Anders Åslund and
Simeon Djankov, editors

# THE GREAT REBIRTH

## Lessons from the Victory of Capitalism over Communism

Peterson Institute for International Economics

# 13

# Transition in Historical Perspective

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Twenty-five years after the historical events leading to the transition from socialism to capitalism, it is time to look back at what has been achieved and to think about where transition economies are going. This chapter does so by taking a long-run view of transition. It describes the trends that have emerged in different regions, tries to explain them, and points to some areas for further research.

Particular policies and particular individuals played important roles in transition, and there were critical junctures. But when looking back, it is difficult to argue that the destiny of a whole country would have been dramatically better (or the worse) if one path had been chosen over another. Societal forces greatly influence countries' choices of particular economic and societal paths. It is thus important to understand these forces and how they affected transition outcomes.

Transition provided some surprises in the early years, including the deep decline in output, the institutional divergence between new member states of the European Union (EU) and others, the Chinese economic miracle, and the extent of looting and corruption in connection with privatization in many countries. Much has been written about these problems. To see transition in a historical perspective, it is useful to go beyond these surprises and take a fresh look at the trajectories of various groups of transition economies.

The most important transition measures were implemented in the 1990s. Countries headed in various directions: Central European countries were quickly recovering from the decline in output and preparing for accession to the European Union; former Soviet republics, excluding the Baltics, suffered

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a prolonged drop in output that lasted throughout most of the 1990s; China continued to grow at an average rate of 10 percent a year, eventually engaging in the large-scale privatization and restructuring of its state sector.

This divergence between groups of countries, already observed at the end of the 1990s, was attributed to differences in institutions, but it was not clear where these institutional differences came from. The next 15 years seemed to freeze the early evolutions. Russia and the former Soviet republics eventually enjoyed robust growth, but they did so thanks mainly to oil and gas exports rather than institutional reforms. Most of these countries developed into stable kleptocratic autocracies, in which members of the elite in power rapidly enriched themselves while repressing liberties. China continued to grow but stopped reforming. Apart from the Rose Revolution in Georgia and positive changes in Southeastern Europe, reforms to improve institutions stopped in transition economies. The democratic drive was weaker than in the aftermath of 1989 but not dead, with the revolution in Serbia in 2000, the Orange Revolution in Ukraine, the Georgian revolution, two revolutions in the Kyrgyzstan, the 2011–13 protests in Russia, and other events.

In the early 1990s there was an immense drive and appetite for reforms. Today the will to introduce reforms that would improve institutions is mostly absent. What should one make of this change? What does it hold for the future?

I first take a bird's eye view of economic evolution in transition economies. The picture is mostly positive, despite the tumultuous early transition period. I then look at the institutional situation, which is much more mixed, before addressing the issue of where institutional divergence comes from. In line with the 2013 report by the European Bank for Reconstruction and Development, I argue that democratic institutions are a strong determinant of economic institutions. This statement begs the question of how to understand differences in democratic institutions across transition economies. I discuss two factors: admission to the European Union as an institutional anchor and differences in civil society development, which themselves are related to deep-rooted and slow-moving cultural traditions. I think that cultural differences between transition economies in Asia and Europe are sufficiently large to warrant pessimism about the prospect for democratic changes in China, Vietnam, and many Central Asian countries; I view the cultural differences between Central European and East European countries as less important.

I draw two tentative conclusions. First, democratic stability in the new member states is bound to remain fragile despite the institutional anchor provided by the European Union, as the recent Hungarian experience (described in chapter 2) illustrates. Second, further political instability is likely. Ultimately, democracy will spread east of the European Union, but it is difficult to predict the detours history will make before it arrives there. I explain how the current tension in Ukraine relates to this path.

## Basic Economic Trajectories

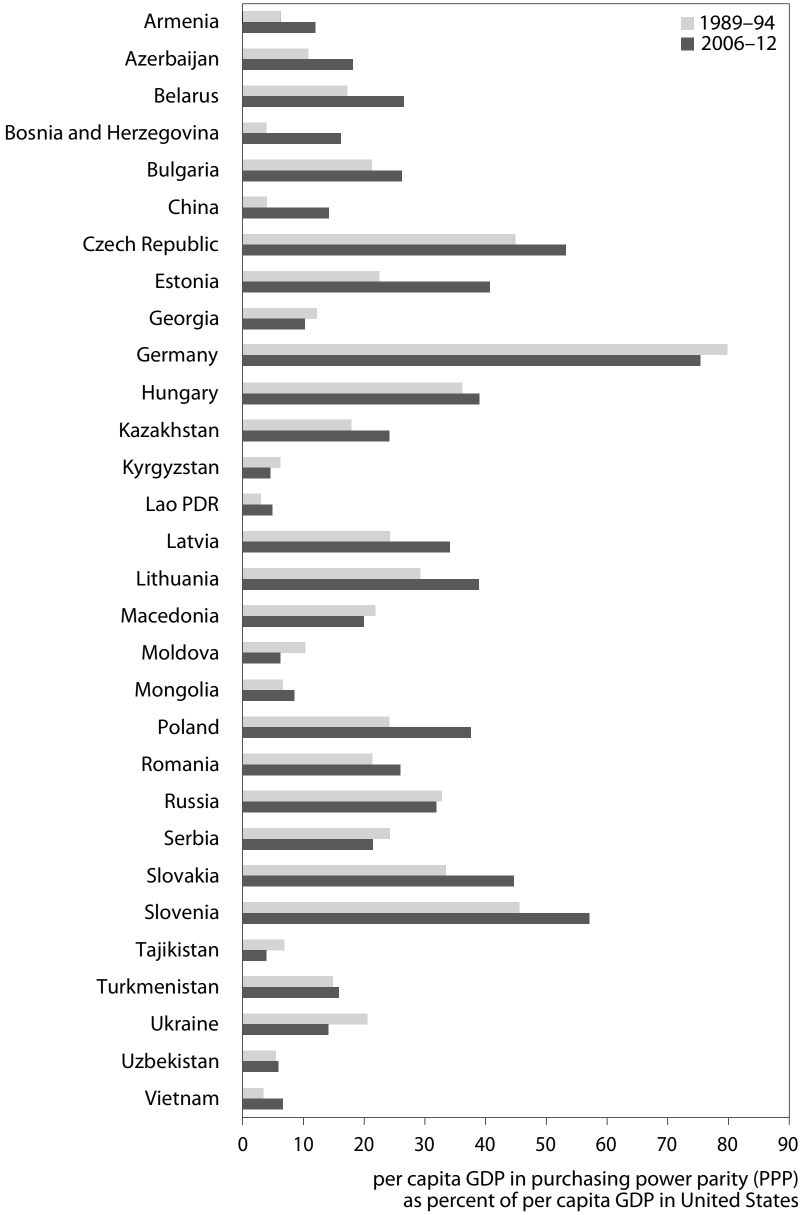
A very basic question is how much transition economies evolved economically over the past 20 years. Figure 13.1 compares GDP per capita in purchasing power parity (PPP) in various countries at the beginning of transition. To work around data limitations and the fact that the decline in output occurred at different times in different countries, I take the average of GDP per capita between 1989 and 1994 and compare it with average GDP per capita between 2006 and 2012. I use the United States as benchmark, because it has been among the most dynamic advanced market economies in the past 20 years (I could also have used Europe).

