

**The Divergent Postcommunist Paths to  
Democracy and Economic Freedom**

**By**

**Simeon Djankov**

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**Abstract** This paper presents evidence from 29 postcommunist countries that the economic transition has been more successful than the political transformation in the quarter century since the fall of the Berlin Wall. The adoption of strong parliamentary systems has countered the adverse effects of religious and imperial history on economic evolution. As a result, the divergence in democracy and political rights is 4 to 5 times larger than the divergence in the path toward economic freedom and ease of doing business. Democracy is not harder to predict than economic freedom—history and ethnicity predict it well. But recent authoritarian regressions in Hungary and Poland, countries with successful economic reforms and strong parliamentary systems, present a new challenge to researchers.

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**Simeon Djankov** is executive director of the Financial Markets Group at the London School of Economics and former deputy prime minister and minister of finance in Bulgaria (2009–13). Special thanks to Peter Murrell and Andrei Shleifer for providing advice at the formative stages of this research, and to Leszek Balcerowicz, Olivier Blanchard, Caroline Freund, Sergei Guriev, Cullen Hendrix, Ivan Kostov, Ivan Krustev, Igor Lukšić, Theodore Moran, Ivan Miklos, Elena Nikolova, Marcus Noland, Avinash Persaud, Daniel Treisman, and seminar participants at Aarhus University and Tel Aviv University for helpful comments. Owen Hauck provided valuable research assistance.

## Introduction

In the quarter century since the fall of communism, the 29 countries of the former Soviet bloc and Yugoslavia have undergone tremendous change. Nations that previously followed similar economic and political paths diverged rapidly in one or both areas. Income per capita at purchasing power parity more than quadrupled in Albania, Estonia, Kosovo, Poland, and Slovakia. All five outpaced such traditional growth engines as Singapore and Korea at the same stage of their development. But in Moldova, Tajikistan, and Ukraine income per capita is about the same today as in 1989. The divergence in political outcomes is even wider—from full democracies to dictatorships to just about everything in between. Lithuania and Slovenia display the highest democratic development, with democracy scores identical to those of Germany and Sweden. Turkmenistan and Uzbekistan are the most autocratic, on par with Iran.

### *a. Economic and Political Science Theories*

In the first years of transition, economists debated about what constitute successful policies for transforming centrally planned economies into dynamic market economies. A basic economic model emerged: Deregulation of prices and markets, macroeconomic stabilization, and privatization of state-owned enterprises were deemed essential for achieving economic freedom and economic growth. So was the building of new state institutions, capable of efficient and transparent support of markets.

Early economic reformers favored deregulation and privatization to prevent asset stripping in state-owned enterprises, as economic reforms were expected to create a demand for more political freedom. Leszek Balcerowicz was the most prominent proponent of this view (see, e.g., Balcerowicz 1995). Stanley Fischer added that reforms had to be fast because of the sudden collapse of the previous nonmarket system (Fischer and Frenkel 1992). The rationale for rapid postcommunist transformation was also illustrated in economic models first proposed by Andrei Shleifer and Robert Vishny (1994) (see also Djankov et al. 2003).

Prominent theorists argued, however, that the creation of a market economy did not require enterprises to be privatized quickly. János Kornai, for example, favored gradual privatization, and thought that the state should select responsible owners to run the economy (Kornai 1990). Peter Murrell (1992), Gérard Roland (1994), and Joseph Stiglitz (1994) similarly argued that gradualism in privatization and the creation of market institutions would avoid a political backlash against the reformers. As Nobel Laureate Stiglitz (2002, p.15) put it: “gradualist policies lead to less pain in the short run, greater social and political stability, and faster growth in the long [run]. In the race between the tortoise and the hare, it appears that the tortoise has won again.” The debate on the speed and sequence of economic reforms continued among economists for over a decade. In the end, both sides were right: countries that privatized quickly (such as Czechoslovakia and subsequently the Czech Republic) and countries that privatized more gradually (such as Slovenia) both achieved sustainable economic growth. The initial steps turned out not to matter very much.

Political scientists were more united about the path to a successful democratic transition. Political evolution was predicated on multiparty elections (Huntington 1991), the banning of the former Communist Party in some countries (Treisman 2007), and the creation of parliamentary systems (Roberts 2010). Presidential systems were considered detrimental to subsequent democratic development (Frye 1997, Cheibub 2006). Most countries liquidated the repressive institutions of the communist regime, like the secret police and the military draft (Nalepa 2010). Entry into NATO and the European Union was considered in many postcommunist countries a guarantee for achieving democracy (Gros 2014). With such measures the path to democracy for post-communist nations seemed to be well-marked.

### *b. Data-based Hypotheses*

The actual postcommunist experience surprised observers in some ways. The major question, and the one addressed in this paper, is why some countries moved faster to a market economy than to democracy. The divergence in political outcomes is 4–5 times larger than the divergence in economic outcomes. I suggest several explanations.

The first explanation is historical: the 5th century split of the Roman Empire into eastern (Byzantine) and western parts and the religious divide that followed. I hypothesize that postcommunist countries with Eastern Orthodox and Muslim religion reformed their politics less than countries where the population professes mostly Protestant and Catholic beliefs. Milan Kundera (1984, p. 1) wrote in his essay “The Tragedy of Central Europe” that “Geographic Europe (extending from the Atlantic to the Ural Mountains) was always divided into two halves which evolved separately: one tied to ancient Rome and the Catholic Church, the other anchored in Byzantium and the Orthodox Church. After 1945, the border between the two Europes shifted several hundred kilometers to the west, and several nations that had always considered themselves to be Western woke up to discover that they were now in the East.”

This reasoning is consistent with Nikolai Berdyaev’s (1937) hypothesis that communism is a successor to Orthodoxy, with its insistence on respect for authority, disregard for legal rules, and repudiation of freedom of thought and expression. A separate literature on the effects of religion finds a similar negative association between Islam and political evolution toward democracy (e.g., March 2015). In contrast, the evidence on Islam and economic freedom is mixed: Some studies show that the Muslim religion is inimical to economic growth (e.g., McCleary and Barro 2006); others (e.g., Noland 2005) find the opposite.

The second hypothesis for the uneven path to democracy is based on more recent (14th to 19th century) imperial history. Countries that were part of the Austro-Hungarian Empire in the latter half of the 19th century maintained their European values (Dimitrova-Grajzl 2007; Grosjean 2011a,b; Grosfeld and Zhuravskaya 2015) and were quickest to reintegrate into Europe after the fall of communism and to experience rapid political evolution. In contrast, countries that at the turn of the 19<sup>th</sup> century were part of either the Ottoman or Russian empires have rejected a path to democracy (Pop-Eleches 2007). In some cases, particularly in Belarus, the Caucasus, and Central Asia, an autocratic political model was established immediately after the fall of communism.

Presidents Alexander Lukashenko of Belarus and Nursultan Nazarbayev of Kazakhstan have ruled their countries throughout the postcommunist period.

The third hypothesis is that post-1989 institutional choices, in particular the adoption of a strong parliamentary system of government in the early transition, are associated with more economic freedom and democracy. This hypothesis, proposed by Timothy Frye (1997), is tested with data collected in this study. If supported by the evidence, the Frye hypothesis moves away from historical determinism and suggests practical steps to increase economic freedom and democratic opportunity.

Finally, this study tests some established determinants of both economic and political evolution, such as dependence on natural resources, dominance of the major ethnic group, and level of urbanization at the start of transition. The number of years under communism is also a frequent explanatory variable for both political and economic evolution (Pop-Eleches 2007), but it is highly correlated with being part of the former Russian Empire and hence not used here.

Tests of these hypotheses show that they collectively account for about 70 percent of the observed divergence in economic and political outcomes: While nearly all postcommunist countries have converged to some form of capitalism, there has been a broader range of political experiences.

One implication of this analysis is that political evolution is not harder to predict than economic evolution—history in particular predicts it very well. Countries that adopted strong parliamentary models of government also experienced faster evolution toward economic freedom—the adoption of parliamentary systems negated the constraining effects of Orthodoxy and imperial history.

There were three outcomes of the divergence in political evolution among postcommunist countries: the remaining power of the old elite, the rise of rent seeking and corruption in countries with stunted political reform (Hellman 1998), and the opportunity for political reversals. Reforms to purge the old elite and to limit corruption largely won in Central Europe and the Baltics, whereas rent seeking and the rise of the oligarchy prevailed in the rest of the former Soviet Union and in Bulgaria, Romania, and most of the former Yugoslavia.

### *c. Organization of This Paper*

This paper is organized as follows. Section 1 illustrates the successes and failures of postcommunist transformation with several figures showing progress in some key economic, social, and political indicators from 1989 to 2015. Section 2 tests my hypotheses on the reasons for the divergent paths toward economic freedom and democracy. Section 3 discusses the main consequences of stalled political evolution: the staying power of the old elite, the rise of corruption and oligarchy, and political reversals. Section 4 concludes.

## 1. The Postcommunist Transformation in Figures

The postcommunist transformation started with an economic slump of 15–40 percent of GDP across countries due to the collapsing Council for Mutual Economic Assistance (Comecon) trading system, the disorganization that ensued, and the reallocation of labor to the informal sector (Blanchard 1997). Borders sprang up everywhere and enterprises that had been created as part of a single production chain found themselves behind one or more borders overnight (Djankov and Freund 2002). Payment systems fractured and inflation shot up. With the exception of Czechoslovakia, where the immediate postcommunist period was largely orderly, every country experienced years of chaotic economic destruction.

Yet the fact that the economic transition started with such a large output decline puzzled economists: Because the communist system was known for myriad distortions, they expected that removing them might result in output increase. This is not what happened. The early impact of the fall of economic dictatorship in postcommunist countries was extreme economic disorganization (Murrell 1992): As communist control of the economy was eliminated, so were the mechanisms for keeping order.

One of the most visible signs of economic change was the shift to private property. By 2001, a dozen years after the fall of the Berlin Wall, the majority of productive assets in postcommunist countries were in private hands. But the share of the private sector in GDP varied from 80 percent in the Czech Republic, Hungary, and Slovakia to 20 percent in Belarus and 15 percent in Turkmenistan (EBRD 2013).

The effects of privatization on productivity were generally positive, especially in the manufacturing and service sectors, as were the economic effects, adding several percentage points to enterprise growth rates. Privatization to foreign investors was associated with 50 percent more restructuring than privatization to insiders (managers and workers). Domestic and international investment funds were associated with more than ten times as much restructuring as individual owners. State ownership of partially privatized firms was also surprisingly effective, producing more restructuring than enterprise insiders (Djankov and Murrell 2002).

Privatization and deregulation in the postcommunist transition were part of broader reforms to achieve economic growth. Early reformers had to deal with pressing issues such as liberalization of prices and international trade, macroeconomic stabilization, restitution of property nationalized during the communist years, and—in the case of Czechoslovakia, the former Soviet Union, and the former Yugoslavia—the creation of many national institutions from scratch. Privatization and deregulation were seen, however, as critical for popular support for other reforms and for making political change irreversible. Anatoly Chubais (1999, p.47), in evaluating Russia’s reform path toward deregulation and privatization, remarked that “I really believe that now this historical problem is solved...even the communists have to accept the political reality in Russia. And the reality dictates that there’s no room for those who want to take away private property. That’s the result of the reform process, despite the mistakes that were made.”

After the precipitous fall in production in 1990–95, recovery began nearly everywhere. To show differences across the postcommunist world, the 29 countries of the former Soviet bloc are organized in the following groups:

- The Balkans group comprises Albania, Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, and Serbia. The Federal Republic of Yugoslavia is included from 1989 to 2007, when it became Serbia and Montenegro.
- The former Soviet states are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.
- The countries in the Eastern Europe group are Bulgaria, Croatia, Czechoslovakia (1989–92), Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and, separately, the Slovak Republic and the Czech Republic from 1992.

Table 1 details the variables and data sources used in this study.

#### *a. Income*

Average incomes in Eastern Europe have shot up from around \$10,650 per person to \$23,730 (figure 1). Slovenia has become the richest postcommunist country, with income per capita of \$30,600 in purchasing power parity in 2014. The only dips in incomes took place in the early years of transition (1990–95) and during the eurozone crisis (2008–10).

The growth path of former Soviet Union and Balkan countries was uneven, with incomes rising by 58 percent in the first group (from \$7,045 to \$11,160) and over 80 percent in the second (from \$6,185 to \$11,310). Income per capita in purchasing power parity nearly tripled in Russia (from \$8,012 in 1990 to \$22,990 in 2014), Kazakhstan (from \$8,226 to \$24,280), Azerbaijan (from \$8,513 to \$17,520), and doubled in Turkmenistan (from \$8,353 to \$15,480). Oil wealth contributed greatly to these increases, amounting to as much as 80 percent of government revenues.

Some former Soviet Union countries experienced far smaller increases in incomes: for example, Moldova (19 percent) and Tajikistan (14 percent). Ukraine also is not much richer today than it was at the start of the transition, with income per capita in purchasing power parity of just \$8,665, a 27 percent increase in comparison to 1990.

Overall, Eastern Europe and the oil-rich countries of Central Asia, the Caucasus, and Russia have grown faster than the world's average over the past quarter century. In the case of Russia and the other oil-rich countries, most of this growth was due to terms-of-trade effects as a result of rising commodity prices after 2000. But the other former Soviet Union countries and the former Yugoslavia have grown more slowly than the world's average over the 1989-2014 period.

