Chapter 13

Recovering from Transition in Eastern Europe: Neoliberal Reform in Retrospect

Mitchell A. Orenstein

Assessing the results of neoliberal reform remains controversial even twenty years after 1989. While neoliberal reform programmes appeared to have finally produced rapid economic growth in the 2000s after a long transitional recession, the 2008 global economic meltdown plunged Central and East European countries back into crisis. This chapter offers a mixed assessment of the results of neoliberal economic reforms and questions the easy compatibility of democracy and radical reform observed during the 1990s. Since the 2000s, both democratic and authoritarian countries in Eastern Europe have experienced rapid growth. Geopolitics, more than reform or democracy, seems to separate the winners from the losers. Successful countries are those that either joined the European Union or developed close political and economic relations with Russia. Those betwixt and between and those suffering internal strife (or both) still have not reached 1989 levels of economic production.

The background

In the past decade, one has increasingly heard the claim that the transition in Central and Eastern Europe (CEE) is over. With the onset of the international financial crisis, however, this boring if prosperous normality has been threatened. Further, the very nature of the transition which the post-Communist economies embarked on, in particular the effect and effectiveness of neoliberal reforms, is increasingly being called into question.

The EU-10, the ten post-communist countries which acceded to the European Union in the last decade, are often divided into four groups or varieties of capitalism, determined largely by the degree to which

Table 13.1 *Gross national income (PPP) per capita of EU-10 countries, 1990–2010 (US$)*

Country		*1990*	*1995*	*2000*	*2005*	*2008*	*2009*	*2010*
LMEs	Estonia	7300	6330	9530	15870	20710	19360	19810
	Latvia	7830	5420	8020	12880	17910	17210	16320
	Lithuania	9340	6200	8470	13860	18900	17230	17840
DMEs	Czech Republic		12800	14660	19450	23690	23380	22910
	Hungary	8560	8700	11290	16060	19120	19260	19550
	Poland		7320	10480	13520	17660	18250	19160
	Slovakia	7720	8360	10950	15720	22760	22260	22980
CME	Slovenia		13150	17570	23280	28260	26620	26530
Weak state	Bulgaria	4990	5360	6070	9840	13230	13250	13440
	Romania	5180	5340	5620	9280	14610	14630	14290

Source: adapted from World Databank (online at worldbank.org).

neoliberalism was embraced during transition. At one extreme, the Baltic states, Latvia, Lithuania, and Estonia, were quite radical in their neoliberal policies, and are classified as liberal market economies, (LMEs), and marked by extreme international openness. Slovenia more closely followed the corporatist policies of Western Europe, and is referred to as a coordinated market economy (CME); the Visegrad four, Hungary, Poland, the Czech Republic and Slovakia, fell somewhere in the middle and are classified as DMEs, or dependent market economies. Finally, capitalism in Romania and Bulgaria has been characterized by the weak states in both countries.

The effects of the recent economic crisis on post-communist countries in the European Union have, with few exceptions, been tightly linked to the variety of capitalism employed and therefore also to the degree of neoliberal reform implemented (see Table 13.1). While the Baltic states, which have become some of the most liberal economies in the world, had shown great promise in the early 2000s, they were hit very hard by the international crisis, likely due to their extreme dependence on foreign credit; Estonia was one of the first countries to show signs of an economic downturn. The year 2009 was the nadir, with all three Baltic states experiencing double digit negative growth rates: Estonia at −14.3 per cent, Lithuania at −14.8 per cent, and Latvia with the sharpest decline, −17.7 per cent; for comparison, the next highest rate of decline among CEE countries was Slovenia, at −8.0 per cent. The Visegrad countries performed much better on average, with the glaring exception of Hungary, which continues to founder amidst a crisis which has spread into the political system. Slovenia, while experiencing a sharper decline than in the DMEs, has performed much better than the Baltic states. Furthermore, its unemployment rate has remained admirably low throughout the crisis, a marked contrast to the situation in the LMEs; Latvia was obliged to ask for IMF assistance due to large-scale civil unrest in the country. As this abysmal performance during the crisis appears to have offset some of the gains from growth in the most liberal economies, the ability of neoliberal policies to produce more robust, long-term economic development than less radical (and less painful) alternatives is increasingly unclear.