Although the picture is mixed, overall it suggests that the economic transition away from socialism has proven successful, with most of the 29 countries in figure 13.1 reducing the income gap with the United States (I did not include Croatia or Kosovo because of data limitations at the beginning of transition). There are only eight exceptions: Georgia, the Kyrgyzstan, Moldova, Russia, Serbia, Tajikistan, Ukraine, and Macedonia, among which only Moldova and Tajikistan significantly increased the gap. GDP per capita in Slovenia and the Czech Republic now exceeds 50 percent of the United States'. Various countries, including not only China but also Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, the Baltic countries, Poland, Kazakhstan, Slovakia, and Vietnam, substantially reduced the income gap. Contrary to what one might think on the basis of growth convergence theory, however, the income gap reduction was not larger for poorer countries than for more advanced countries. With the exception of Hungary, countries that were initially more developed significantly reduced the income gap; in countries that started the transition poor, the picture is mixed, with some countries growing rapidly and others stagnating.

How well have transition economies been doing relative to the rest of the developing world? The share of world GDP accounted for by transition economies increased substantially, from 5 percent in 1992 to 17 percent in 2012 (figure 13.2). Most of this increase reflected growth in China, lumped here with other Asian transition economies, which accounted for 11.6 percent of world GDP in 2012, up from just 1.7 percent in 1992. But other transition regions also grew more rapidly than the rest of the world. Eastern European countries (Belarus, Moldova, Russia, and Ukraine) increased their share of world GDP from 2.2 percent in 1992 to 3.1 percent in 2012. Countries in Southeastern Europe (Albania, Bosnia, Croatia, Macedonia, Montenegro, and Serbia) increased their share of world GDP from 0.05 percent to 0.17 percent. New EU member states (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) increased their share of world GDP from 0.96 percent to 1.74 percent (I did not include Croatia in this group, because its EU membership is much more recent).

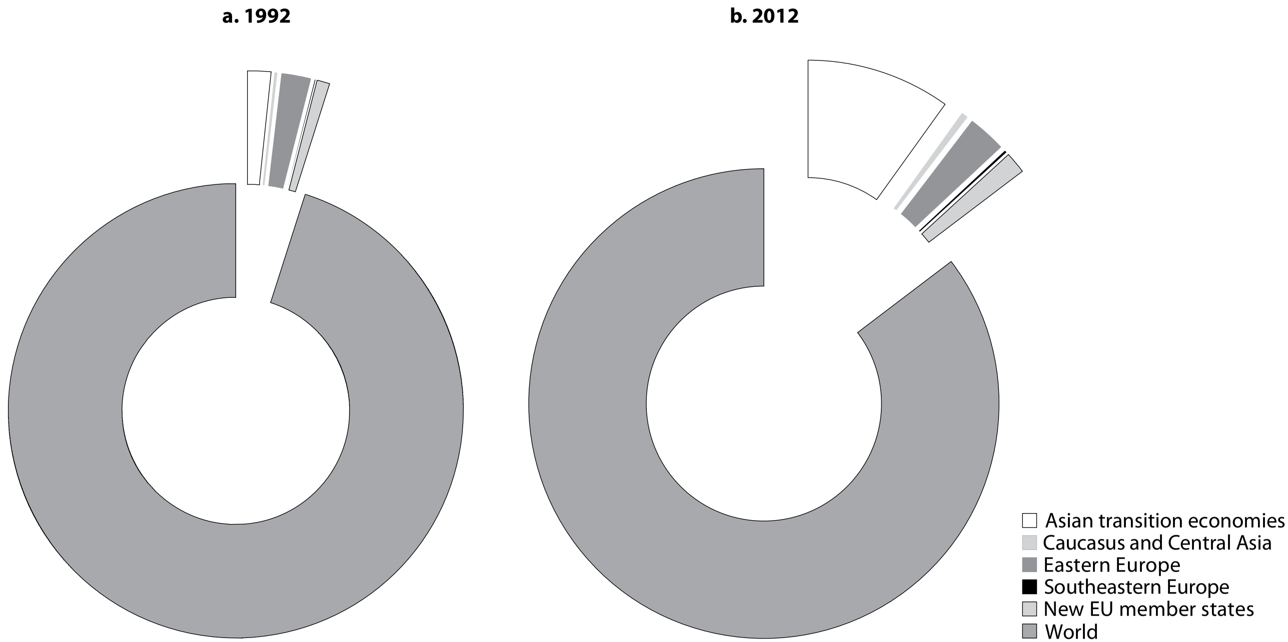
On average, then, over the past few decades transition economies grew more rapidly than the world economy, suggesting that transition has been an