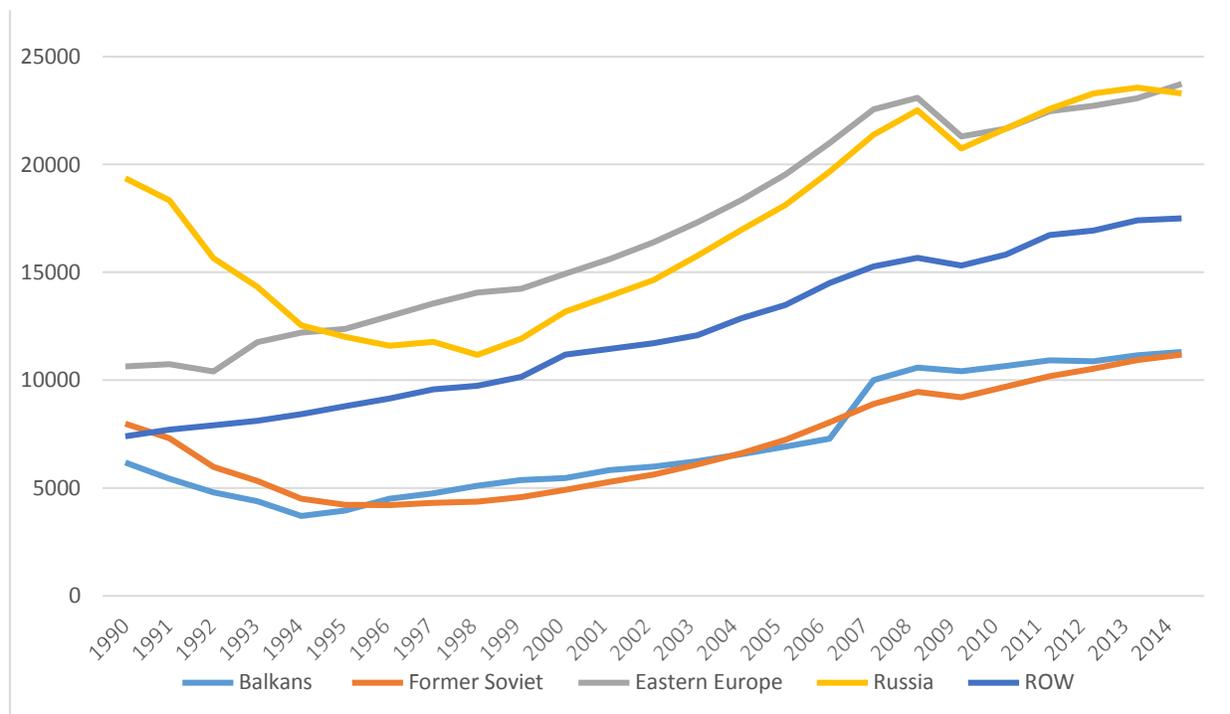
#### *b. Living Standards and Life Expectancy*

Over the past 25 years, living standards in most of the transition countries have increased substantially for most people—postcommunist citizens have seen a vast jump in car purchases,

travel abroad, and elite university education, among other gains. Official GDP numbers, however, show much milder improvements and are inconsistent with just about any direct measure of quality of life, raising questions about communist GDP calculations.

From 1993 (the first year with comprehensive statistics) to 2015, for example, the average among the postcommunist states went from one passenger car for every 10 people to one car for every 3, higher than the rate in Belgium. In Lithuania, Slovenia, and Poland, there are now more cars per person than in the United Kingdom or France (UNECE 2016). The number of phone lines per capita grew twice as fast as elsewhere, edging past Latin America. By 2015 cellphone subscriptions per person, at 1.37, had overtaken the West (World Bank 2016). And whereas communist citizens were rarely allowed to travel abroad, in 2015 residents of postcommunist countries made nearly 200 million international tourist trips (World Bank 2016).

**Figure 1** GDP per capita in the Balkans, countries of the former Soviet Union, Eastern Europe, Russia, and the rest of the world (at purchasing power parity 2011 dollars), 1990–2014



*Note:* The 29 countries of the former Soviet bloc are organized in three groups: (1) The Balkans group comprises Albania, Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, and Serbia. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 to 2007, when it becomes separately Serbia and Montenegro. (2) The former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. (3) The countries in the Eastern Europe group are Bulgaria, Croatia, Czechoslovakia (1989–92), Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and, separately the Slovak Republic and the Czech Republic from 1992. Russia, the largest country in the region, and a world average (ROW), are shown for comparison purposes.

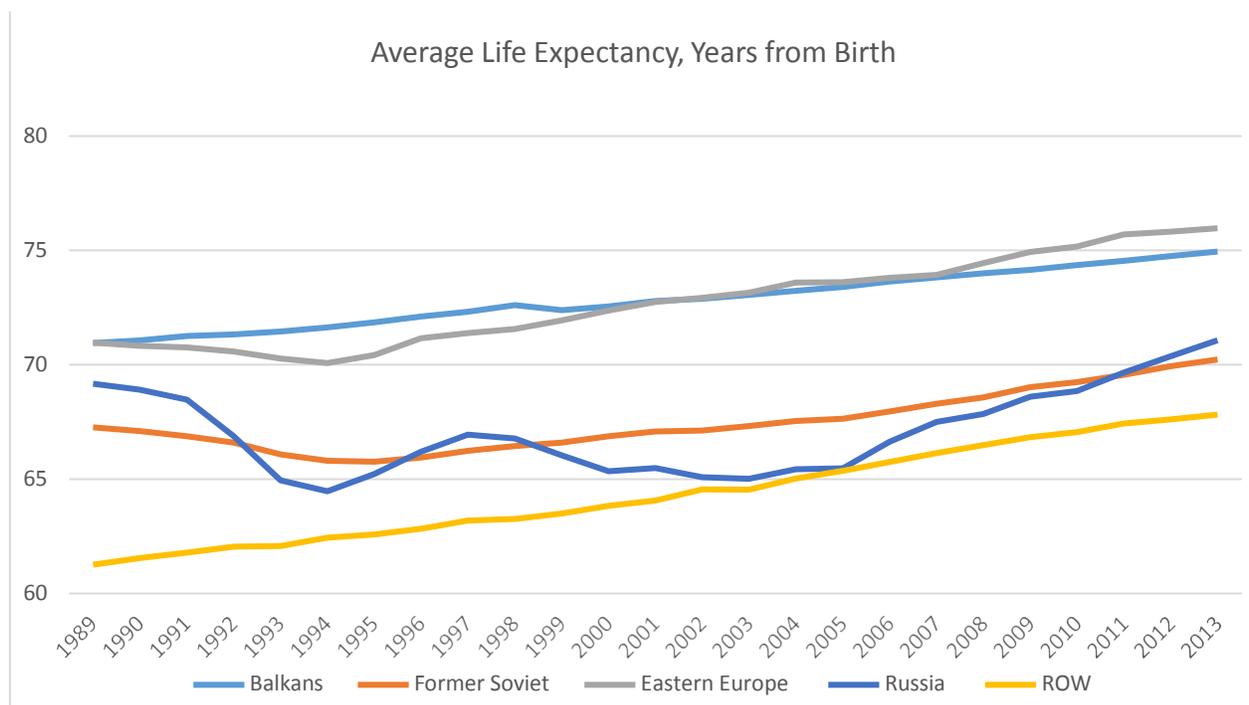
*Source: World Bank, World Development Indicators (accessed July 5, 2016).*

Life expectancy increased by 5 years on average during the past quarter century in Eastern Europe, by 4 years in the Balkans, and by 3 years in the former Soviet Union (figure 2). Turkmenistan, a former Soviet state, has the lowest life expectancy of the 29 countries, at just over 65 years; in Slovenia, part of the former Yugoslavia, the average life expectancy is 80 years, putting it ahead of the United States. But the advances are worse than average when compared to the global rise in life expectancy, which shot up by 5½ years in the past quarter century. When Eastern Europe is compared to other middle-income countries, the gap is even wider—life expectancy in the average middle-income country rose 7 years between 1989 and 2014. The stress of transition may be at least partly accountable for this disparity.

Poland, the Czech Republic, Slovakia, Hungary, and Slovenia experienced what medical researchers have described as “probably the most rapid decrease in coronary heart disease ever observed,” because of the substitution of vegetable oils for animal fats (Zatonski, Campos, and Willett 2008, p. 4). Improvements in the former Soviet Union are less impressive. Russia’s life expectancy rose by less than a year over the period, while registering steep declines in the mid-1990s and again in 1998–2000, during the Russian financial crisis. Still, in seven of the nine former Soviet republics that publish such statistics, consumption of fruits and vegetables shot up; Ukrainians, for instance, ate 58 percent more vegetables in 2011 than in 1991, and 47 percent more fruit (Shleifer and Treisman 2014).

The biggest gains were in reducing infant mortality, which fell by half throughout the region. By 2015 Slovenia had lower infant mortality than France. Turkmenistan, the worst performer, cut infant mortality from 90 deaths per 1,000 births to fewer than 50. Russia and Ukraine reduced infant mortality in half, Bulgaria and Romania by 65%, and Hungary and Poland by 80%. This is by far the most successful measure of postcommunist transformation. To put this success in perspective, communist countries made substantial progress in reducing infant mortality between 1970 and 1989 as well (Kelly 2016); but the actual number of infant deaths per thousand births in several of these countries—especially in Central Asia, Romania, and the former Yugoslavia—was significantly higher than in Western Europe. It is only in the postcommunist period that the countries have matched Western standards.

**Figure 2** Life expectancy (years from birth) in the Balkans, countries of the former Soviet Union, Eastern Europe, Russia, and the rest of the world, 1989–2013



*Note:* To show differences across the post-communist world, we organize the 29 countries of the former Soviet bloc into 3 groups. The Balkans group is comprised of Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia, and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 until 2007, at which point it becomes separately Serbia and Montenegro. The Former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Eastern Europe includes Croatia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, Czechoslovakia (from 1989 to 1992) and separately the Slovak Republic and the Czech Republic from 1992. We also show Russia and a Rest-of-World (ROW) category.

*Source:* World Bank, World Development Indicators (accessed July 5, 2016).

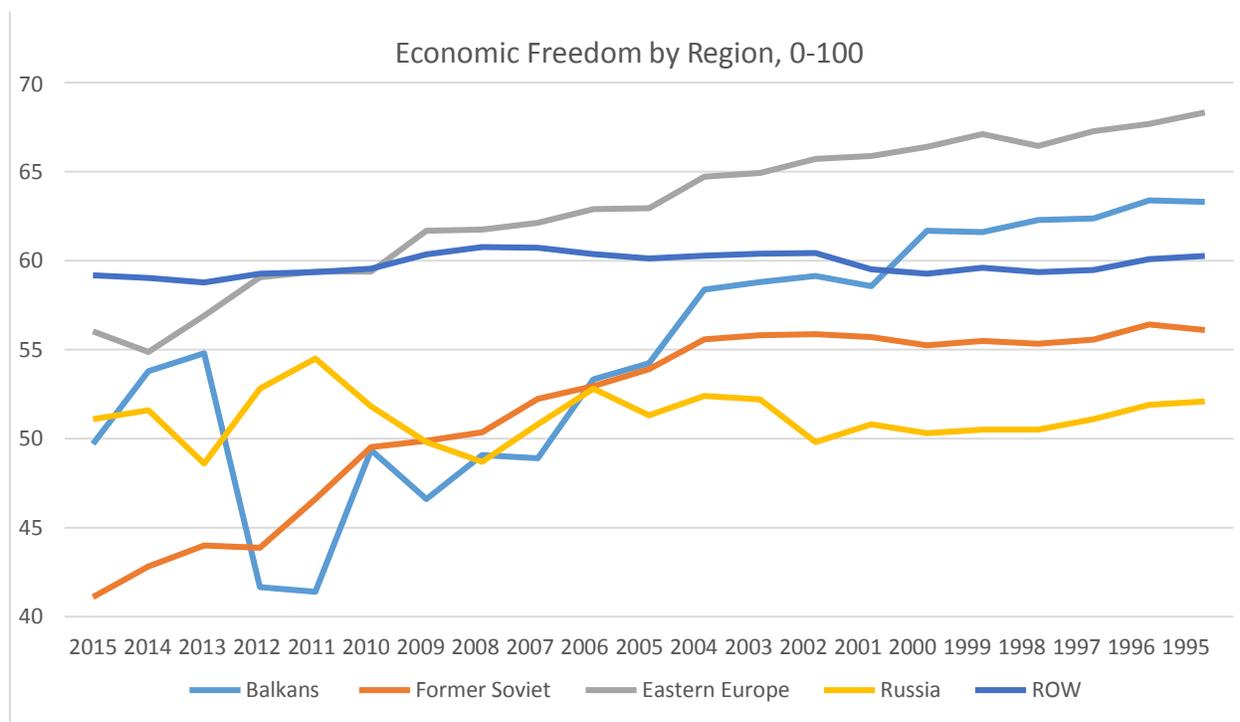
### *c. Economic Reform*

Governments have generally shrunk their presence in the economy and by 2015 government consumption as a share of GDP was 10 percentage points less than in Western Europe, averaging about 17 percent of GDP. Exceptions are Azerbaijan and the Central Asian countries, where government revenues are fully dependent on oil and gas and government expenditures fluctuate with the cycle of commodity prices. For example, government consumption in Turkmenistan was less than 10 percent of GDP in 2015, the lowest in the postcommunist region.

Public debt fell correspondingly in the first decade of this century, with the trend particularly pronounced in the countries of the former Soviet Union. In the aftermath of the eurozone crisis, debt increased somewhat, but to levels below those in Western Europe. Ukraine is the exception, where public debt has reached 90 percent of GDP and continues to climb. Uzbekistan had the

lowest share of public debt to GDP in 2015, at 8.3 percent, followed by Estonia at 10.5 percent. Notably, Estonia maintained debt below 10 percent of GDP throughout the past 15 years, and leads all of Europe in low public indebtedness (Åslund and Djankov 2014).