In the debate on neoliberal reforms, the stakes are high. In the balance lies not only the issue of how well the neoliberal economic project works in post-communist countries, but whether free market policies will continue to be adopted in other parts of the world, and whether such reforms are compatible with democracy. Central and East European countries have a unique place in these debates because they provided a testing ground of neoliberal economic policy in the heartland of communism. Moreover, many former communist countries simultaneously implemented free market economic policies and democratic political regimes, an approach that has invited duplication in developing countries around the world. The struggles of CEE thus have a unique and world-historic quality, and their success or failure remains a matter of importance to the future of democratic capitalism itself.

Sadly, an assessment of the results of neoliberal economic reforms in CEE must be mixed (see Table 13.2). While the communist heritage has been thoroughly transformed, the results have not been as positive as initially hoped. Neoliberal economic reforms brought on a tremendous transitional recession that most post-communist countries struggled to exit from even a decade after the initial shock. Just as free markets seemed to finally be delivering on their promise of high growth in the 2000s, the global economic crisis has shown the market economies of CEE to be especially vulnerable to economic downturn and capital flight. Moreover, the growth spurt of the 2000s and the crash that followed weakened the link between democratization and economic growth that seemed so obvious in the 1990s. All this could contribute to convincing people in developing nations that the project of building capitalism under democratic governance is beset with insuperable flaws and difficulties and could facilitate a return to a consensus on the benefits of authoritarian developmentalism. That would be a misfortune greater than the one that CEE has itself endured.

Table 13.2 *Gross national income (PPP) per capita of non-EU formerly communist countries, 1990–2010 (US$)*

Country	*1990*	*1995*	*2000*	*2005*	*2008*	*2009*	*2010*
Balkans							
Albania	2820	2980	4370	6220	8280	8500	8520
Bosnia and Herzegovina		1160	4920	6510	8970	8880	8910
Croatia	9500	7990	10720	14990	19620	19040	18680
FYR Macedonia	5540	4800	5830	7720	10600	11130	11070
Montenegro			6620	8320	13850	12870	12770
Serbia			5760	8410	11200	10890	11090
East Europe							
Belarus	4640	3400	5130	8540	12280	12530	13590
Moldova	3310	1480	1490	2650	3300	3040	3360
Russia	8000	5570	6660	11560	19850	18280	19240
Ukraine	5960	3120	3180	5520	7250	6240	6620
Caucasus							
Armenia	2040	1390	2090	4210	6340	5420	5660
Azerbaijan		1500	2090	3940	7770	8740	9270
Georgia	4430	1370	2300	3650	4840	4720	4990
Central Asia							
Kazakhstan		3630	4460	7830	9710	10140	10770
Kyrgyz Republic	1820	980	1260	1660	2120	2190	2070
Tajikistan	2140	810	820	1450	1910	2070	2140
Turkmenistan		1680	1930	4430	6700	7100	7490
Uzbekistan		1190	1420	2000	2630	2870	3110

Note: data for Kosovo unavailable.
Source: adapted from World Databank (online).

The communist heritage

Communism had a unique impact on CEE economies. A visitor to CEE in 1987 was struck by the many differences (and deficiencies) of the socialist economies in comparison to those of the West. CEE cities looked drab and dour. They were often dirty, bathed in coal soot, and lacked the vibrancy of commercial life one is used to in the West. Most businesses gave off a low-budget utilitarian feel compounded by a peculiar regimentation and sameness. All produce shops in Prague, for instance, were called 'Produce'. In the streets one could often see a line of parked cars that were all nearly identical, except for colour and model year, while the department stores were filled with poor-quality goods that few wanted to purchase. The only intrusion of quasi-

Western commercialism was in special hard-currency stores where entrance was restricted to card-holding members of the elite. Isolated from the general public, French perfumes and fine wines lived in these walled-off oases as a constant testimony to the better life lived abroad.

The organization of production in CEE economies was bizarre to behold. As a consumer of beer in 1990 Prague, I often wondered why beer bottles, though ostensibly from the same brewery, came in a variety of colours (often including brown and green in the same pack) and contained different volumes. I remained mystified until I visited a brewery, where I realized that these breweries collected used bottles on site, washed them, and sent them down the line in random order until they were filled by a 1950s-era machine that shot beer wildly into them. Beer would often overflow (this explained the frequent stickiness as well as the non-uniform level of beer in each bottle), bottles would break, and the production line would have to be shut down constantly to clear the slippage. Still, this beer cost five to ten US cents a pint, about one-twentieth of the price for a similar product in the West.