**Figure 13.1 GDP per capita relative to United States in selected countries before and after transition**



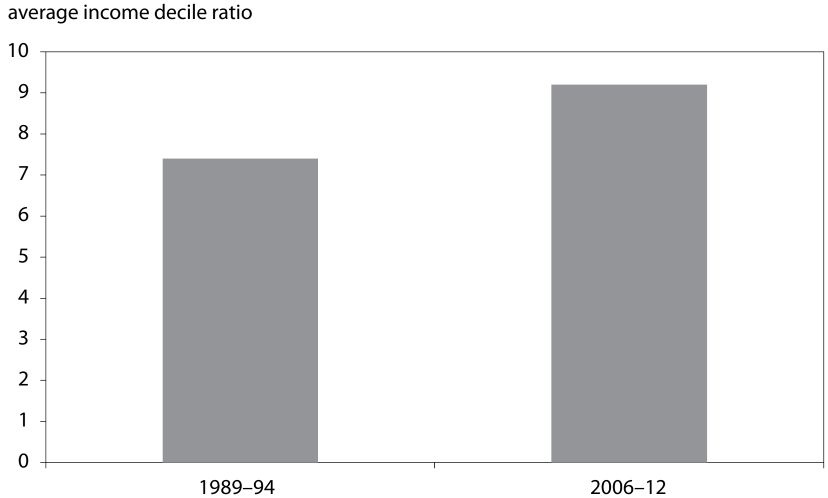

*Source:* World Bank, *World Development Indicators*.

**Figure 13.2 Share of world GDP accounted for by transition economies, 1992 and 2012** (percent)




*Source:* World Bank, *World Development Indicators*.

**Figure 13.3 Average income decile ratio in transition economies, 1989–94 and 2006–12**




Note: The average income decile ratio is the ratio of the income of the richest 10 percent to the income of the poorest 10 percent.
*Source:* World Bank, *World Development Indicators*.

economic success so far. Such a conclusion could not have been reached after the first decade of transition. During that period many countries in Central Europe recovered quickly from their initial drops in output, but countries elsewhere, especially in the former Soviet Union, suffered prolonged declines.

In hindsight the economic success of economic transition seems clear. It was a first-order effect of the systemic transformation that took place in former communist countries. This conclusion about the first-order success of economic transition needs to be qualified in many ways, however.

Transition has been associated with an increase in economic inequality. A small number of oligarchs, as well as regular entrepreneurs, exploited the unique opportunities offered by transition to become very rich, while the poorest people have been struggling with economic insecurity, inflation, smaller pensions, unemployment, and other problems. How important has the increase in income inequality associated with transition been?

The average ratio of the income of the richest 10 percent to the income of the poorest 10 percent rose significantly between 1989–94 and 2006–12 (figure 13.3). During the first period, the income of the top 10 percent was roughly seven times that of the bottom 10 percent; during the later period, the factor rose to more than nine.[1] These numbers are not extreme. The ratio for the

1. It was certainly lower before the beginning of transition, but reliable numbers are not available for those periods.

United States is nearly 16, and the figure for Germany is slightly under 7. These numbers vary greatly across developing and transition economies. Brazil has a ratio of 55, and India has a ratio of less than 8. China has a ratio of 17 (higher than the United States) and Russia has a ratio of just over 14. Although income inequality increased in transition economies, the average level is closer to the level in Germany than the level in the United States.

Measured by decile ratios, the increase in income inequality is smaller. The share of income earned by the top 10 percent rose from 26.0 percent in 1989–94 to 27.6 percent in 2006–12. The share of the bottom decile declined from 3.5 to 3.0 percent. On average the standard of living among the poorest 10 percent rose.

## The State of Institutions in Transition Economies

The general economic picture that emerges from transition economies 25 years after 1989 is a positive one. But there are dark aspects of transition.

The experience of transition made economists recognize the importance of institutions that protect property rights and reduce transactions costs. A huge body of literature exists on this issue. Johnson, McMillan, and Woodruff (2002) document the difference between Central European countries and Russia and Ukraine in terms of levels of corruption, racketeering, and insecurity of property rights and the effects of these factors on market development. Berglof and Roland (1997) highlight the role the European Union played as the institutional anchor for transition economies from Central Europe. Roland and Verdier (2003) show how the prospect of admission to the European Union served as a coordination device to introduce the rule of law in those countries, noting that it could explain the divergent economic trajectories of Central Europe and Eastern Europe in the 1990s (on this point, see also Berglof and Bolton 2002). Blanchard and Kremer (1997) show how the absence of properly functioning legal institutions could explain the decline in output following price liberalization in transition economies. In Roland (2000) I survey the literature and discuss the central role of institutions in establishing a successful market economy. The experience of transition economies as well as the path-breaking work of Acemoglu, Johnson, and Robinson (2001) confirm the ideas of Douglass North and institutionalists on the importance of institutions for successful growth and development (see Roland 2013 on institutions and economic development).

Where do transition economies stand today in terms of institutions? Table 13.1 shows the ranking and scores on the Rule of Law index, one of the World Bank's major governance indicators.

The picture is mixed but mostly negative. Only nine transition economies have positive scores, and Estonia, the transition economy with the highest score, ranks 34th in the world, just before Cyprus and Qatar—not exactly shining stars in terms of the rule of law. Not surprisingly, the new member states of the European Union score best, with rankings between 40th and 94th. Bulgaria, the