**Figure 3** Economic freedom in the Balkans, countries of the former Soviet Union, Eastern Europe, Russia, and the rest of the world, 1995–2015



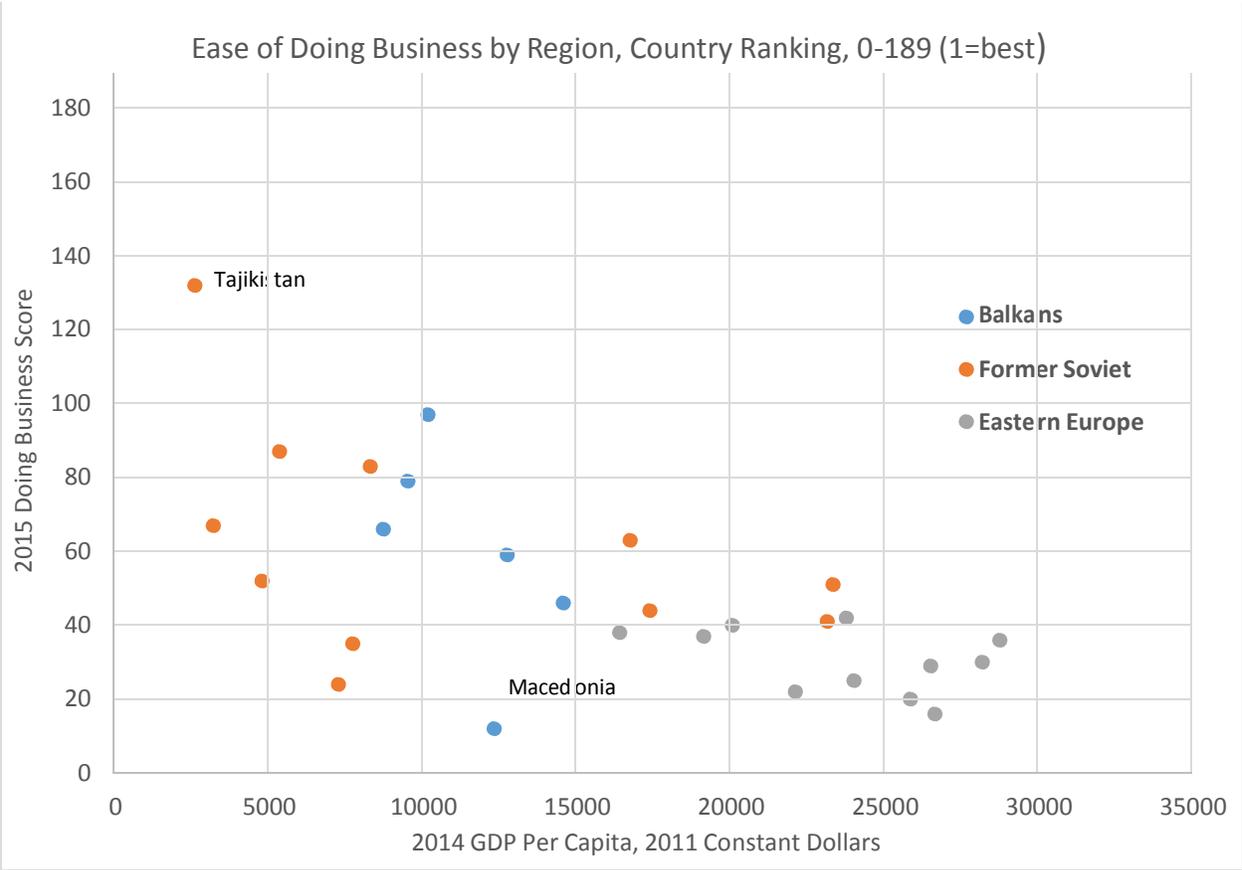
*Note:* The Index of Economic Freedom ranks countries from 0-100 based on 10 quantitative and qualitative factors, grouped broadly into rule of law, limited government, regulatory efficiency, and open markets, with each indicator given an equal weight. To show differences across the post-communist world, we organize the 29 countries of the former Soviet bloc into 3 groups. The Balkans group is comprised of Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia, and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 until 2007, at which point it becomes separately Serbia and Montenegro. The Former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Eastern Europe includes Croatia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, Czechoslovakia (from 1989 to 1992) and separately the Slovak Republic and the Czech Republic from 1992. We also show Russia and a Rest-of-World (ROW) category.

*Source:* Heritage Foundation (2016).

Economic reforms were implemented in all postcommunist countries regardless of their level of democracy (figure 3). Already in 1998 Eastern Europe matched and then surpassed the world’s average in terms of economic freedom. By 2009, so did the former Yugoslavia. The former Soviet Union (excluding Russia and the Baltics) has also shown consistent evolution toward economic freedom.

In the World Bank’s Ease of Doing Business index (figure 4), the countries of the former Soviet Union show a large dispersion in rankings, with Georgia at #24 and Tajikistan at #132, in contrast to the Eastern European countries, which are tightly grouped between Estonia at #16 and Hungary at #42. Kazakhstan and Belarus, the only two countries with a single autocratic leader since the fall of the Berlin Wall, rank on par with Belgium and Italy, and even ahead of democracies such as Chile, Israel, and Greece, in reforming business regulation. The former Yugoslavia trails substantially Eastern Europe, with the exception of Macedonia FYR, which ranks #12.

**Figure 4** Ease of doing business in the Balkans, countries of the former Soviet Union, and Eastern Europe, 2016



Note: The 29 countries of the former Soviet bloc are organized into 3 groups. The Balkans group is comprised of Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia, and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 until 2007, at which point it becomes separately Serbia and Montenegro. The Former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Eastern Europe includes Croatia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, Czechoslovakia (from 1989 to 1992) and separately the Slovak Republic and the Czech Republic from 1992. The x axis is income per capita in 2014 in constant dollars; the y axis lists countries from top to bottom on the ease of doing business.

Source: World Bank (2016).

#### *d. Political Rights and Democracy*

Unlike economic and social indicators, which have shown an upward trend throughout the quarter century of postcommunist experience, political rights and democracy have been volatile, with recent reversals in both Eastern Europe and the former Soviet Union. In the Soviet Union, the authoritarian regime was all-encompassing, although this façade had cracked somewhat during public protests against the Soviet intervention in Afghanistan in 1979, when antiestablishment leaders such as Andrei Sakharov became household names. Such leaders were exiled and put under house arrest. It took until the final years of the regime, during Mikhail Gorbachev's perestroika, to ease the repressive apparatus.

The communist regimes in Eastern Europe ranged from Budapest's "softer" version (called "Goulash Communism") to that of Romanian dictator Nicolae Ceaușescu. Each former Eastern Bloc country therefore had a different experience of the late communist period and its own 1989 revolution. Some had stronger dissident movements—such as Czechoslovakia's Charter 77 initiative, whose leaders included Václav Havel—while others, such as Bulgaria, were less prepared for change. The events of 1989 were largely bloodless across the region; Romania was the exception, as over a thousand people were killed and three thousand wounded in the wake of the revolution, which also resulted in the execution of Ceaușescu and his wife.

Yugoslavia had an even milder version of communism than Hungary, with a market economy. Political repression was applied primarily with regard to nationalist movements; in the 1960s and 1970s thousands of university professors, writers, scientists, and priests from Belgrade, Zagreb, and Ljubljana lost their jobs because of their nationalist beliefs. In 1972, for example, Croatian politicians and intellectuals rebelled against the Serbian communist doctrine, and around 2,000 students and intellectuals faced criminal charges. Similar dissident activity took place in Slovenia, also led by university professors and intellectuals. But the protesters' demands led in 1974 to the adoption of a new federal constitution giving autonomy to the individual republics.

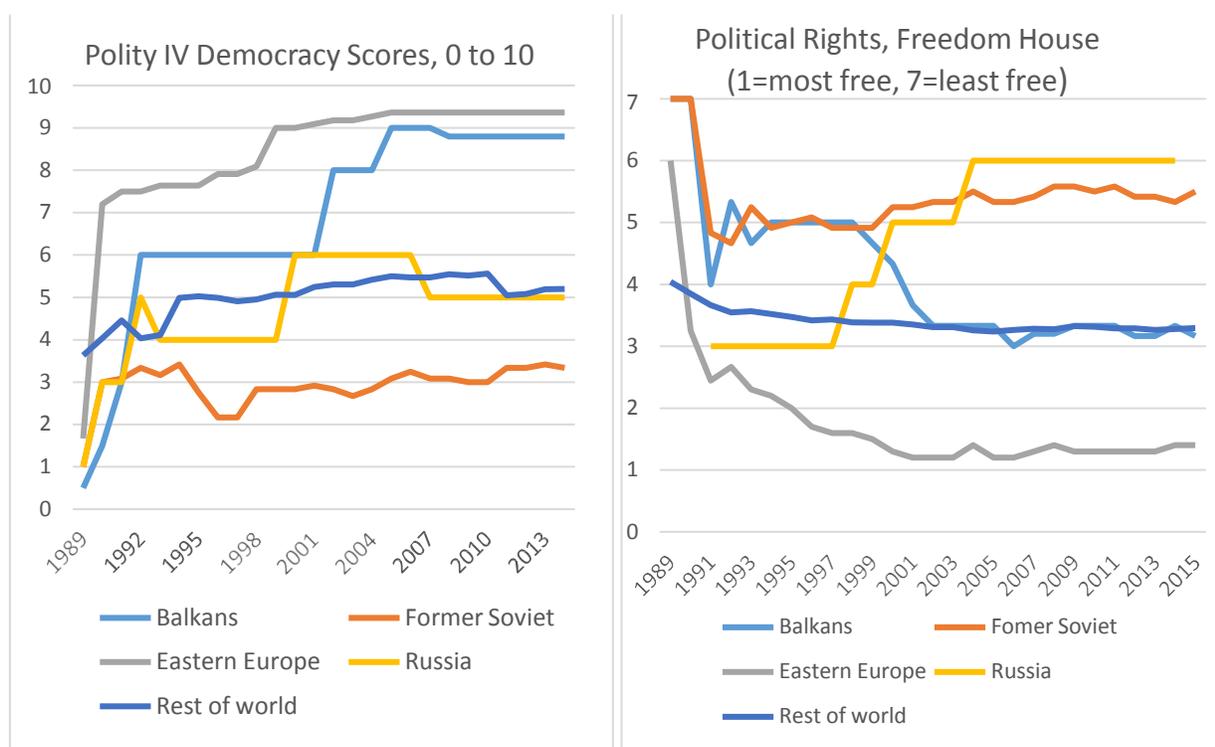
These initial conditions belie the pattern of early political evolution: the Baltics and other Eastern European countries moved swiftly to democracy, while most of the former Yugoslav republics had a stunted drive toward democracy in the 1990s (figure 5). Lithuania and Slovenia are the most democratic, Turkmenistan and Uzbekistan the most autocratic. The countries of the former Soviet Union have not made steps toward democracy since the early 1990s, although this group pattern conceals some individual movements: Georgia has become more democratic, Russia less democratic until 2006 and has plateaued after that. In contrast, the Balkans have seen a gradual improvement in democracy, a process that continued until 2007 with the independence of Montenegro from Serbia. The biggest jump in the political evolution of the former Yugoslavia followed the ouster of Slobodan Milošević as Serbian president in 2000.

The political rights indicator of the Heritage Foundation shows a similar pattern (figure 5, second panel). The Baltics and Central Europe quickly embraced political rights. At the turn of the 21st century, the former Yugoslavia and former Soviet Union had similar levels of political rights and civil liberties. They have since diverged, with the former Yugoslavia gaining freedoms and the

former Soviet Union sliding back. Turkmenistan is at one end, with a complete absence of freedom, while Slovenia is at the other, with full political rights and civil liberties.

The former Soviet Union countries initially pursued a democratic path, but the trend reversed in 1993–95 and they now stagnate as near-autocracies; political rights have gotten worse especially in Belarus and Russia. In the former Yugoslavia, the 1990s were a period of achieving greater freedoms, a trend that plateaued in the past decade. Scholars and policymakers from the former Soviet Union suggest that the biggest driver of reform for these countries is the prospect of entry in the European Union (e.g., Lukšić and Katnić 2016).

**Figure 5:** Democracy (left) and political rights (right) in the Balkans, countries of the former Soviet Union, Eastern Europe, Russia, and the rest of the world (ROW), 1989–2015



Note: The democracy score ranges from 0 (complete autocracy) to 10 (full democracy). The political rights score ranges from 7 (least free) to 1 (most free). To show differences across the postcommunist world, we organize the 29 countries of the former Soviet bloc into 3 groups. The Balkans group is comprised of Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia, and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 until 2007, at which point it becomes separately Serbia and Montenegro. The Former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Eastern Europe includes Croatia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, Czechoslovakia (from 1989 to 1992) and separately the Slovak Republic and the Czech Republic from 1992. Russia, the largest country in the region, and a world average (ROW), are shown for comparison purposes.

Sources: Center for Systemic Peace (2016), *Polity IV Individual Country Regime Trends, 1946–2013*; Freedom House (2016).

Figure 5 illustrates the main puzzle in the postcommunist transformation: the stalled political evolution of a number of countries. A quarter of the postcommunist countries—Azerbaijan, Belarus, and all of Central Asia except for the Kyrgyz Republic—are rated authoritarian. Another four countries—Armenia, the Kyrgyz Republic, Russia, and Ukraine—are rated partially authoritarian.

