poor countries. They are however developing their hydro-resources. Overall, Central Asia is an important energy route, however the countries in the region have failed to co-operate to take advantage of this.

As we can see, this volume offers a very rich set of contributions by a large group of world-known experts on transition offering an analysis of long run developments in those countries. Kornai's chapter reminds us of the basic differences between socialism and capitalism in relation to an economic system's capacity at generating innovations. Issues that matter for long run development are also covered: democraphics (Brainerd), inequality (Milanovic and Ersado), financial institutions (Pistor), political institutions (Treisman) or cultural values and beliefs (Roland). The various geographical regions are very well covered with chapters not only on Russia (Ofer, Popov) but also on Central Asia (Pomfret), South Eastern Europe (Uvalic) and East Germany (Maier). Moreover, various contributions such as those by Berglof et al. and Cornia cover broadly the economic performance in the transition world as a whole. Many papers go beyond comparisons within the group of transition countries and make comparisons with both developed and developing countries. This gives a better idea of where transition countries stand and is more fruitful than the comparison to the "ideal market economy" benchmark that has been used ad nauseam (though for understandable reasons) in the early years of transition.

Not surprisingly, and this is one of the most important contributions of this volume, the various chapters in this volume offer different perspectives on different paths observed in the institutional changes in these countries. The differences in democratization paths described by Treisman play a key role in understanding divergences in institutional paths as well as the determinants of these differences. Among these, the length of the communist regime in a country appears to be an important factor. What are the mechanisms that could explain why a longer life under communism makes a country less successful at democratizing? Here, the other contributions offer a helpful perspective. Ofer suggests that life under an authoritarian regime has engendered more private cynicism and a lower sense of civic morality. For Ofer, this explains more generally the institutional weakness observed in Russia today since formal institutions need to be complemented with the appropriate social norms to make them work. Polishchuk's perspective is very similar. Institutions that look good on paper can be misused in reality when people are passive and when collective action is weak to fight abuses by elite interest groups. The analysis by Bruszt et al. echoes this idea by showing empirically the link between strength of collective action and dissent under communism and the type of political institutions that emerged in transition countries after the Fall of the Berlin wall.

The legacy of communism on transition countries is however not the only factor explaining institutional divergence. Contributions by Popov and Roland look at more long run explanations. According to Popov, China had a successful transition because it adopted institutions for the market economy that are adapted to its traditional pre-communist collectivist values. Central European countries had already done major progress in adopting modern Western values whereas this was not the case in Russia. In the latter, old institutions were destroyed at a frantic speed before the new ones could mature. Attempts to establish the rule of Law in Russia were thus less successful because values had not yet evolved sufficiently along the Western modernization path. Roland explores more at length the theme of values and cultural inertia. Countries' economic structure and geo-political borders evolve in the long run in line with their geographical endowments and comparative advantage but cultural beliefs play a key role in the establishment of institutions which in turn affect economic performance. It is difficult to understand the origin of various cultures in the world but cultural inertia is an important phenomenon, rooted in a country's long term history. Because of its inertia, culture affects institutional change and its direction. Given the very diverse histories of countries that lived under communism, this interaction between culture and institutions might play a key role, possibly a larger role than the communist path itself, in explaining the differences in trajectories observed in former communist countries.

Overall, this volume presents both very informative and very stimulating reading and will be seen as a milestone in reflections on the long-run consequences of transition. Hopefully, it will trigger further research and scholarship and affect policy discussions.