**Table 13.1 Rankings and scores of selected countries on the World Bank's Rule of Law Index, 2012**

| Ranking | Economy | Score |
|---|---|---|
| 1 | Norway | 1.95 |
| 21 | Hong Kong SAR, China | 1.56 |
| 34 | Estonia | 1.13 |
| 35 | Cyprus | 1.07 |
| 39 | Qatar | 1.03 |
| 40 | Czech Republic | 1.01 |
| 42 | Slovenia | 0.98 |
| 58 | Lithuania | 0.81 |
| 59 | Latvia | 0.76 |
| 60 | Poland | 0.74 |
| 68 | Hungary | 0.6 |
| 77 | Slovakia | 0.46 |
| 78 | Greece | 0.39 |
| 94 | Romania | 0.02 |
| 95 | Montenegro | –0.01 |
| 97 | Georgia | –0.03 |
| 104 | Bulgaria | –0.12 |
| 110 | Bosnia and Herzegovina | –0.23 |
| 111 | Macedonia | –0.24 |
| 117 | Moldova | –0.36 |
| 118 | Mongolia | –0.38 |
| 119 | Serbia | –0.39 |
| 120 | Colombia | –0.39 |
| 121 | Armenia | –0.40 |
| 130 | China | –0.49 |
| 132 | Vietnam | –0.50 |
| 137 | Kosovo | –0.56 |
| 138 | Albania | –0.57 |
| 147 | Kazakhstan | –0.66 |
| 157 | Ukraine | –0.79 |
| 160 | Azerbaijan | –0.81 |
| 162 | Russian Federation | –0.82 |
| 163 | People's Democratic Republic of Lao | –0.83 |
| 175 | Belarus | –0.92 |
| 176 | Cambodia | –0.97 |

*(continues on next page)*

**Table 13.1 Rankings and scores of selected countries on the World Bank's Rule of Law Index, 2012** *(continued)*

| Ranking | Economy | Score |
|---|---|---|
| 186 | Kyrgyzstan | –1.15 |
| 189 | Tajikistan | –1.18 |
| 190 | Nigeria | –1.18 |
| 193 | Democratic Republic of Korea | –1.25 |
| 195 | Yemen | –1.27 |
| 196 | Uzbekistan | –1.27 |
| 197 | Angola | –1.28 |
| 200 | Eritrea | –1.36 |
| 201 | Turkmenistan | –1.38 |
| 202 | South Sudan | –1.39 |
| 211 | Afghanistan | –1.72 |
| 212 | Somalia | –2.45 |

*Source:* World Bank Governance Indicators.

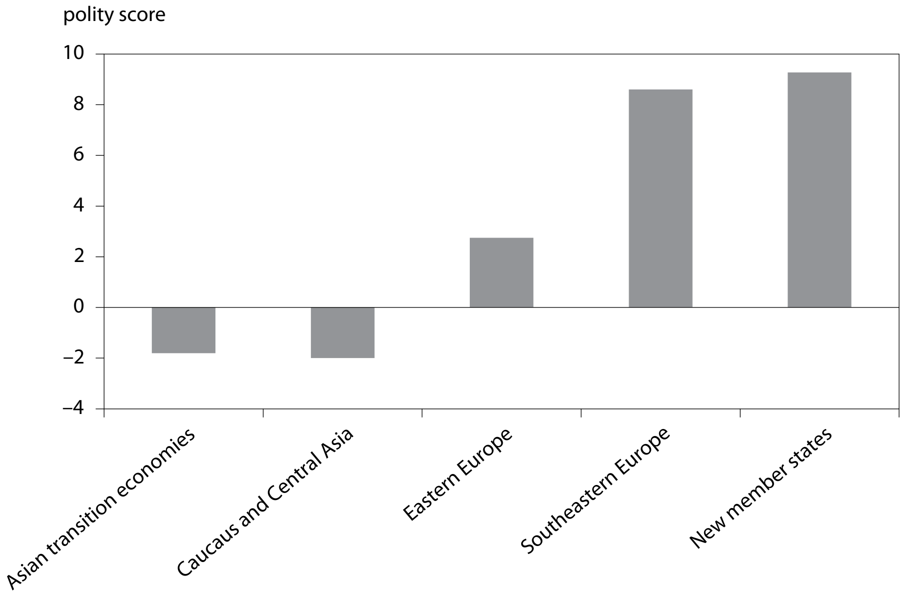
worst-performing new member state, has a score of –0.12 and ranks 104th out of 212 economies. Twenty-one transition economies are in the bottom half of the rankings, with 16 countries performing worse than Colombia. Turkmenistan is close to the bottom of the list, between Eritrea and South Sudan. Uzbekistan lies between Yemen and Angola. Tajikistan is on par with Nigeria. China ranks 130th, Ukraine 157th, and Russia 162nd, just ahead of the People's Democratic Republic of Lao.

Other indicators—of corruption, government effectiveness, and regulatory quality, from the World Bank's *Doing Business Report* or the *International Country Risk Guide*—point to the same conclusion: Apart from the new member states of the European Union and, to some degree, the countries of Southeastern Europe, the institutional indicators of the transition economies from Eastern Europe, Central Asia, and Asia are weak.

The state of economic institutions in transition economies is much bleaker than their overall economic performance. The institutional outcomes can be seen as a failure of transition. All former communist countries except Cuba and North Korea underwent major market reforms, but the institutions ruling market transactions are usually very weak and property rights are not well protected. If one accepts the view that institutions are a major determinant of long-run growth, the current state of economic institutions in transition economies does not bode well for the future, unless major institutional reforms are introduced.[2]

2. This view is based on the current mainstream orthodoxy in economics. It is not impossible that future research will find that institutions are less critical than currently thought.

**Figure 13.4 Polity scores for selected groups of countries, 2012**




*Source:* Polity IV database.

## Economic Institutions and Political Institutions

What explains these differences in economic institutions and the generally weak state of institutions in transition economies? The link between economic institutions and political institutions in transition economies is strong.

Figure 13.4 shows the 2012 polity scores for transition economies. Polity scores are generally seen as the most reliable indicators of democracy and autocracy in the world (Treisman 2012). They range from +10 to –10, where +10 indicates a perfect democracy and –10 a perfect autocracy. The new member states of the European Union had an average score of 9.27. Southeastern European countries had a score of 8.6, not very different from the new member states. The four Eastern European countries have an average score of 2.75, but the scores vary widely (8 for Moldova, 6 for Ukraine, 4 for Russia, and –7 for Belarus). Countries from the Caucasus and Central Asia have an average score of –2, clearly in autocracy territory, although Kyrgyzstan (7), Armenia (6), and Georgia (5) all have positive scores. All Asian countries except Mongolia (10) and Cambodia (2) are autocracies.