Political scientists have explored the reasons for the survival of authoritarianism in the region. Jason Brownlee (2007, p. 9) demonstrated that “the shift to authoritarianism with multiparty elections...does not represent an unwitting step toward full democratization.” In other words, faking democracy has worked for authoritarian regimes. Ivan Krastev (2011, p. 12) suggests that “The new authoritarian regimes’ lack of any ideology also partly explains why the democratic world is reluctant to confront them. They do not seek to export their political models, and hence they are not threatening.”

To illustrate the divergence across indicators of economic and political evolution, four measures—economic freedom (EcFree), ease of doing business (EDB), democracy (Democ), and political rights (Rights)—are normalized for the latest available year (in most cases 2015) and standard deviations calculated. The EDB variable is based on the normalization suggested by the World Bank, measuring distance to the regulatory frontier (World Bank 2016). The data, reported in table 2, support the conclusion that divergence in economic indicators is significantly less than in political outcomes.

In particular, the standard deviation on the normalized index of economic freedom is 0.09 (mean value of 0.62) and on ease of doing business, 0.06 (mean value of 0.71). The high mean values (above the global averages of 0.58 and 0.54) suggest that the postcommunist countries have rapidly evolved toward economic freedom. In contrast, the standard deviations on democracy and political rights (0.35 and 0.31) are about half of the respective mean values (0.70 and 0.49), indicating wide divergence—about 4–5 times as much as in the economic evolution variables. The next section proposes an explanation of this difference using several sets of explanatory measures.

## **2. Divergence: Effects of History and Early Institutional Decisions**

I propose two historical hypotheses to explain the divergent paths to democracy in the postcommunist world: the 5th century religious divide between the eastern and western Roman Empire, and the more recent (14th to 19th century) imperial history that split the region into three competing empires. These hypotheses take two separate stabs at a single issue: the long-term religious, cultural, and geographic divide in Europe. In this regard the Habsburg Empire can be thought of as a successor of the western Roman Empire, with the Ottoman and to a lesser degree Russian empires as successors to the Byzantine empire. To tease out the importance of history, the importance of each is demonstrated, followed by a comparison to see which historical hypothesis is most effective in explaining economic and political evolution.

The divergence hypotheses work well to explain both economic and political evolution. The differences in the path to economic freedom are smaller, and tests reveal that historical

characteristics are negated by early institutional decisions in explaining the variation in progress toward economic freedom.

*a. The 5th Century Religious Divide*

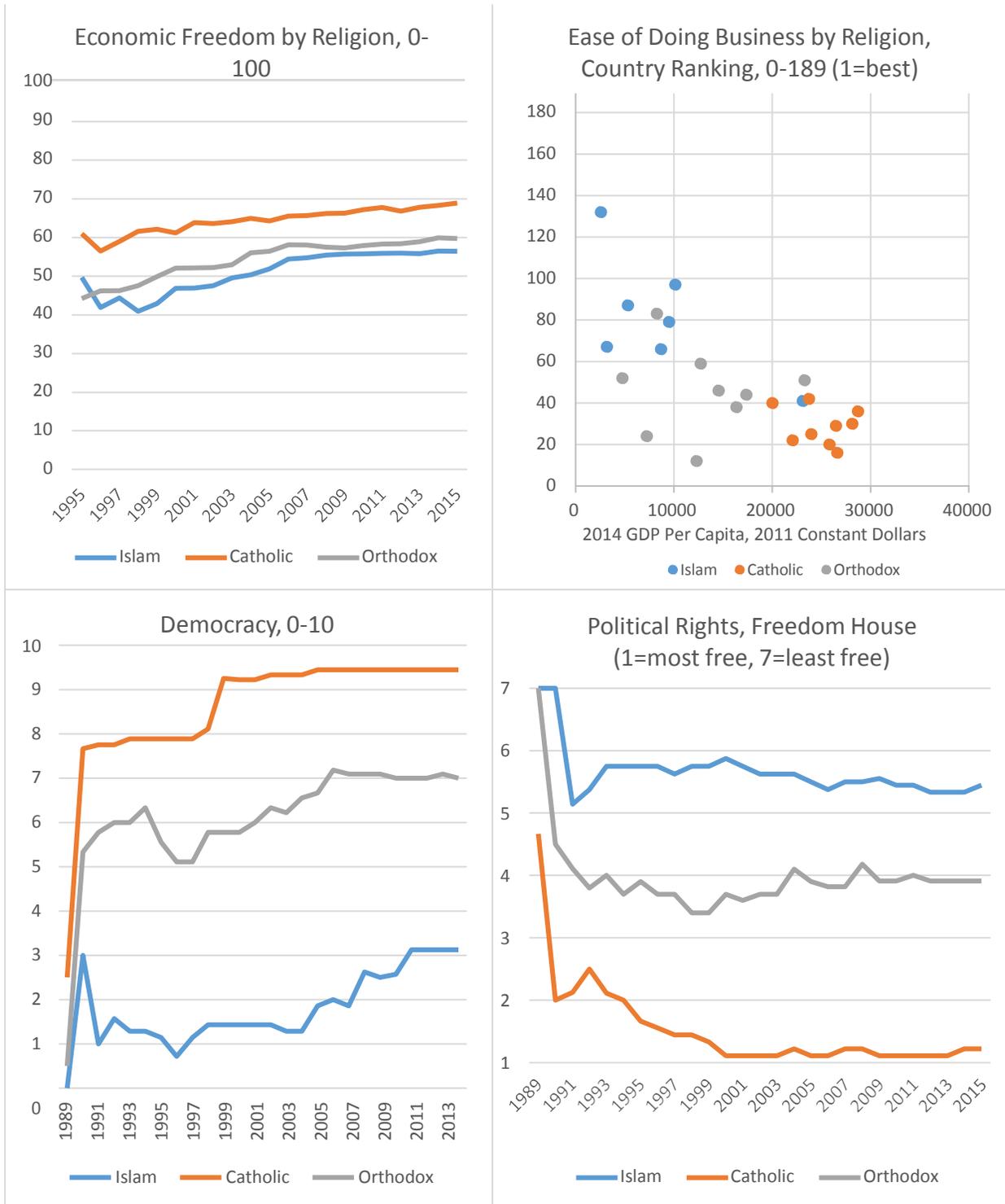
That religion determines peoples' attitudes is by now well-established fact in social science. Max Weber's (1905) pioneering analysis in *The Protestant Ethic* studied religion as an independent variable that influences economic outcomes. Religion can influence personal beliefs that reinforce particular social traits and values.

In the context of Eastern Europe, however, scholars go even further to suggest that the spread of communism was made possible by the prevailing Eastern Orthodox religion. Nikolai Berdyaev, one of the premier Russian philosophers in the early 20th century, argued that communism is a successor of Orthodoxy. As he explains, "The best type of communist, that is to say, the man who is completely in the grip of the service of an idea and capable of enormous sacrifices and disinterested enthusiasm, is a possibility only as the result of the Orthodox Christian training of the human spirit, of the remaking of the natural man by the Orthodox Christian spirit" (Berdyaev 1937, p. 170). Orthodoxy remains the prevalent religion in a number of postcommunist countries—Armenia, Belarus, Bulgaria, Georgia, Macedonia FYR, Moldova, Montenegro, Romania, Russia, Serbia, and Ukraine.

Another literature links Islam, autocracy, and economic development to show that political evolution is slower in countries where Islam dominates (e.g., Benhenda 2011). Rafael La Porta and colleagues (1999) find that countries with high proportions of Muslims exhibit inferior government performance. Timur Kuran (2004) describes the possibility of an adverse effect on economic freedom from legal structures that restrict contracts, credit, insurance, and corporate ownership. Rachel McCleary and Robert Barro (2006) establish that economic growth is inversely related to Muslim adherence. Marcus Noland (2005), however, refutes these findings. Nine postcommunist countries profess Islam as their main religion: Albania, Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kosovo, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

The former communist bloc can be divided into three groups: a Catholic-Protestant group in Central Europe and the Baltics (9 countries); an Orthodox group in Eastern Europe and the Caucasus (11 countries); and a Muslim group in parts of the former Yugoslavia, the Caucasus, and all of Central Asia (9 countries). The groups exhibit significant differences in the postcommunist path to democracy (figure 6). Nearly all the progress occurs in the first years of transition. Among the nine countries in the Islam group, for example, democracy did not advance from 1990 to 2014. In contrast, there was gradual political evolution in the Orthodox countries, driven primarily by Macedonia FYR after 2002 and Georgia after 2004.

**Figure 6** Association between religious prevalence (Islam, Catholicism, Orthodoxy) and economic freedom, ease of doing business, democracy, and political rights, various years



*Note:* The former communist bloc is divided into a Catholic-Protestant group in Central Europe (9 countries: Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia); an Orthodox group in Eastern Europe (11 countries: Armenia, Belarus, Bulgaria, Georgia, Macedonia FYR, Moldova, Montenegro, Romania, Russia, Serbia, and Ukraine); and an Islam group in parts of the former Yugoslavia, the Caucasus, and all of Central Asia (9 countries: Albania, Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kosovo, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan). In the Czech Republic and Estonia, the majority of the population considers itself atheist, but the biggest religious groups are Catholic and Lutheran, respectively. The Index of Economic Freedom ranges from 0 to 10, with higher values representing more freedom. The Ease of Doing Business index ranks countries from 1 to 189, with #1 being the most business-friendly environment and #189 the least business-friendly environment in the world. Democracy scores range from 0 to 10, with higher scores representing more democracy. The Political Rights index ranges from 7 to 1, with lower values representing more rights.

*Sources:* Heritage Foundation (2016); World Bank (2016); Center for Systemic Peace (2016), *Polity IV Individual Country Regime Trends, 1946–2013*; World Religion Database (accessed March 16, 2016); Freedom House (2016).

The pattern of political evolution is not associated with divergent economic freedom and ease of doing business scores. In terms of economic freedom the paths of the three groups are broadly similar until 2007, when progress toward economic freedom leveled off for the Orthodox and Muslim countries. In ease of doing business, Islamic countries show less progress toward business-friendly regulation.

In summary, religion is shown to be strongly associated with divergence in the political evolution to democracy, somewhat less so in the path to economic freedom.

### *b. The 19th Century Empires*

The second possible explanation for the divergence in postcommunist outcomes is the countries' more recent political history. Three large empires ruled over what is now the postcommunist world between the 14th and 19th centuries: the Habsburg (Austro-Hungarian) Empire, the Russian Empire, and the Ottoman Empire. Each left an indelible mark on the structure of society.

The Habsburgs ruled over a federation of territories of the Holy Roman Empire. The capital was Vienna (except in 1583–1611, when it was moved to Prague). From 1804 to 1867 the Habsburg Monarchy was formally unified as the Austrian Empire, and from 1867 to 1918 as the Austro-Hungarian Empire (Becker et al. 2016).

Each Habsburg province was governed according to its own customs. Attempts at centralization began under Maria Theresa and her son Joseph II in the mid- to late 18th century, but were soon abandoned. A greater attempt at centralization began in 1849 after the suppression of various nationalistic revolutions in 1848. The Kingdom of Hungary, in particular, ceased to exist as a separate entity, being divided into a series of districts. Following the Habsburg defeats in the wars of 1859 and 1866, this unification policy was abandoned, and after several years of experimentation in the early 1860s the famous Austro-Hungarian Compromise of 1867 was effected, establishing the so-called Dual Monarchy of Austria-Hungary. In this system, the Kingdom of Hungary was given sovereignty and its own parliament.

Frantisek Palacky, the greatest Czech historian of the 19th century, wrote the 1848 *Psaní do Frankfurtu* (“A Letter to Frankfurt”) in which he justified the continued existence of the Habsburg Empire as the only possible rampart against Russia’s imperial ambitions: “A Russian universal monarchy would be an immense and indescribable disaster, an immeasurable and limitless disaster” (Baar 2010, pp. 29–34).

The Habsburg Empire collapsed under the weight of the various unsolved ethnic problems that came to a head with its defeat in World War I. In the peace settlement that followed, significant territories were ceded to Romania and Italy, new republics of Austria and Hungary were created, and the remainder of the monarchy’s territory was parceled out among the new states of Poland; the Kingdom of Serbs, Croats, and Slovenes (later Yugoslavia); and Czechoslovakia. Central Europe lost its cultural and political ramparts, to be captured by the Soviet Union after World War II. Six postcommunist countries have Habsburg lineage: Croatia, the Czech Republic, Hungary, Poland, Slovakia, and Slovenia.

The pull toward Europe in these countries was clearly seen in the first wave of European Union entry, when the Central European countries joined as a group in 2004 (Lukšić 2015), followed by Croatia in 2013. EU accession for countries of the former Yugoslavia (except Croatia and Slovenia) is pending.