Stories of this type are endless. In one Polish car factory, workers on one level of the factory used sledgehammers to bend car frames produced on another level into shape to allow the installation of parts that would not fit otherwise. Janos Kornai's (1992) landmark description of the socialist economy, which develops academic concepts such as central planning and 'soft budget constraints', does not begin to describe the bizarre, Kafkaesque character of communist-era factory production. Communist enterprises were often run by capable people who struggled with serious structural problems. Their production levels and prices were dictated by the central planning office while the government ministry to which they belonged frequently took their profits and reallocated them to less efficient businesses. Moreover, finances were allocated by the state, production inputs often did not arrive on time or in sufficient quantity or quality, and most workers were not highly motivated. Accomplishing anything under these conditions meant that effective enterprise managers had to be politically connected, highly resourceful, forceful personalities and often had to bend the rules.

Communism ceased to be an effective economic system soon after the end of the Stalinist era and further decayed with the onset of Brezhnev's leadership. It had few defenders when it collapsed in 1989, even in the leading communist parties, where reform wings had long advocated the adoption of Western market methods. Indeed, mid-1980s marketization attempts in Hungary convinced many Hungarian socialist leaders that they needed to facilitate further commerce with Austria in order to develop their economy. In 1988, they took the

fateful decision to open the border with Austria, which had the side-effect of enabling East Germans to flee in their thousands to the West via Czechoslovakia. This, and most importantly, the Soviet decision not to intervene in the domestic affairs of its former satellite states, set in train a series of events that led to the collapse of communist regimes across East-Central Europe.

Neoliberal economic reforms

When communism collapsed in 1989, a debate broke out over the best way to transform their economies. Battle lines were drawn between radicals, who believed in a sudden jump to a market economy, and gradualists, who believed that sudden transformation would cause too much social dislocation and that a more gradual change would bring better economic results. These debates were played out in economics institutes and universities across CEE, often with the direct participation of dozens of well-funded consultants from international financial institutions and Western universities. As the end of communism coincided with the rise of the market revolution set in train by US President Ronald Reagan and UK Prime Minister Margaret Thatcher, most Western economists and governments sided with the radicals and provided them enormous assistance from the Western international community. A so-called Marriott brigade of foreign consultants was deployed to help CEE governments set up laws, regulations, and strategies on nearly every matter of economic policy, while staying at the best four-star hotels in the country. The rest is history.

The winning idea behind the radical strategy was articulated by Adam Przeworski in his 1991 work, *Democracy and the Market*. A radical leap to the market risked a sharp economic decline as the old economy ceased to operate effectively in the absence of subsidies, government financing, and fixed prices. Unemployment would rise, perhaps to catastrophic levels, but the implementation of rapid privatization would result in the emergence of a new private sector. Assets would be transferred into private hands and free markets would work their magic, allocating assets into the hands of those firms that could use them most effectively. Only then would overall production increase. New technology and know-how would flow over newly opened national frontiers, and growth and consumption would resume. Radical reform would be painful but it would set CEE countries more quickly on a trajectory toward steeper growth. Gradual reforms might cause less pain at first, but also a slower and less decisive return to growth.

In most countries of CEE, radical reform was the order of the day. Radicals, such as Leszek Balcerowicz in Poland and Vaclav Klaus in the Czech Republic, rose to government economic posts as if by an unwritten law of gravity. They imposed shock programmes of economic reform, including tight monetary austerity, sudden removal of subsidies, rapid privatization, and liberalization of trade and investment. Sudden liberalization had an electric effect on former communist countries. It bankrupted thousands of companies that had been oriented toward the Soviet and Comecon (Council for Mutual Economic Assistance) markets and forced companies to compete with Western firms with much greater market experience and technology. As 90 per cent of trade shifted from East to West within two years, many enterprises shed jobs or were forced to shut for good. At the same time, liberalization and privatization created opportunities for whole new businesses, most visibly in the consumer sector, where demand had been depressed for many years. In Warsaw, Gdansk and Sopot, kiosks arose selling all manner of goods on main thoroughfares and in marketplaces. Shops began to transform themselves from dingy operations to glitzy Western palaces of consumption. CEE cities soon sprouted their first malls and big-box stores, such as Carrefour and Ikea, launching entirely new patterns of consumer behaviour and choice.