The picture is similar to the one that emerges from the 2012 Rule of Law index. New member states and Southeastern European countries (which hope one day to enter the European Union) score well. The picture is mixed for Eastern Europe and the Caucasus and mostly negative for Asia and Central Asia.

**Table 13.2 Determinants of economic institutions in transition economies**

| | Rule of law | | Government effectiveness | | Control of corruption | |
|---|---|---|---|---|---|---|
| **Variable** | **Average** | **Panel** | **Average** | **Panel** | **Average** | **Panel** |
| Polity 2 democracy score | 0.059*** | 0.043*** | 0.044*** | 0.033*** | 0.039** | 0.032*** |
| | (0.013) | (0.004) | (0.009) | (0.004) | (0.016) | (0.004) |
| Trust | –0.244 | — | –0.075 | –0.074 | 0.131 | 0.128 |
| | (0.315) | 0.257*** | (0.358) | (0.093) | (0.342) | (0.104) |
| | | (0.094) | | | | |
| Ethnic fractionalization | –0.238 | –0.329** | 0.272 | 0.187 | –0.234 | –0.300** |
| | (0.439) | (0.141) | (0.333) | (0.117) | (0.458) | (0.139) |
| Natural resource rents | 0.010 | 0.001 | 0.010* | 0.003** | 0.006 | 0.001 |
| (percentof GDP) | (0.007) | (0.001) | (0.005) | (0.001) | (0.008) | (0.001) |
| Ruggedness | 0.098 | –0.010 | 0.137* | 0.055** | 0.129 | 0.052** |
| | (0.125) | (0.025) | (0.076) | (0.024) | (0.116) | (0.026) |
| Distance to Equator | 0.058 | 0.030*** | 0.049* | 0.028*** | 0.054 | 0.033*** |
| | (0.043) | (0.009) | (0.026) | (0.008) | (0.038) | (0.009) |
| Landlocked | 0.127 | 0.104** | 0.174 | 0.171*** | 0.116 | 0.081* |
| | (0.206) | (0.044) | (0.148) | (0.034) | (0.157) | (0.043) |
| State antiquity index | 0.002 | 0.001* | 0.003* | 0.002*** | 0.002* | 0.002*** |
| | (0.002) | (0.000) | (0.001) | (0.000) | (0.001) | (0.000) |
| EU membership | 0.951* | 0.195*** | 0.797 | 0.233*** | 0.930* | 0.166** |
| | (0.574) | (0.052) | (0.491) | (0.040) | (0.487) | (0.067) |
| Number of observations | 28 | 356 | 28 | 354 | 28 | 356 |
| $R^2$ | (0.932) | (0.866) | (0.938) | (0.869) | (0.904) | (0.804) |

— = not available

Note: In columns 1, 3, and 5, the dependent variable is the average of the World Bank indicator for the rule of law (column 1), government effectiveness (column 3), and control over corruption (column 5) over the period 1996–2011. The other columns show annual data. *** significant at the 1 percent level, ** significant at the 5 percent level, * significant at the 10 percent level.

The 2013 *Transition Report* of the European Bank for Reconstruction and Development documents the strong link between economic and political institutions. Countries with autocratic regimes generally have bad economic institutions, and countries with democratic regimes are more likely to have good institutions.

Table 13.2 presents regressions of the determinants of economic institutions. The first row shows the effect of the polity score on the index of economic institutions. This effect is statistically significant at the 1 percent level in all specifications except the average control of corruption, where it is significant at the 5 percent level. The second row shows the effect of trust or a culture of cooperation. Putnam (1994) identified the effect of a culture of cooperation and the degree of development of civil society on the quality of democracy. These data show no robust significant effect. The third row looks at the effect of ethnic fractionalization. Alesina, Baqir, and Easterly (1999) and others argue that ethnic fractionalization makes it more difficult to sustain cooperation and produce public goods. Its effect is not robustly significant here. The fourth row looks at the possible effect of the resource curse, by looking at the effect of the World Bank measure of natural resource rents (revenues from natural resources net of extraction costs) as a percentage of GDP. It, too, is not robustly significant. The next three rows look at measures or geography. Ruggedness, a measure developed by Nunn and Puga (2012), captures variability in natural terrain (mountains and valleys in close proximity), landlockedness, and distance from the Equator. This variable is not robustly significant. The next row looks at measures of "state antiquity," a measure developed by Chandra, Bockstette, and Putterman (2002) to reflect how old a country is. This measure tries to capture the quality of a country's institutions and its economic performance. It is significant at the 10 percent level in most regressions, except for the rule of law average. The last variable, EU membership, is significant in all regressions except the government effectiveness average. The strongest link is between polity scores and economic institutions. The effect of democracy remains strong if fixed effects are included in the panel regressions. State antiquity and EU membership also play roles. There is thus a clear link between democracy and the quality of economic institutions in transition economies.

## What Accounts for Differences in Democracy?

If democracy and economic institutions are intertwined, what explains differences in democracy across transition economies? Two types of explanations can be provided. The first is an institutional explanation linked to accession to the European Union. The second relates to differences in civil society development and fundamental values.

The institutional type of explanation states that countries facing the prospect of accessing the European Union had a strong incentive to establish well-functioning democracies and legal institutions. The new member states had to introduce all institutions of the *acquis communautaire*, the joint institutions of the European Union. There was strong monitoring of the progress of accession candidates in introducing the required institutions. Accession provided an institutional anchor for transition economies, as Berglof and Roland (1997) argue. Countries did not need to make their own institutional choices, something that can often lead to coordination problems. More important, external monitoring ensured that institutions were established in a meaningful way, not just superficially. Accession to the European Union was a big prize for these reform efforts: Within a few years countries' status rose from satellite of the Soviet Union to member of a First World club. The main argument for the institutional theory of adoption of democracy is that if the right incentives can be found, institutions can be imported to a country. Unfortunately, EU accession cannot be offered to every country in the world, but the idea is that if offering it were possible, democracy would spread as a result.