The Russian Empire existed from the 16th century until its overthrow by the February Revolution in 1917 (Bushkovitch 2011). In its heyday, its borders encompassed 14 present-day countries: Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

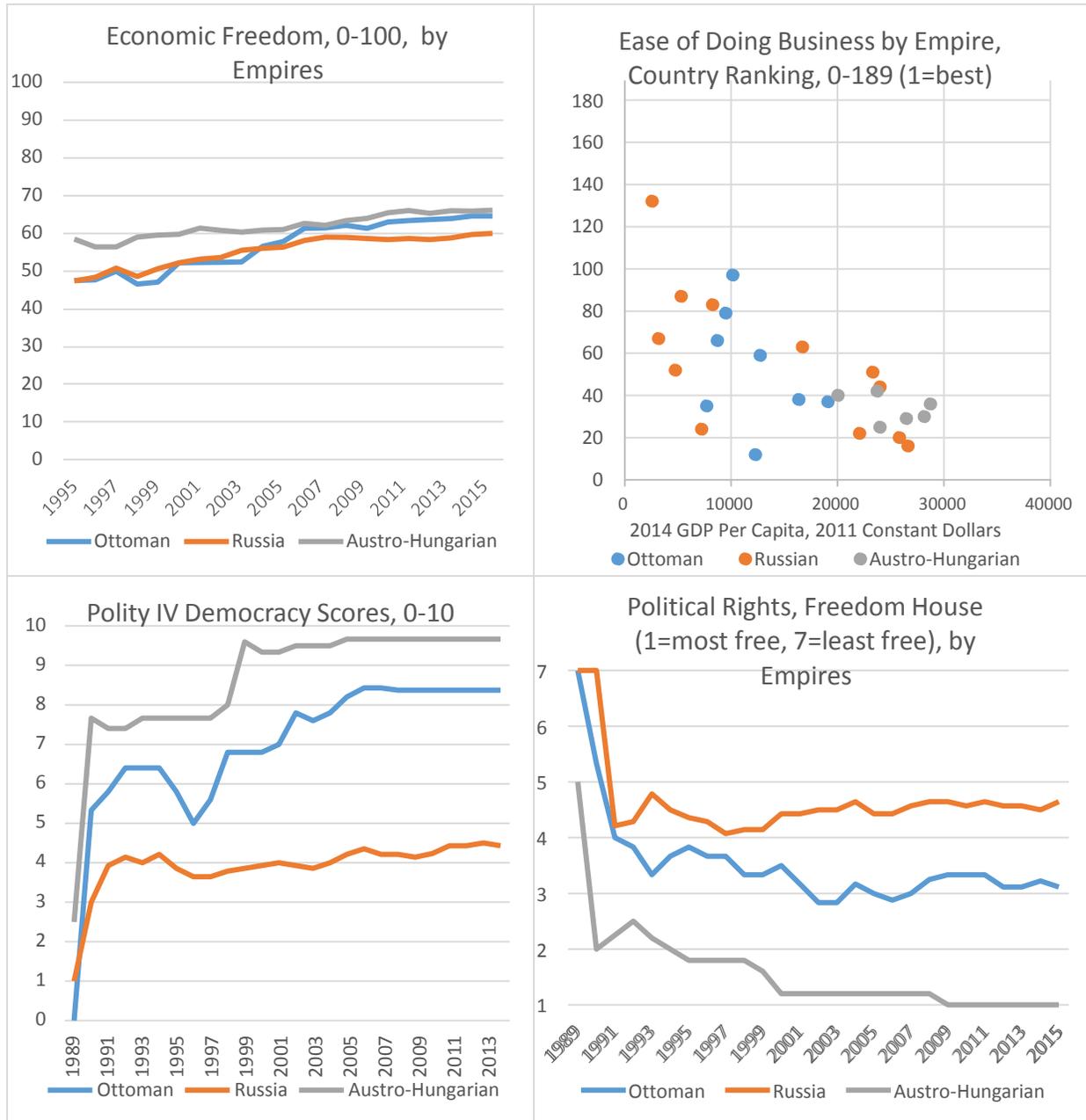
Tsar Ivan III (1462–1505) laid the groundwork for the empire, tripling the territory of his state, ending the dominance of the Mongol Golden Horde, and renovating the Moscow Kremlin. Peter the Great (1682–1725) fought numerous wars and built a huge empire that became a major European power. He moved the capital from Moscow to the new model city of St. Petersburg, and led a cultural revolution that replaced some of the traditionalist and medieval social system with a Europe-oriented system. Catherine the Great (1761–96) presided over the Russian Empire’s golden age. She expanded the empire rapidly by conquest, colonization, and diplomacy, while continuing Peter the Great’s policy of European integration.

Tsar Alexander II (1855–81) promoted numerous reforms, most dramatically the emancipation of 23 million serfs in 1861. His policy in Eastern Europe was to protect the Orthodox Christians under the rule of the Ottoman Empire and eventually to liberate Serbia and Bulgaria in the war of 1878. Russia’s involvement in the Balkans led to entry into World War I on the side of France, Britain, and Serbia against the German, Austrian, and Ottoman empires, but the war effort was hugely unsuccessful and the empire collapsed shortly thereafter.

The Ottoman Empire was founded in 1299 by Oghuz Turks under Osman I in northwestern Anatolia. After conquests in the Balkans by Murad I in 1362–89, the Ottoman sultanate was transformed into a transcontinental empire and claimant to the caliphate (Shaw 1976). The Ottomans ended the Byzantine Empire with the 1453 conquest of Constantinople by Mehmed the Conqueror.

During the 16th and 17th centuries, in particular at the height of its power under the reign of Suleiman the Magnificent, the Ottoman Empire was a multilingual empire controlling much of Southeastern Europe, Western Asia, the Caucasus, North Africa, and the Horn of Africa. At the beginning of the 17th century the empire comprised 32 provinces and numerous vassal states. Nine postcommunist countries were under Ottoman yoke at various times: Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia FYR, Montenegro, Romania, and Serbia.

**Figure 7** Association between imperial lineage and economic freedom, ease of doing business, democracy, and political rights, various years



*Note:* Countries of the former communist bloc are divided into three groups: those of the Habsburg Empire (6 countries: Croatia, the Czech Republic, Hungary, Poland, the Slovak Republic, and Slovenia); the Russian Empire (14 countries: Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, the Kyrgyz Republic, Latvia, Lithuania, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan); and the Ottoman Empire (9 countries: Albania, Armenia, Bosnia and Herzegovina, Bulgaria, Kosovo, Macedonia FYR, Montenegro, Romania, and Serbia). For short periods of time, parts of present-day Hungary and Ukraine were also under Ottoman rule. The Index of Economic Freedom ranges from 0 to 10, with higher values representing more freedom. The Ease of Doing Business index ranks countries from 1 to 189, with #1 being the most business-friendly environment and #189 the least business-friendly environment in the world. Democracy scores range from 0 to 10, with higher scores representing more democracy. The Political Rights index ranges from 7 to 1, with lower values representing more rights.

*Sources:* Becker et al. (2016); Bushkovitch (2011); Shaw (1976); Heritage Foundation (2016); World Bank (2016); Center for Systemic Peace (2016), *Polity IV Individual Country Regime Trends, 1946–2013*; Freedom House (2016).

Suleiman the Magnificent (1520–66) captured Belgrade in 1521, conquered the southern and central parts of the Kingdom of Hungary, and, after his victory in the Battle of Mohács in 1526, established Turkish rule in the territory of present-day Hungary. He laid siege to Vienna in 1529 but failed to take the city. Transylvania, Wallachia, and, intermittently, Moldavia in present-day Romania became tributary principalities of the Ottoman Empire. In 1555 the Caucasus was officially partitioned between Persia and the Ottomans, an arrangement that remained until the end of the second Russo-Turkish War (1768–74). The advancement of the Ottoman Empire in Europe was stopped in 1593 on Croatian soil, at the Battle of Sisak.

The collapse of the empire in Europe started with the Bulgarian uprising of 1876, when 100,000 people were massacred (Jelavich and Jelavich 1986). The fifth Russo-Turkish War (1877–78) resulted from the outcry against the massacre and ended with a decisive victory for Russia. In its aftermath, Ottoman holdings in Europe declined sharply. Bulgaria was initially established as an independent principality in the Ottoman Empire, while Romania achieved full independence, as did Serbia and Montenegro, albeit with smaller territories than they had before. In 1878 Austria-Hungary unilaterally occupied the Ottoman province of Bosnia-Herzegovina. Bulgaria declared full independence from the empire in 1908.

Study of the patterns of movement toward economic freedom according to imperial lineage reveals that it is broadly similar across empires (figure 7). Countries formerly in the Ottoman Empire moved toward economic freedom almost as strongly as those of the former Austro-Hungarian Empire, while countries that belonged to the Russian Empire tended to open their economies more slowly after 2007, although they maintained an upward trend. In terms of the ease of doing business, variation within empire groups is significant, with few differences across the groups. This finding validates the view in Noland (2005) that the Ottomans were open to international trade and encouraged business activity as much as the Habsburgs.

In contrast, the three groups show pronounced differences in democracy and political rights. Countries that belonged to the Austro-Hungarian Empire are markedly more democratic and embrace more political rights for their citizens. Countries that were at one time part of the Ottoman Empire display little penchant for democracy and political rights, while countries that were once part of the Russian Empire seem most allergic to democracy and political rights.

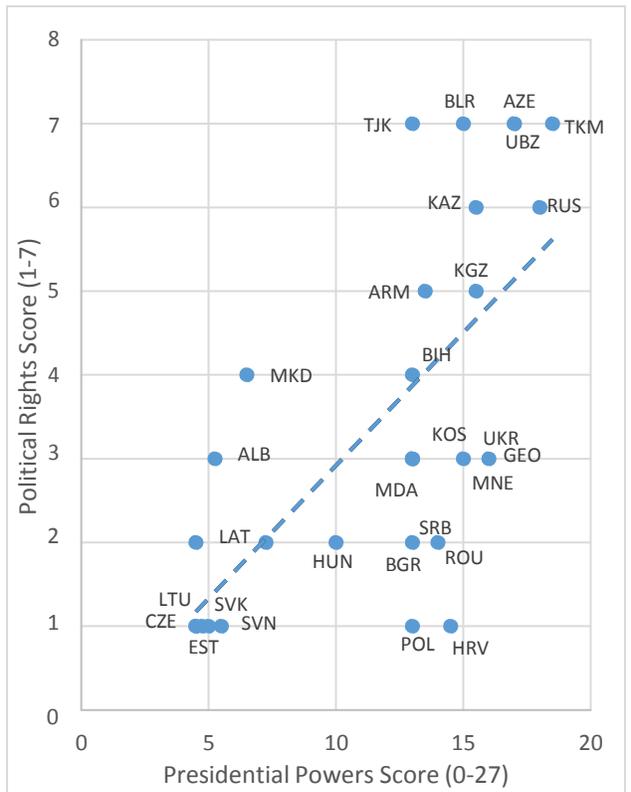
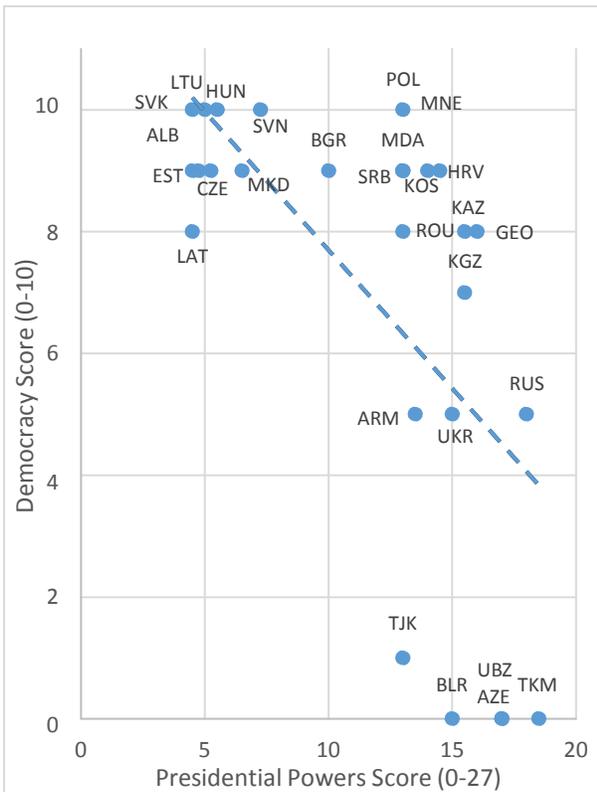
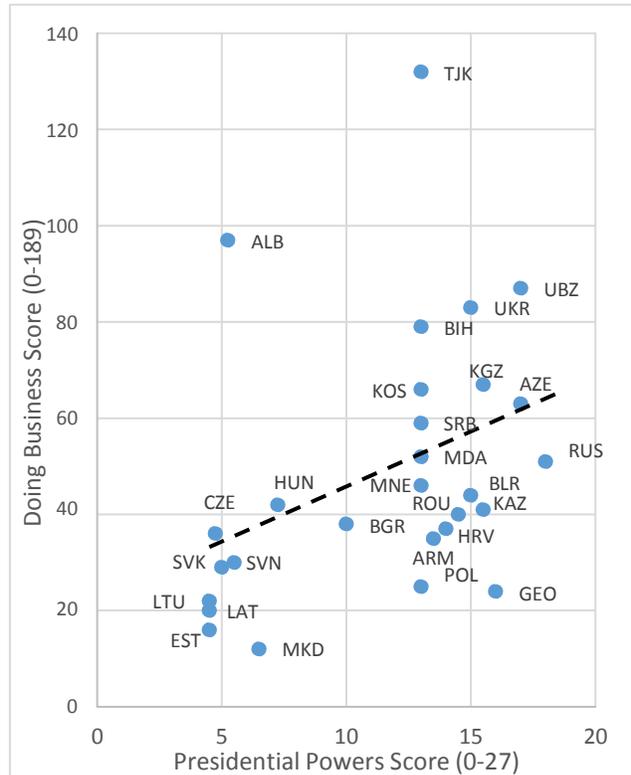
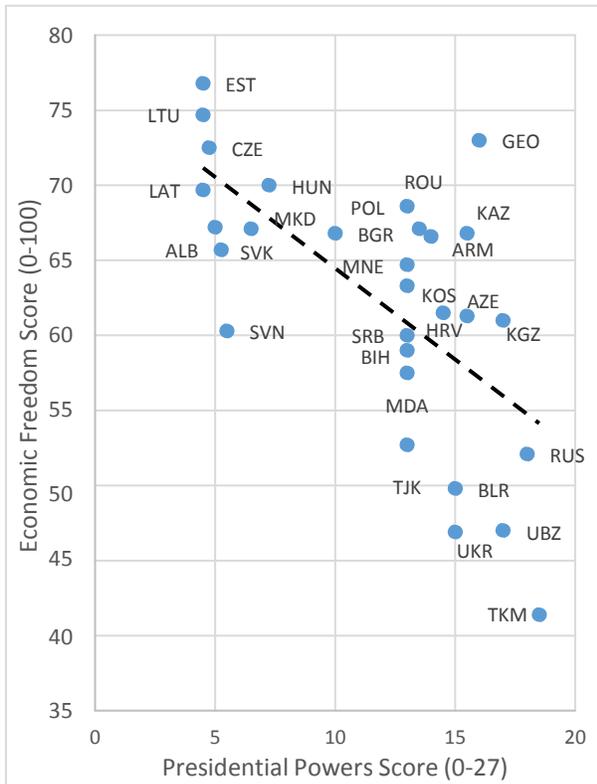
*c. Early Institutional Choices*

Institutional choices at the start of the postcommunist transition are thought to have influenced subsequent economic and political evolution. In particular, strong presidential systems rallied countries for independence, overcame legislative gridlock, and minimized the risk of unstable governments. Strong parliamentary systems reduced risks of ethnic domination and created checks and balances in political decision making. These features suggest that presidential systems may be better at promoting fast economic reforms (Hellman 1998), while strong parliamentary systems may be better at promoting democracy (Frye 1997).