The problem was that new investment initially did not keep pace with the decline in production in the old state sector. Foreign capital was at first wary of investing in the post-communist economies. Economic relations with the CEE countries were new, and the rules were often unclear or changing. Few investors trusted that these countries would quickly join the European Union, although ten of them did in 2004 and 2007. While Jeffrey Sachs (1993) called heroically for a major Marshall Plan effort to support the CEE economies, this never occurred, and as a result, these economies lacked the investment to avoid what turned out to be a colossal post-communist recession, wiping out between 15 (Czech Republic) and 75 (Georgia) per cent of 1989 GDP.

Rapid reform produced many success stories, including entrepreneurs who made fortunes trading cars or consumer goods, or transforming state enterprises. However, the shock programme also caused massive dislocations among less resilient sectors and population groups. While neoliberal economists and politicians promised a quick recession, the transitional recession in CEE proved much more long-lived. According to the European Bank for Reconstruction and Development, in 2002, twelve years after the start of transition, most post-communist countries had not returned to their 1989 levels of economic output.

As a result of the transitional recession, poverty and mortality rates skyrocketed and fertility rates declined sharply. Increased inequality during the transition has led to an important if surprising result: despite all the economic improvements of recent years, most households in CEE surveyed in 2006 reported that they were economically better off under communism. Men, in particular, suffered from increased mortality rates. Losing their jobs and no longer being able to feed their children, many took refuge in drink and literally drank themselves to death. This was highly visible to anyone who took a train in CEE during the 1990s, as train stations had become colonies for the intoxicated. Women also suffered from the collapse of families, although many proved better able to adapt to the new market conditions. In some countries, such as Bulgaria, Romania and Ukraine, emigration became the norm as people sought refuge abroad from catastrophic economic conditions and human trafficking exploded. Anger began to be expressed in politics, as CEE voters began to elect populist politicians who gave voice to the workers who were laid off from their jobs in state enterprises and faced a bleak economic future. The success of Andrzej Lepper, the farmer-protester who blocked the roads with masses of meat or farm animals, and of politicians around Radio Maria, an openly anti-Semitic Catholic radio station, led the way in defining this new politics of reaction.

It is unclear how much suffering can be placed at the door of neoliberal economic policies. Liberal economists have pointed out, rightly, that CEE countries that went farthest with neoliberal policy reforms did better economically than their neighbours. Poland, one of the most radical reform countries, reached 127 per cent of its 1989 economic level by 2000, while non-reformist neighbouring Belarus was still at 63 per cent. During the 1990s and early 2000s, these data provided evidence for the view that neoliberal shock therapy had been 'inevitable' or 'necessary'. While reform clearly produced some unfortunate results, the alternatives were worse. Slower reforms would only empower communist-affiliated elites to feast off exceptional rents and keep these countries in a partial-reform equilibrium where the average person would suffer. Not engaging in neoliberal reforms also risked the return of communism, a risk too great for the West to accept.

Rapid growth that started in the region after 2000, however, began to unravel the relationship between neoliberal reforms and economic growth. Most CEE countries experienced rapid economic growth in the mid-2000s, whether or not they had imposed radical reforms. Russia and Ukraine were among the growth leaders, along with reform countries such as Slovakia and Latvia and even non-reformist laggard Belarus. By 2007, Poland was at 169 per cent of its 1989 level, while

Belarus was at 146 per cent. The EU-8 average was 151 per cent. Albania (which achieved 152 per cent of 1989 GDP in 2007), Armenia (143 per cent), Azerbaijan (160 per cent), Mongolia (153 per cent), Turkmenistan (204 per cent) and Uzbekistan (150 per cent) also posted rapid growth rates in the 2000s. The deciding factor for success was no longer tied to how radical reform had been; rather, the political system which had come to be put in place, the geopolitical alignment of the country, and the presence or absence of ongoing internal conflict were much more predictive of national economic success.