Historically, the European Union has indeed played a role in the democratization processes on the continent. Democratic forces that overthrew dictatorships in Greece, Portugal, and Spain believed that the European Union would provide a strong anchor for democracy. Southeastern European countries currently see the European Union as a potential anchor for democratic changes that have taken place in those countries in recent years. The February 2014 revolution in Ukraine also highlighted the role of the European Union as an anchor for democratic change.

Although there is no doubt that "top-down" institutional change can play a role in spreading democracy, it is also the case that the people in the countries that were offered access to the European Union had strong aspirations for democracy. It is not clear how strong the pure institutional effect would have been without these "bottom-up" aspirations.

The role of civil society and deep-rooted cultural values in countries is important. Based on original data they collected in the 1980s, Bruszt el al. (2012) find a strong link between the extent of dissident activity in communist countries and the later choice of political institutions. Countries with a higher level of dissident activities tended to adopt parliamentary democracies, whereas countries with a lower level of dissident activities ended up adopting presidential regimes that quickly became authoritarian or semiauthoritarian.

This finding is not surprising for observers who followed events in those countries. Czechoslovakia, Hungary, and Poland had strong dissident movements. In the last months of the communist regimes in Central Europe, communist leaders were negotiating with them over the institutional structure of postcommunist regimes. There was thus strong "push" from below and from civil society for democratic institutions. When it became clear in the fall of 1989, after the first noncommunist government was put in place in Poland, that the Soviet Army would not intervene, as it had in Czechoslovakia in 1968, communist regimes across Central Europe collapsed within months under pressure from the street. In contrast, in the former Soviet Union the collapse of the regime came unexpectedly in the aftermath of the failed 1991 putsch by the incumbent government. The push from below was much weaker, giving the future oligarchs the opportunity to fill the power vacuum, grab important power positions, consolidate them without much protest from below, and use these positions to seize assets. These different institutional choices took place at the beginning of transition, when there was still great uncertainty about EU accession, so it is safe to think that they are unrelated to future EU accession. Civil society development is thus a strong factor in explaining the divergence in the adoption of political institutions in transition economies.

What factors explain differences in civil society development across transition economies? The length of time communism had been in place certainly played a role (see Treisman 2012). Communist regimes repressed civil society and did not allow any organized activities that were not under the wing of the Communist Party, forcing individuals to retreat into a denser private life with a narrow circle of friends they could trust (see Ledeneva 1998). But following Putnam (1994), it also seems plausible that deep-rooted cultural differences play a role in explaining differences in civil society development. The differences in civil society that Putnam found in Italy relate to cultural differences between the north and the south of the country that go back centuries, to the development of city-states in the north of Italy and the Norman invasion in the south (Guiso, Sapienza, and Zingales 2008). Gorodnichenko and Roland (2013) argue that countries with a more individualist culture establish democracy earlier than countries with a collectivist culture. Their dataset includes only nine transition economies, but the results support their hypothesis. China and Vietnam have more collectivist cultures and the most authoritarian regimes. The Czech Republic, Estonia, and Slovakia have more individualist cultures and are also more democratic (Hungary has deviated from democracy in recent years). Bulgaria and Russia, as well as countries in the Middle East, are somewhere in between. Bulgaria's democratic future probably seems safer thanks to its presence in the European Union; there are more questions about the future of democracy in Russia, an issue I come back to later.

How should one think about this difference between "top-down" institutional and "bottom-up" cultural explanations of democratization? The two explanations should not be viewed as opposed and contradictory; they likely play complementary roles. Countries from Central Europe had somewhat stronger aspirations for democracy than Russia, let alone Central Asia, and civil society was more developed there. The ingredients were thus sufficient to make democracy work from below by making politicians accountable to the vigilance of civil society and by having the public involved in politics.

Accession to the European Union provided the necessary institutional stability. As I argue below, not only can an institutional anchor for democracy help create such institutional stability, it can also provide a learning process susceptible to creating cultural change toward more democratic values. In contrast, if a country's culture does not embrace democratic values, institutional imposition of democracy is likely to backfire, as there will not be sufficient push from below to make it work.

This conclusion is one of the major lessons of Putnam's work on Italy; there is no reason to think it does not apply elsewhere. In the long run the quality of a democracy will depend on the cultural values of the population and the development of civil society, because culture is very slow moving (Roland 2004). Institutional change can affect cultural change by creating an environment in which people learn to play by the new rules and gradually adopt the cultural values and social norms associated with these institutions (as Japan did after World War II), but such change can happen only slowly.

## Cultural Inertia in Transition Economies

How slow moving is culture? To get an idea of its inertia, it is useful to ask how culture has changed in transition economies in the past 25 years. Given the large-scale institutional changes that took place in those countries, one might also expect rapid cultural change to have taken place. To examine whether this was the case, I examined data from four waves of the World Values Survey (1990, 1994, 1999, 2005).

I first built an index of preferences for "economic interventionism," based on eight indicators:

- The first indicator is related to private and public property. A high score means support for the statement that "government ownership of business and industry should be increased." A low score means support for the proposition that "private ownership of business and industry should be increased."
- The second indicator is related to competition. A high score means support for the statement that "competition is harmful. It brings out the worst in people." A low score means support for the statement that "competition is good. It stimulates people to work hard and develop new ideas."
- The third indicator is related to discrimination against immigrants. A high score indicates support for the statement "when jobs are scarce, employers should give priority to nationals over immigrants."
- The fourth indicator is based on that same statement but in relation to discrimination against women instead of immigrants.
- The fifth indicator is related to attitudes toward older workers. A high score indicates agreement with the statement "when jobs are scarce older people should be forced to retire from work early."
- The sixth indicator is related to attitudes toward work. A high score indicates agreement with the statement that "hard work doesn't generally bring success—it's more a matter of luck." A low score indicates support for the view that hard work is most important for success.
- The seventh indicator is related to the importance of imagination as a quality for a child. It can be interpreted as valuing creativity as a product of imagination nurtured in children or as valuing freedom of thought. A high score indicates greater freedom of thought.
- The eighth indicator measures attitudes toward inequality. A high score indicates agreement with the statement that inequality is bad for development.