Since the early years of transition, countries have undergone changes in their institutional setup: Armenia, Croatia, and Georgia have gone from strong presidential to parliamentary systems, while Belarus and Ukraine have gone the other way. Russia has had both a weak presidential system (until 1993) and then a strong one. Bulgaria has gone from selection of the president by parliament to direct presidential elections.

Frye (1997) developed an index of presidential powers, taking into account how presidents are elected, what their presidential powers are, and how they can be impeached. The index has been used in several studies of political transformation in postcommunist countries (e.g., Cheibub 2006, Pop-Eleches 2007). Presidential powers correlate with less economic and political freedom, less democracy, and a lower ranking on the ease of doing business.

**Figure 8** Association between presidential systems and economic freedom, ease of doing business, democracy, and political rights



Note: To show differences across the postcommunist world, the 29 countries of the former Soviet bloc are organized in 3 groups. The Balkans group comprises Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia,

and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 to 2007, when it becomes Serbia and Montenegro. The former Soviet states are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The countries of Eastern Europe are Bulgaria, Croatia, Czechoslovakia (1989–92), Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia, and separately the Slovak Republic and the Czech Republic from 1992. The Presidential Powers Score ranges from 0 to 27, with more powers vested in the Presidency increasing the score. The Index of Economic Freedom ranges from 0 to 10, with higher values representing more freedom. The Ease of Doing Business index ranks countries from 1 to 189, with #1 being the most business-friendly environment and #189 the least business-friendly environment in the world. Democracy scores range from 0 to 10, with higher scores representing more democracy. The Political Rights index ranges from 7 to 1, with lower values representing more rights.

*Sources:* Frye (1997); Heritage Foundation (2016); World Bank (2016); Center for Systemic Peace (2016), *Polity IV Individual Country Regime Trends, 1946–2013*; Freedom House (2016).

Figure 8 suggests that relatively recent institutional choices also display a powerful effect on the postcommunist path that countries have undertaken.

#### *d. Regression Analysis*

After the graphical evidence presented in the previous two subsections, regression analysis, using simple regressions and dummifying out the main variables of interest, shows which country characteristics have the largest explanatory power. The analysis uses the last year of available data for each dependent variable, usually 2015. The rationale is that all sample countries started with a complete lack of democracy and political rights, as well as complete or near-complete lack of economic freedom. The most recent values are taken to represent the increase in freedom over the period. The correlation results are reported in table 3.

Economic freedom (EcFree) is highly positively correlated with the Catholic/Protestant tradition (coefficient of 0.50) and negatively correlated with Islam and Orthodoxy. It is also negatively correlated with the Russian Empire dummy (coefficient of  $-0.32$ ). Ease of doing business (EDB) is negatively correlated with Islam (coefficient of  $-0.68$ ) and positively correlated with the Catholic/Protestant tradition (coefficient of 0.50). It is also positively correlated with the Habsburg Empire dummy (coefficient of 0.28). Democracy and political rights are highly positively correlated with the Catholic/Protestant religion (coefficients of 0.49 and 0.69, respectively) and negatively correlated with Islam. The correlation for political rights is negative if a country was part of the Russian Empire and positive if it was part of the Habsburg Empire ( $-0.53$  and 0.54, respectively). The Catholic/Protestant religion is very highly correlated with the Habsburg Empire (correlation of 0.76).

Two of the control variables—natural resource abundance and level of urbanization—are also highly correlated with economic freedom, at  $-0.24$  and 0.26, respectively. The highest correlation is between the ease of doing business and urbanization (0.68). Resource abundance is negatively correlated with democracy and political rights, while urbanization displays a positive correlation. Of note is the negative correlation between Islam and urbanization ( $-0.71$ ). Ethnic diversity is associated with weaker political rights and with once belonging to the Russian Empire.

Strong presidential powers are correlated with weaker economic and political freedoms, particularly with weaker political rights (coefficient of  $-0.65$ ). They are negatively correlated with the Catholic/Protestant dummy ( $-0.66$ ) and are apparent in countries with abundant natural resources ( $0.61$ ). They are not correlated with ethnic diversity (coefficient of only  $-0.11$ ).

The high correlations between indicators within the same legacy cohort are reassuring about the reliability of the measures, while the sometimes high correlation between indicators of different legacy cohorts—such as between the Catholic/Protestant tradition and the Habsburg Empire—create significant difficulties for interpreting the role of individual factors. From a statistical point of view, the high correlations of the different legacy indicators can lead to high multicollinearity, which produces unstable coefficients and inflated standard errors. These, in turn, undermine the usefulness of multiple regressions in testing competing hypotheses. For this reason, the focus here is mostly on regression models that use legacy cohorts separately. A complementary approach is the use of case studies; section 4 presents such a study of Georgia.

The regression analysis indicates that abundance of natural resources adversely affects evolution toward economic freedom but has no effect on business regulation (table 4, columns 1–2). Urbanization has a positive effect on economic freedom but negative on ease of doing business. Ethnic diversity plays no role in explaining economic evolution.

Orthodoxy is associated with less economic evolution (column 3) and wipes out the effect of urbanization as the coefficient becomes insignificant, probably because both Orthodox and Muslim countries are more rural (table 3); for example, there is a correlation of  $-0.71$  between the Muslim dummy and urbanization. However, the statistical significance is weak, at 10 percent in the case of the Orthodox religion, and insignificant for economic freedom in the case of Islam. In contrast, the effect of both Orthodoxy and Islam on ease of doing business is positive and significant. Ethnicity also plays a role: ethnically homogeneous countries make it easier to run businesses (column 4).

Study of the association between late empires and economic evolution (columns 5–6) yields no evidence in support of my hypothesis. Urbanization enters with a positive and significant sign in column 5 and negative and significant sign in column 6, echoing the results in columns 1–2. Having a dominant ethnic group is associated with ease of doing business. Both sets of historical variables are included in columns 7 and 8 and confirm that the 5th century religious divide is more relevant in explaining postcommunist economic evolution. However, the high correlation between Orthodoxy and the Ottoman Empire (coefficient of  $0.45$  in Table 3) creates multicollinearity that makes difficult the analysis of regression results.

Finally, presidential powers are considered as an explanatory variable (columns 9–10). It is statistically significant at the 10 percent level in explaining weaker economic freedom, but insignificant in explaining regulatory reform. However, the inclusion of presidential powers wipes out the effect of empires and nearly eliminates the effect of Orthodoxy (the regression coefficient of Orthodoxy on economic freedom remains significant at the 10 percent level). Only Islam remains significant in explaining a slower path to economic evolution. Natural resource abundance

and ethnic diversity are associated with more regulatory reforms, although these results are not statistically robust.

In sum, economic evolution seems to be affected in countries where Islam is the main religion, while other explanatory variables perform poorly in explaining economic freedom and ease of doing business. Weaker presidential powers after 1989 seem to mitigate the adverse effects of religion and history on economic freedom. Urbanization and natural resource abundance also play a role in explaining economic evolution.

Evolution toward democracy and political rights is associated with less resource abundance and, in the case of political rights, higher urbanization (table 5, columns 1–2). Once historical variables are added, however, these results become insignificant. In columns 3 and 4, both Orthodoxy and Islam are shown to be negatively associated with political evolution. The coefficients on Islam are twice as large as those on Orthodoxy.

These regressions (columns 5–6) show more clearly the negative effect of natural resource abundance, the positive effect of urbanization, and, in the case of democracy, the positive effect of ethnic diversity. Once both sets of historical variables are included in the regressions, however, empires cease to be statistically significant and actually flip signs, perhaps due to multicollinearity. The 5th century religious divide is the only consistently significant predictor of political evolution.

The inclusion of presidential powers in the regression doesn't change the results. Contrary to the results shown in table 4, presidential powers are not a good predictor of political evolution, and they only marginally weaken the explanatory power of history (in the case of the effect of Orthodoxy on democracy). This result may explain the wider divergence in political as opposed to economic evolution; present-day parliamentary systems negate the deleterious effects of history on economic but not political evolution.

The explanatory power of initial conditions like urbanization and ethnicity, history, and presidential powers is quite high, explaining about 70 percent of the variation across countries. Much of this explanatory power is derived from historical variables, while little is added by newer institutional choices. While countries have broadly converged along economic freedom dimensions, they remain wide apart in political evolution.

This analysis considers economic and political evolution as independent processes. There may well be two-way causality, as early reformers such as Balcerowicz (1995) argued. The high correlation between indicators of economic and political freedoms in table 2 supports this argument. However, recent political evolution in countries with successful economic transformation (e.g., Hungary and Poland) puts such association into doubt. The study of interlinkages between political and economic reforms is therefore left for future research. The fact remains that a number of postcommunist countries advanced toward greater economic freedom but not greater political freedom.

### 3. Consequences of Stalled Political Transformation

The stalled process of democratization in several postcommunist countries has had at least three negative effects. First, it has extended the power of the old elites and transformed it into economic power, creating entrenched oligarchs who play a leading role in the economic and political life of their countries. Second, it has increased rent seeking and corruption. And third, democratic reversal in countries such as Russia and Hungary has given an example for other countries to follow. The recent antidemocracy trend in Central Europe may be partially traced to the Russian precedent and the surprising resilience of 21st century authoritarian regimes.

#### *a. The Staying Power of the Old Elite*

In forecasting political evolution in postcommunist societies, social scientists have greatly exaggerated the benefits of economic incentives by themselves, without changes in people. Transition to markets is accomplished by new people, not by old people with better incentives. In the absence of new people in politics, political transformation stalls.

Eastern Europe, in its march toward European integration, has gone a good deal further in solving this problem than the former Yugoslavia and Soviet Union. Studies of elections and of turnover of elites corroborate this view. For example, 75 percent of local leaders elected in Poland in 1990 had no record of government service, and 45 percent of newly elected mayors were under the age of 40. The reason Poland had such substantial replacement of political leadership is the popularity of the Catholic Church and the rise of Solidarity. In 1990, 47 percent of newly elected politicians came from civic opposition movements (mainly Solidarity) and another 39 percent were independents; only 8 percent were communists. In the Russian elections to local councils (soviets) in 1990, a much lower 33 percent of the winners came from civil opposition movements and a vastly higher 49 percent were communists (cited in Shleifer 1997).

A study of political elites in Hungary, Poland, and Russia paints a similar picture (Szelenyi, Treisman, and Lipinski 1995). The authors interviewed several hundred members of the 1993 political, economic, and cultural elites and asked them about their current and past activities. In Russia, they discovered that 83 percent of the political elite were former Communist Party members, and, of the economic elite, 53 percent were former party members. In Poland, the respective numbers were 30 and 57 percent, and in Hungary 27 and 41 percent.

Politics in many nonreforming countries came to be dominated by old elites, the so-called oligarchs, who combined wealth with substantial political influence and ownership of the media (Shleifer 2012). Russia and Ukraine are most obviously dominated by oligarchs among postcommunist countries (Guriev and Sonin 2009). But the rise of the oligarchic political model is also seen in all of Central Asia, the Caucasus, Bulgaria, and much of the former Yugoslavia.

Democracy cannot be achieved without an unconditional liquidation of the old communist system, including as great a disruption as possible in the elite. The main method of purging former communist leaders and secret police from political life is through the adoption of lustration laws. The goal of lustration is to ban members of the communist elite and collaborators with the former

communist regime's secret police from holding leading posts in the state and municipal administration, political parties, state-owned companies (including banks, energy companies, and hospitals), the diplomatic service, the media, and the judiciary.

All Central European countries have implemented lustration laws (Dvořáková and Milardović 2007). The Czechoslovak law, adopted in 1991, was the earliest. It combined both vetting and exclusion from certain public offices for secret service members. Anyone who had served as an officer or agent of the communist security services or as a party official from the district level upward (except in 1968) was automatically excluded from some 9,000 posts in government and public administration, the military, the security services, the state media, state-owned enterprises, the judiciary, and senior academic posts. More than 400,000 people have been screened, about 3 percent of whom were found to have collaborated with the secret police (Williams, Szczerbiak, and Fowler 2003).

In 1995 Polish Prime Minister Józef Oleksy was accused of having been a Soviet spy. In response, in June 1997 Poland adopted a lustration law that covered all elected state officials, including parliamentary candidates, as well as ministers and senior state functionaries above the rank of deputy provincial governor, judges and prosecutors, and leading figures in the public electronic and print media. The law's scope was later extended to include all legal professionals, bringing the total number of officials subject to lustration to more than 35,000. In 2016 lustration became a topic in Poland again after missing secret police files were discovered in the home of the last communist-era interior minister, including files implicating the first democratically elected president and 1983 Nobel Peace Prize winner Lech Wałęsa as a paid communist informant (Foy 2016).