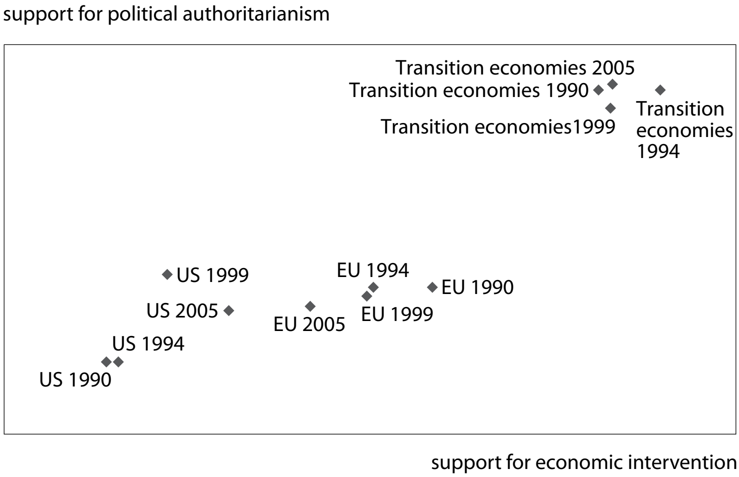
The index of preference for economic interventionism is built by first rescaling each indicator on a scale of 1 to 10 and then taking the average over the eight indicators.

The index of the preference for political authoritarianism is based on just three indicators:

- support for the idea that order is the fundamental goal of government
- support for the notion that "having experts, not government, make decisions according to what they think is best for the country"
- support for the notion of "having a strong leader who does not have to bother with parliament and elections."

Like the economic indicators, these indicators were rescaled and then averaged.

**Figure 13.5 Economic and political values in the United States, the European Union, and selected transition economies, 1990–2005**




Note: Transition economies include Belarus, Bulgaria, the Czech Republic, Estonia, Latvia, Poland, Romania, Russia, Slovakia, and Slovenia.

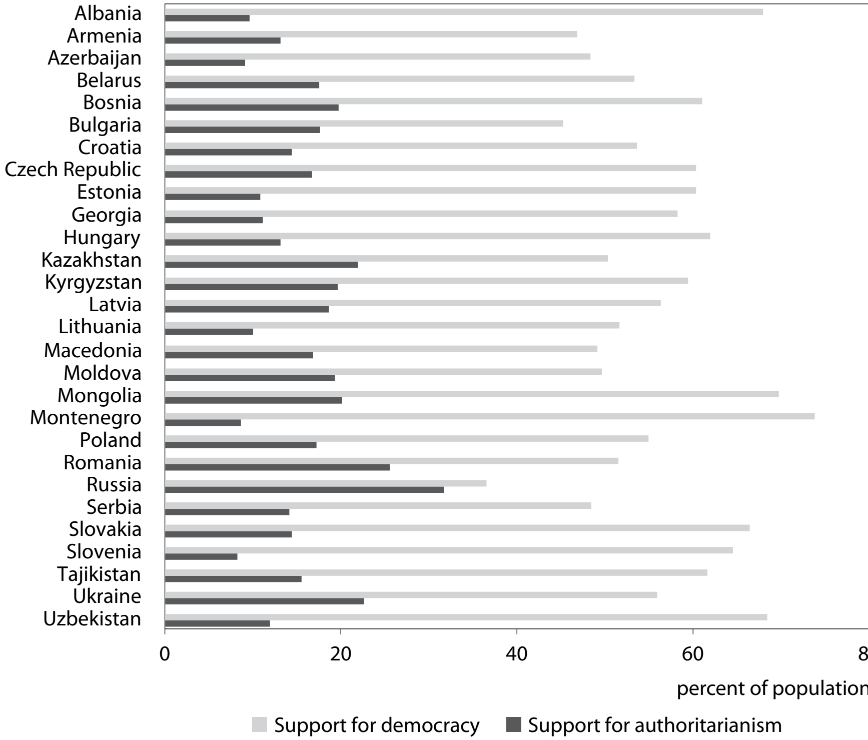
*Source:* World Values Surveys1990, 1994, 1999, 2005.

Figure 13.5 shows the results for transition economies from Central and Eastern Europe. Given limited data availability across time for transition economies, only 10 countries are included (Belarus, Bulgaria, the Czech Republic, Estonia, Latvia, Poland, Romania, Russia, Slovakia, and Slovenia). The countries were not weighted by population, in order to avoid having Russia dominate the results.

Figure 13.5 reveals the remarkable inertia of values in the three groups of countries. In the United States, values have been consistently in favor of less economic interventionism and against authoritarianism. In the EU-15 (the European Union before the accession of the transition economies), support for economic intervention of government is somewhat higher, but values are also resolutely antiauthoritarian. In the transition economies, there is consistently more support for both authoritarianism and economic intervention by government. Also remarkable is the fact that the distance between the three groups of countries is much larger than the distance between values in any group of countries over time. These findings are replicated if one looks at the average responses for individual questions (see Roland 2012 for more detail).

The rapid institutional change that led Central and Eastern European transition economies to become new member states of the European Union has hidden the fact that values in those countries remain more authoritarian and nationalistic than in Western Europe and the United States; many people in Central and Eastern Europe view the government more as a repressive law

**Figure 13.6 Support for democracy versus authoritarianism in transition economies, 2012–13**




*Source:* First round of Life in Transition Surveys, conducted by the European Bank for Reconstruction and Development 2014.

and order machine than a facilitator of business and household activities. Despite the economic prosperity of Central and Eastern Europe before World War II, these countries had no real experience of democracy before 1989. Countries that were part of the Austro-Hungarian Empire had a much greater experience of the rule of law than other transition economies but not a greater experience of democracy. One can thus predict tension for quite some time between values and beliefs in these countries and the EU institutions that were adopted. These tensions have already started to appear, with strong nationalistic tendencies and signs of political instability in Central Europe after entry into the European Union. The authoritarian trend in Hungary under Viktor *Orbán* sadly appears to confirm this tendency.