Lustration has been a favorite tool for Prime Minister Viktor Orbán in Hungary. The initial 1994 law covered parliamentarians; government ministers, state and deputy secretaries, ministry department heads, ambassadors, and other senior civilian and military officials; heads, deputy heads, and editors of the state television, radio, and news agencies and editors of daily and weekly papers with print runs of more than 30,000; judges and prosecutors; mayors and county assembly presidents; department heads at public universities and colleges; and heads of state-owned companies. Still, high-level politicians managed to escape the reach of the law until 2000, when Orbán strengthened its provisions. The new provisions exposed a number of members of the former Communist Party as secret police, most prominently Péter Medgyessy, Hungary's prime minister in 2002–04.

In contrast, Bulgaria, all countries of the former Yugoslavia, and the successors of the former Soviet Union (except Georgia, which passed legislation in 2005) do not have lustration laws. The absence of such laws in Bulgaria allowed members of the former secret service to become the new political elite, hampering progress toward democracy (Djankov 2014). Three of the parties in the Bulgarian parliament are led by former members of the communist-era secret police. In Russia and Serbia, members of the former secret police dominate political life, and even—in the case of President Vladimir Putin, a former KGB colonel—run the country. This is also the case in Central Asia and the Caucasus, where, for example, the head of the Azeri KGB, Heydar Aliyev, was the first president of postcommunist Azerbaijan, ruling for a decade before passing power to his son.

### *b. The Rise of Corruption*

Politicians and oligarchs who live above the law create in effect a denial of democracy. Also associated with stalled political reforms in postcommunist countries is the extensive rent seeking by politicians early in the transformation process and the resulting corruption.

Shleifer and Vishny (1993) distinguish two kinds of corruption: with and without theft. In the first, a government official takes money in exchange for reducing payments (such as taxes or tariffs or a privatization price) that the briber owes to the government, thus, in effect, stealing from the government as its payment is reduced by funds diverted to the briber. In the second kind of corruption, a government official takes additional money in exchange for goods such as construction permits or licenses to operate telecommunications, to which the briber is entitled but which can take a long time to obtain. When markets became competitive both types of corruption spread throughout Eastern Europe and the former Soviet Union.

The first type of corruption was present during the privatization process in many countries, where privatization prices ended up lower than the book value of assets. This was particularly true in the loans-for-shares scheme in Russia and in privatizations after liquidation or bankruptcy in Bulgaria and Romania. In Bulgaria, for example, rent seeking by former Communist Party leaders significantly worsened the outcome of privatization, as many enterprises fell into the hands of communist apparatchiks and their kin. These new owners were neither able nor prepared for the task of doing business in a competitive environment. The second type of corruption took off after privatization, during the deregulation that followed. Rent-seeking politicians distorted the deregulation process, and as a result some new owners (former politicians) faced little competition, particularly in the utilities, banking, and telecom sectors. They simply precluded entry by new players into their sector.

Corruption has remained stubbornly high in some postcommunist countries (figure 9). Estonia has the least corruption among postcommunist countries, followed by Georgia; Uzbekistan the most. Countries in Eastern Europe showed the most progress in 2003–07, on the eve of accession to the European Union. The former Yugoslav countries managed to reduce corruption consistently throughout the past quarter century, but particularly since 2011, when Croatia was invited to join the European Union and Albania, Macedonia FYR, and Montenegro were given a path to EU membership. In contrast, corruption in the former Soviet Union is entrenched. Latvia has shown the most progress, reducing corruption by 60 percent during the period. Belarus has shown the biggest increase in corruption, about 18 percent. Russia and Ukraine have maintained the same level of corruption throughout the period. In both countries, powerful oligarchic groups capture the lion's share of public procurement and privatization opportunities.

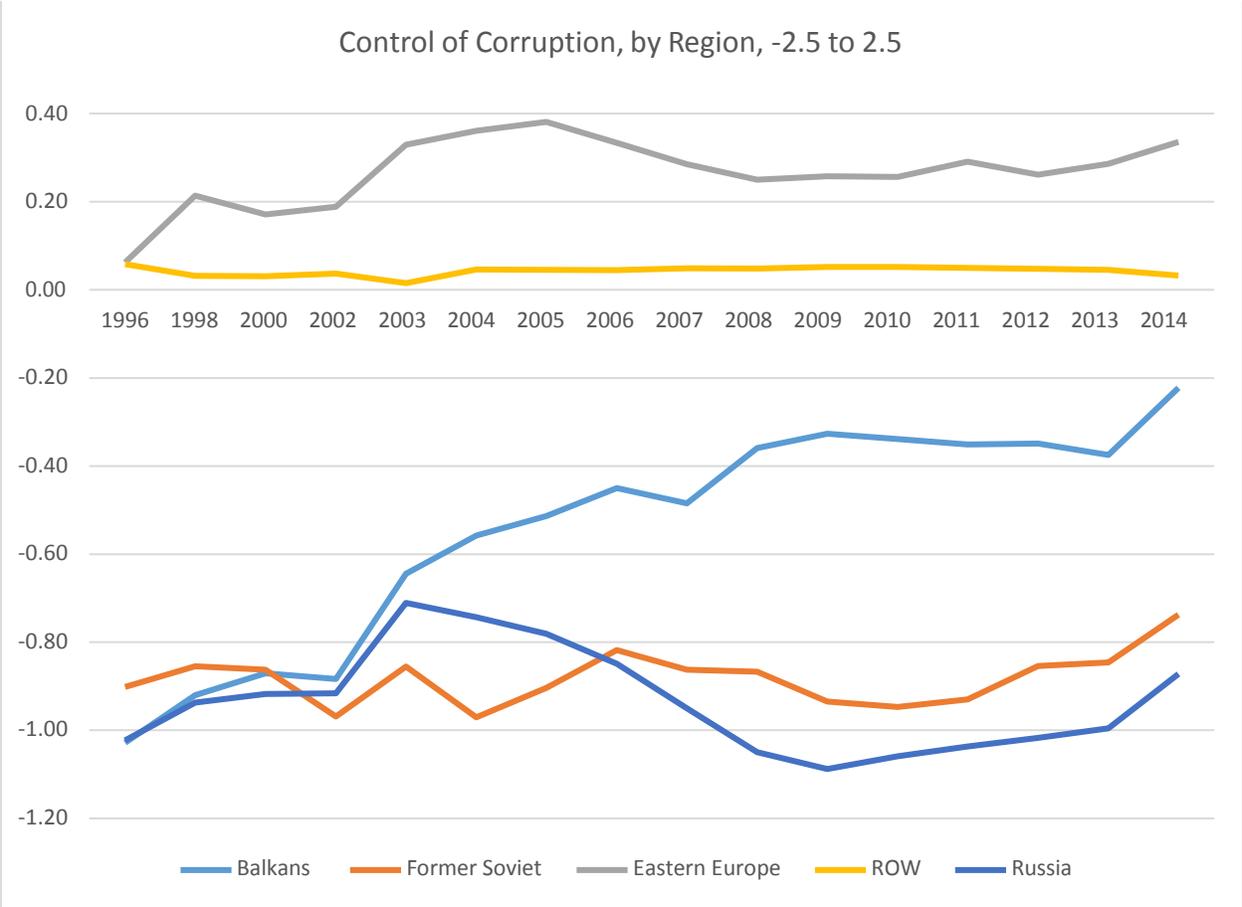
A recent study using survey data for 2010 focused on the importance of perceived corruption in explaining the gap in life satisfaction in postcommunist countries (Djankov, Nikolova, and Zilinsky 2016). Bulgaria, Russia, Serbia, and Ukraine stand out as countries with the highest proportion of disenchanting citizens. Cross-country regression analysis shows a direct correlation

between political corruption and subjective assessment of well-being. Democracy and political rights are shown to reduce corruption and enhance well-being.

Some postcommunist countries have prosecuted high-level politicians on corruption charges. In Croatia, former prime minister Ivo Sanader is serving nine years in prison for corruption. Former Romanian prime minister Adrian Năstase served two years in prison after a conviction for bribery. Former Romanian prime minister Victor Ponta is on trial for fraud, tax evasion, and money laundering. Petr Nečas, former prime minister of the Czech Republic, was forced to resign over a corruption scandal. In Slovenia, former prime minister Janez Jansa was indicted on bribery charges involving arms smuggling.

But in many other cases politicians escape the law and through their links with oligarchs enrich themselves at the expense of the public. Notably, in Bulgaria, Serbia, and Ukraine, no high-ranking politicians have been tried on corruption charges, resulting in a conviction.

**Figure 9: Control of corruption, 1996–2014**



Note: Control over corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The index varies between -2.5 (prevailing corruption) and 2.5 (complete absence of corruption). The 29 countries of the

former Soviet bloc are organized into 3 groups. The Balkans group is comprised of Bosnia and Herzegovina, Kosovo, Macedonia FYR, Montenegro, Serbia, and Albania. The Federal Republic of Yugoslavia is included in the Balkans group from 1989 until 2007, at which point it becomes separately Serbia and Montenegro. The Former Soviet states include Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Eastern Europe includes Croatia, Slovenia, Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, Czechoslovakia (from 1989 to 1992) and separately the Slovak Republic and the Czech Republic from 1992.

Source: World Bank, World Governance Indicators, accessed June 8, 2016.

### *c. Recent Reversals to Autocracy*

Autocracy has proven contagious. Since the eurozone crisis, an antidemocracy trend has been developing in Eastern Europe, in response to alleged corruption in government, fiscal austerity, and rising nationalism.

The trend started in Hungary. Since his decisive electoral victory in 2010, Hungarian prime minister Viktor Orbán has used his large parliamentary majority to push through over 600 new laws that point to an increasingly authoritarian model of government. He has politicized the judiciary, placed restrictions on independent media and foreign-funded nongovernmental organizations, and overseen a number of amendments to the Constitution. In the past six years, Hungary has been transformed into Europe's most Eurosceptical state.

But Hungary was only the first to follow the authoritarian path charted by Vladimir Putin in Russia after 2003. Miloš Zeman, the Czech president, also openly questions democratic values and is a fan of Putin's Russia. Although Czech political institutions have so far made it difficult for any one group to concentrate sufficient power to rewrite constitutional rules, one of the impacts of President Zeman's rhetoric has been to stoke public discontent and increase the popularity of parties actively undermining democracy. Slovak prime minister Robert Fico is another collaborator of Viktor Orbán, and during his leadership Slovakia has veered away from the European Union. In 2015 the Law and Justice party recaptured power in Poland and joined Hungary in leading the Eurosceptic and antidemocratic choir in Europe.

These reversals, among countries that in the early postcommunist period recorded the fastest political evolution toward democracy, show a worrying trend. The benefits of democracy are increasingly being questioned and juxtaposed with a concern for stability. Immigration waves from North Africa and the Middle East in 2015 and 2016, and associated fears about a rise in terrorism in Europe, are being used to scare voters into accepting less democracy and fewer civil rights.

### *d. Georgia: The Puzzle in Transition*

Georgia is the most puzzling case for economic and political transformation. An Orthodox nation in the Caucasus and part of the Russian empire and then under Soviet dominion for much of its history, it has surpassed expectations. Its economic freedom score in 2015 was 73, identical to Germany's. It ranks 24th on the 2016 Ease of Doing Business index, behind only Macedonia FYR

and the Baltics in the postcommunist region and on par with Austria and the Netherlands. It scores 8 out of 10 on democracy, one notch below the Czech Republic. And its political rights score in 2015 was 3 out of 7 (where 1 is complete democracy), the same as Croatia's.

The initial postcommunist years did not suggest such achievements. After the collapse of the Soviet Union in 1991, Georgia sank into a civil war, followed by a coup that brought the former communist leader Eduard Shevardnadze to power. Armed conflicts emerged in two of the country's regions. Georgia experienced the largest economic decline of any post-communist country in 1990–94, when nominal GDP fell 77 percent (UNECE 2000, p. 225). The economy continued its slide for the next decade as Shevardnadze's family took control of significant economic assets in banking, energy, telecommunications, construction, and the media. In this tight link between politics and business, Georgia was no different from its Caucasus neighbors Armenia and Azerbaijan.

The point of departure came in 2003, when the population rose to expel Shevardnadze from the country in what became known as the Rose Revolution. But afterward Georgia faced a number of additional challenges. In 2006 Russia, its largest trading partner, banned trade, quadrupled the price of Russian natural gas, and evicted tens of thousands of labor migrants. In August 2008 five days of full-fledged war killed 228 civilians and 160 soldiers and increased the size of the occupied territories by 20 percent, displacing 110,000 people.

Still, between 2004 and 2012 real annual economic growth averaged 7.2 percent and corruption decreased so dramatically that Georgia surpassed some developed countries on international governance indexes. In the Control of Corruption index, for example, Georgia ranked second only to Estonia among all postcommunist countries, and equal to Costa Rica and Portugal.

Georgia also provides some specific examples of policy reforms. After the Rose Revolution, the first step was to create new public security systems and reform the most corrupt institution, the police. The most visible and celebrated reform was the abolishment of the Soviet-style road police, which had nothing to do with law enforcement: its sole purpose was to extract bribes. In 2005 the government fired all 30,000 traffic police in Georgia. The goal was to transform the police from a punishing institution to a public agency that provided security and stability. The share of the Georgian people that had confidence in the police rose from 5 percent in 2004 to 87 percent in 2012 (Bendukidze and Saakhashvili 2014).

Georgia has staged the only successful postcommunist restart of political transition. Both Ukraine in 2004 and the Kyrgyz Republic in 2010 had their color revolutions (the Orange and Tulip revolutions, respectively), but neither was aimed at bringing in new political elites and charting a new economic path away from oligarchs. Georgia deserves further study to understand how countries can overcome their unfavorable history on the path to democracy.

#### **4. Conclusions**

In most of the postcommunist states life has improved, sometimes markedly. Citizens enjoy higher living standards, the freedom to travel internationally, more secure property rights, and greater autonomy and personal dignity. Their countries have closed some of the income gap with the West.

But the data and analyses reviewed above show that postcommunist economic progress has been more successful than political efforts. It appears that while postcommunist reformers knew more or less how to do economic reform, few politicians had any idea how to build democracy. As a result, the citizens of a half-dozen postcommunist countries still live in dictatorships. Moldova and Ukraine have only recently started on the path to democracy and integration with the European Union. And several countries that started early on the path of democracy have since veered away.

In trying to identify the reasons for the disappointing results in democratic development, I show that history is a major determinant and that recent institutional choices only partially negate its effects. I also point to an outlier—Georgia—that perhaps can unlock the secret of successful political evolution.

The divergent paths of political evolution in the postcommunist countries suggest that further study is needed to understand the combination of policies that bring about a thriving democracy in the face of strong countervailing forces (Kelejian, Murrell, and Shepotylo 2013). In some Central European countries, even successful economic reforms failed to bring legitimacy to liberal democracies. These insights have implications for the study of political evolution in other parts of the world, for example among the Arab states and in Cuba, North Korea, and much of Africa, which emulated the Soviet model in the 1950s and 1960s.

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**Table 1: Variables and sources**

<b>Variable</b>	<b>Definition</b>	<b>Source</b>
GDP per capita, at PPP	GDP per capita based on purchasing power parity (PPP)—GDP converted to international dollars using PPP rates. An international dollar has the same purchasing power over GDP as the US dollar has in the United States. GDP at purchaser’s prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars, and are given for 1990 through 2014, as many countries are missing data for 1989.	World Bank, World Development Indicators
Life expectancy	Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth stay the same throughout its life. Data are given for 1989 through 2013.	World Bank, World Development Indicators
Economic freedom (EcFree)	The Index of Economic Freedom ranges from 0 to 100 and measures the economic freedom of 186 countries based on trade freedom, business freedom, investment freedom, and property rights. A score of 100 indicates the highest level of economic freedom, while 0 indicates the least freedom. Data are given from 1995 (when the Index was created) to 2015.	Heritage Foundation (2016)
Ease of doing business (EDB)	An annual index that ranks countries on the ease/difficulty of conducting business. The index covers 11 topics and 189 countries, with a cross-section of most recent data displayed for 2015. Scores range from 0 to 189, with 1 being the best. Rankings are based on the average of 10 subindices, including starting a business, getting electricity, getting credit, registering property, trading across borders,	World Bank (2016)

Property rights	<p>and enforcing contracts, protecting investors, paying taxes, dealing with construction permits, and resolving insolvency.</p> <p>An assessment of the ability of individuals to accumulate private property, the degree to which a country's laws protect private property rights, and the degree to which its government enforces those laws. It also assesses the likelihood that private property will be expropriated and the independence of the judiciary, the existence of corruption in the judiciary, and the ability of individuals and businesses to enforce contracts. Data range from 0 to 100, where 0 represents the outlaw of private property, and 100 represents private property being guaranteed by the government, with courts efficiently enforcing property rights. Data are given from 1995 (when the Index was created) to 2015.</p>	Heritage Foundation (2016)
Democracy (Democ)	<p>Scores range from 0 to 10, with 0 corresponding to closed autocracy, 1-5 open autocracy, 6-9 democracy, and 10 a full democracy. The score consists of six measures that record key qualities of executive recruitment, constraints on executive authority, and political competition. It also records changes in the institutionalized qualities of governing authority. Data are available for most countries from 1989.</p>	Center for Systemic Peace (2016)
Political rights (rights)	<p>A country or territory is awarded points for each of 10 political rights based on their responses to questions in three categories: electoral process (3 questions), political pluralism and participation (4), and functioning of government (3). Scores range from 0 to 7, with 1 corresponding to strong political rights, including free and fair elections. 7 corresponds to the lowest level of political rights, and severe government oppression. Limited data are available from 1989 and 1990, with data available for most countries from 1991.</p>	Freedom House (2016)
Control of corruption	<p>Scores range from -2.5 (weak government control of corruption) to 2.5 (strong government control of corruption) Control of corruption measures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Data is available from 1996, when the index was created.</p>	World Bank, Worldwide Governance Indicators

Religion	Countries are coded relative to the largest religion professed by the population: Orthodox, Catholic/Protestant/Lutheran, or Islam. Coding is binary, with 1 indicating the presence of the largest religion, and 0 given for the remaining two.	La Porta et al. (1999); Berdyaev (1937)
Empires	Countries are coded relative to the empire they belonged to in the middle of the 19th century: Austro-Hungarian, Russian, or Ottoman. Coding is binary, with 1 indicating the empire to which the country belongs, and 0 given for the remaining two.	Becker et al. (2016); Bushkovitch (2011); Shaw (1976)
Presidential powers	An index, from 0 to 27, of presidential powers inscribed in the constitution as of 1995, with higher values corresponding to stronger presidential powers. These powers include veto power, nominating power, decree powers, and powers of legislative initiative. Directly elected presidents are considered more powerful. Details are provided in Frye (1997, Appendix A).	Frye (1997)
Resources	Coded 2 for resource-rich countries, 1 for moderately resource rich, 0 otherwise.	Pop-Eleches (2007)
Urban	Percentage of the population living in cities in 1990.	Pop-Eleches (2007)
Ethnic makeup	Percentage of the population occupied by the largest ethnic group in the country in 1989.	CIA (2016)

**Table 2:** Measures of economic and political evolution

<b>Country</b>	<b>EcFree</b>	<b>EDB</b>	<b>Democ</b>	<b>Rights</b>
Albania	0.66	0.61	0.90	0.43
Armenia	0.67	0.74	0.50	0.71
Azerbaijan	0.61	0.68	0.00	1.00
Belarus	0.50	0.72	0.00	1.00
Bosnia and Herzegovina	0.59	0.64	...	0.57
Bulgaria	0.67	0.74	0.90	0.29
Croatia	0.62	0.73	0.90	0.14
Czech Republic	0.73	0.74	0.90	0.14
Estonia	0.77	0.79	0.90	0.14
Georgia	0.73	0.77	0.80	0.43
Hungary	0.70	0.73	1.00	0.29
Kazakhstan	0.67	0.73	0.80	0.86
Kosovo	0.63	0.66	0.80	0.43
Kyrgyz Republic	0.61	0.66	0.70	0.71
Latvia	0.70	0.78	0.80	0.29
Lithuania	0.75	0.79	1.00	0.14
Macedonia, FYR	0.67	0.80	0.90	0.57
Moldova	0.58	0.71	0.90	0.43
Montenegro	0.65	0.72	0.90	0.43
Poland	0.69	0.76	1.00	0.14
Romania	0.67	0.74	0.90	0.29
Russian Federation	0.52	0.71	0.50	0.86
Serbia	0.60	0.68	0.90	0.29
Slovak Republic	0.67	0.76	1.00	0.14
Slovenia	0.60	0.76	1.00	0.14
Tajikistan	0.53	0.54	0.10	1.00

Turkmenistan	0.41	...	0.00	1.00
Ukraine	0.47	0.63	0.50	0.43
Uzbekistan	0.47	0.63	0.00	1.00
mean	0.62	0.71	0.70	0.49
median	0.65	0.73	0.90	0.43
st dev	0.09	0.06	0.35	0.31
skewness	-0.69	-0.86	-1.25	0.53

st dev = standard deviation

Note: In Political Rights high values indicate lack of rights.

Sources: World Bank (2016); Freedom House (2016); Center for Systemic Peace (2016), *Polity IV Individual Country Regime Trends, 1946–2013*; Heritage Foundation (2016).

**Table 3: Correlation among main variables of interest**

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	EcFree	EDB	Democ	Rights	Islam	Catholic	Orthodox	Ottoman	Russian	Habsburg	Resource	Urban	Ethnic
EcFree	1												
EDB	0.66	1											
Democ	0.69	0.56	1										
Rights	0.61	0.53	0.87	1									
Islam	-0.27	-0.68	-0.46	-0.59	1								
Catholic	0.50	0.50	0.49	0.69	-0.42	1							
Orthodox	-0.24	0.13	-0.06	-0.13	-0.49	-0.59	1						
Ottoman	0.15	-0.02	0.23	0.09	-0.01	-0.46	0.45	1					
Russian	-0.32	-0.22	-0.55	-0.53	0.28	-0.21	-0.04	-0.63	1				
Habsburg	0.22	0.28	0.40	0.54	-0.32	0.76	-0.44	-0.35	-0.52	1			
Resource	-0.24	-0.08	-0.36	-0.45	0.27	-0.31	0.06	-0.27	0.40	-0.19	1		
Urban	0.26	0.68	0.21	0.36	-0.71	0.44	0.20	-0.17	-0.01	0.20	0.09	1	
Ethnic	0.12	0.05	0.11	0.27	-0.25	0.15	0.08	0.28	-0.56	0.37	-0.04	0.23	1
President	-0.60	-0.38	-0.58	-0.65	0.31	-0.66	0.36	-0.05	0.34	-0.35	0.61	-0.24	-0.11

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EcFree = economic freedom; EDB = ease of doing business

**Table 4:** Determinants of economic evolution as measured by economic freedom (EcFree) and ease of doing business (EDB)

	1	2	3	4	5	6	7	8	9	10
	EcFree	EDB	EcFree	EDB	EcFree	EDB	EcFree	EDB	EcFree	EDB
	Coef	Coef	Coef	Coef	Coef	Coef	Coef	Coef	Coef	Coef
	(se)	(se)	(se)	(se)	(se)	(se)	(se)	(se)	(se)	(se)
Resource	-0.045*	0.013	-0.030	-0.008	-0.028	0.004	0.011	-0.025**	0.026	-0.030*
	(0.024)	(0.011)	(0.028)	(0.012)	(0.028)	(0.011)	(0.027)	(0.013)	(0.029)	(0.015)
Urban	0.003**	-0.004***	0.001	-0.001	0.003**	-0.004***	-0.000	-0.001	-0.000	-0.001
	(0.001)	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.002)	(0.001)	(0.002)	(0.001)
Ethnic	-0.000	0.000	-0.000	0.001**	-0.001	0.001*	-0.001	0.001*	-0.001	0.001*
	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Orthodox			-0.065*	0.033*			-0.183***	0.077**	-0.119*	0.058
			(0.036)	(0.018)			(0.050)	(0.032)	(0.065)	(0.044)
Islam			-0.074	0.101***			-0.209***	0.152***	-0.150**	0.134***
			(0.057)	(0.021)			(0.065)	(0.035)	(0.076)	(0.042)
Ottoman					-0.007	0.016	0.163***	-0.062**	0.121*	-0.049
					(0.032)	(0.019)	(0.054)	(0.028)	(0.066)	(0.034)
Russian					-0.056	0.039	0.063	-0.020	0.039	-0.012
					(0.054)	(0.024)	(0.051)	(0.020)	(0.058)	(0.022)
Presidential									-0.007*	0.002
									(0.004)	(0.003)
# of observations	29	28	29	28	29	28	29	28	29	28
R2	0.249	0.510	0.331	0.644	0.301	0.551	0.504	0.702	0.539	0.708

(se) = standard error

Note: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ ,

\*  $p < 0.1$

**Table 5:** Determinants of political evolution as measured by democracy and political rights

	1	2	3	4	5	6	7	8	9	10
	Democ Coef (se)	Rights Coef (se)								
Resource	-0.217** (0.085)	-0.226*** (0.052)	-0.086 (0.107)	-0.096 (0.071)	-0.072 (0.096)	-0.145* (0.075)	0.069 (0.104)	0.018 (0.071)	0.119 (0.116)	0.031 (0.082)
Urban	0.008 (0.005)	0.010*** (0.004)	-0.006 (0.008)	-0.004 (0.006)	0.008* (0.005)	0.009** (0.004)	-0.006 (0.008)	-0.006 (0.006)	-0.006 (0.007)	-0.006 (0.006)
Ethnic	-0.000 (0.004)	0.003 (0.002)	-0.001 (0.005)	0.001 (0.002)	-0.009** (0.004)	-0.001 (0.003)	-0.008* (0.005)	-0.001 (0.002)	-0.008* (0.004)	-0.001 (0.002)
Orthodox			-0.245* (0.136)	-0.329*** (0.109)			-0.477** (0.221)	-0.557*** (0.162)	-0.268 (0.242)	-0.503*** (0.192)
Islam			-0.606** (0.254)	-0.619*** (0.180)			-0.773** (0.307)	-0.867*** (0.218)	-0.588* (0.303)	-0.815*** (0.221)
Ottoman					-0.105 (0.105)	-0.217** (0.103)	0.354 (0.230)	0.323** (0.147)	0.211 (0.228)	0.286* (0.159)
Russian					-0.528*** (0.196)	-0.381** (0.149)	-0.173 (0.184)	0.012 (0.074)	-0.245 (0.187)	-0.009 (0.089)
Presidential									-0.022 (0.015)	-0.006 (0.012)
# of observations	28	29	28	29	28	29	28	29	28	29
R2	0.285	0.448	0.435	0.674	0.534	0.593	0.654	0.782	0.678	0.784

Note: \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ ,  
\*  $p < 0.1$