It is important, however, to keep these values in perspective. Cultural inertia does not mean that authoritarian values are stronger than democratic values in transition economies, as figure 13.6 illustrates. Indeed, in every country, including Russia, support for democracy exceeds support for authoritarianism.

## Prospects for the Future of Democracy in Transition Economies

Despite the somewhat more authoritarian culture in the transition economies of Central and Eastern Europe, I do not think that differences in values between these countries and the advanced democracies are sufficiently large as to warrant pessimism about the success of democracy in the region. The cultural differences between China and Vietnam on the one hand and European transition economies on the other are larger than the differences between European transition economies and advanced democracies. If one accepts that cultural differences matter, the smaller cultural differences between Russia and Europe than between China and Europe should make one more optimistic about the chances of democracy in Russia than in China. My view is that these differences are strong enough to create instability and some back and forth between democracy and a semi-authoritarian regimes, but I am confident that democracy will spread in the medium run.

One must, however, be very cautious when drawing such conclusions, as major historical catastrophes cannot be excluded. At the beginning of the 20th century, one would have had many reasons to be optimistic about the future of democracy in Germany. But it would take 50 years, two world wars, and 100 million deaths, including the Holocaust, before that optimism would prove warranted.

One possible reading of the very violent reaction of Vladimir Putin to the Maidan revolution in Ukraine is that he may fear that his fate may be similar to that of former Ukrainian President Viktor Yanukovych. The 2011–13 prodemocracy protests in Russia were not strong enough to oust him, but they might be in the future. Putin, who saw these movements as organized by the West, sees the Ukrainian revolution as a first step toward a campaign organized by the West to depose him, something he does everything in his power to prevent. This fear is distorted: In fact, the West wants good relations with Russia. But democratic aspirations in Russia are strong. They may not be strong everywhere, they may not be as strong as in Ukraine, but they are strong enough to make Putin fear them. No one can predict what will happen to Putin, but he will not be in power forever, and it is not unreasonable to think that someday a movement will emerge that will introduce authentic democracy in Russia. Such a development would completely change the geopolitical situation in Eastern Europe.

Recent developments in Hungary under Fidesz Party leader Viktor Orbán reveal a move toward a semiauthoritarian regime. The government narrowed the role of the Constitutional Court, which lost its power to protect the constitution, forcing hundreds of judges into early retirement even though they had lifetime tenure. It also curtailed media freedom, by introducing strong penalties for "defamatory" articles. Discrimination against the Roma, Jews, gays, minorities, and women is growing, leading the European Union to launch procedures against the Hungarian government. What should one make of the Orbán phenomenon or the rise of semiauthoritarian regimes in other new member states? The European Union has never been good at disciplining its own members. It has imposed no real sanctions against the Orbán regime. Although the European Union is proving weak at protecting democracy inside its borders, it has nevertheless exerted much soft pressure. In 2013 the European Parliament adopted the recommendations of the Tavares report, which condemned recent developments in Hungary and proposed monitoring human rights, by a comfortable majority (370 votes in favor, 249 against, and 82 abstentions). Orbán does not find much support in Europe outside his own party. Despite the weakness of the EU response, it is safe to conjecture that he would have expressed his authoritarian tendencies more strongly if Hungary had not joined the European Union, if only because of peer pressure from other member states and the threat of sanctions. Nevertheless, it is not clear how far democracy in Hungary can be dismantled before a strong reaction from other European countries can be expected.

Can one expect membership in the European Union to bring about sufficient cultural change in the new member states that democracy can be stabilized in the long run? Such change can happen only slowly, via cultural exchanges like the Erasmus program and education of school children. Germany made great efforts in the postwar period to educate children to the values of democracy, citizenship, and civil duties; those efforts paid off. There also need to be more debates within the new member states about fundamental values, so that people can choose to change their views (or not) and transmit their values to their children. Culture is a weapon, but the way to spread culture is also indicative of one's values. Democratic values are compatible with healthy debates and the spreading of information; they are incompatible with brainwashing and lack of respect for other views. That said, ambitious campaigns cannot achieve miracles in terms of cultural change. There have been too many horrible experiences in the 20th century of governments wanting to achieve "cultural revolutions."

Because of the persistence of a hard core of authoritarian values, bouts of political instability are likely to persist in Central and Eastern Europe, both inside and east of the European Union. In the short and medium run, instability can lead to major catastrophes. In the long run, the strength of democratic forces suggests that democracy will persist in the region. There is less reason to be optimistic about Asia and Central Asia, despite the experience of Mongolia and Kyrgyzstan, because culture moves more slowly than political institutions (Roland 2004) and eventually influences institutions.

## Concluding Remarks

Most transition economies have been doing well economically and been catching up to the West. Paradoxically, the institutional evolution has been slower (except recently in the new member states and Southeastern Europe). This difference in economic institutions is related to differences in levels of democracy, which are affected in the long run by a country's culture. More authoritarian and collectivist cultures are less likely to introduce democracy.

Despite institutional shortcomings, the transition to the market has had a positive effect on the allocation of resources; there are few traces of the big distortions of the socialist economy. These positive allocative changes, together with the opening to international trade and international finance, have had a positive effect on growth in most transition economies, following the turbulent first years.

One may debate the extent to which the institutional shortcomings in transition economies are a consequence of communism or a country's longer-run economic past (see Roland 2012). The reforms needed to improve institutions are, however, different from the transition reforms of the early 1990s, which aimed at moving economies away from central planning. These reforms aim to transform government, establish the rule of law, and eradicate corruption and predatory behavior by government officials. These ends can be achieved only through a vibrant democracy, one in which citizens fight for their rights and make politicians and bureaucrats accountable. This battle is not easy or short, but it is necessary if citizens are to enjoy peace and prosperity in the long run.

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