Following the 2008 financial crisis, the economic success of the post-communist space was again flipped on its head. EU countries, which adopted a litany of neoliberal reforms during the 1990s, did not fare well. Every EU-10 country entered recession in 2009, with Poland the only exception; those countries who reformed the most fared by far the worst. For countries that did not join the EU, among whom neoliberal reforms were far less prevalent, the situation was mixed. The Central Asian countries and Azerbaijan fared relatively well and came out of recession quickly; the Balkan countries experienced longer recessions, but ones that were relatively mild in most countries. Only two countries had sharp declines on a par with the Baltic States: Ukraine, which has not strongly allied itself to Russia or the EU; and Armenia, which has an ongoing conflict with Azerbaijan. In sum, such widely varying outcomes point to explanatory factors apart from the severity of neoliberal reforms for these countries.

Examining other factors

In considering the many differences between countries of the post-communist world which have influenced development, perhaps none has been more heavily debated than the presence and strength of democratic institutions. Democracy has been the wild card in CEE economic development. The 1989 revolutions were born in idealistic hope that new democracies could manage the transition to market capitalism even though the transition to a capitalist market economy had rarely been attempted under democratic governance before. Analysts expected a host of complications and thought that either democracy or reform would probably be jettisoned. We can hear the resonance of these worries in (probably exaggerated) contemporary newspaper reports that warned that mass protests might emerge from the economic troubles in the region. Scholars expected that efforts to create a capitalist economy would necessarily be painful and could therefore endanger the progress toward successful market economies. Joel

Hellmann (1998) argued that it was not workers but elites who were likely to overturn reform programmes to keep in place high 'transitional' rents from imperfect reform. Likewise, builders of capitalism were thought to be nervous about subjecting their economic reform programmes to democratic oversight. If the reforms were in danger, would they not seek to overturn democratic institutions to protect them? Scholars therefore considered the optimal sequencing of reform to avoid a mutual overturning of capitalism and democracy. Polish Finance Minister Leszek Balcerowicz and Western economist Jeffrey Sachs (1993) argued for rapid economic reforms to take place before a democratic electoral reaction made such reforms impossible.

Later, a host of scholars observing events in CEE reaffirmed the strong relations between democracy and growth by arguing that the dual transition 'tensions' had been a canard. Capitalism and democracy were not incompatible in post-communist countries. Rather, they were mutually supportive. The losers of economic reform did not turn against democratic institutions, and democracies did not reform to a lesser extent than authoritarian regimes. Correlations between democratization and EBRD (European Bank for Reconstruction and Development) Transition Report data showed that post-communist democracies reformed more than authoritarian regimes did and also returned to growth faster. Greskovits (1998) argued that 'it now seems justified to write in the past tense: the breakdown literature has failed'. These findings were bolstered by the strong correlation between economic growth and democracy in the 1990s. The new member states of the European Union seemed to have both.

The experience of neighbouring Russia, however, made this claim somewhat difficult to support. After mass privatization and the opening of the economy created a class of super-wealthy businessmen known as oligarchs, the degree of public voice in Russian elections dropped significantly. In the 1996 election, in which Yeltsin, supported by the oligarchs, was propelled back to the presidency on a wave of coordinated media support and well-financed campaigning, the massive economic power of the men behind Russian business interests led to an incredible influence over a government that was perpetually strapped for cash. By the time Putin ascended to the presidency, the value of a vote in Russia was already quite limited. The neoliberal reforms of the 1990s appeared to weaken what had been a broadly participatory democracy.

Furthermore, the boom in growth among post-communist countries in the first decade of the twenty-first century lifted nearly all boats: democracies and authoritarian regimes alike. The fastest-growing economies in CEE were Ukraine, Latvia and Slovakia (not to mention

Turkmenistan and Uzbekistan), hardly a testament to the greater growth performance of democracies. Indeed, the improvement in economic conditions in Russia (in contrast to CEE) seems to have taken place exactly because of that country's return to authoritarianism. According to opinion polls, most Russians believe that Putin's rule (as president and now prime minister) has promoted economic performance and prosperity.

The reality of the relationship between democracy and capitalism thus remains complex. Certainly, there is strong reason to believe that capitalism and democracy have been compatible in the new member states of the European Union. However, this is largely because of the external influence of the European Union. As is well known, the European Union demanded both democratic governance and market economics from prospective new member states. It aggressively imposed membership conditionalities and even brought into line several countries that initially seemed to waver on democracy or markets or both, such as Slovakia, Bulgaria and Romania. To become a member state meant to adhere to norms of democracy and market capitalism. Since the East-Central European countries needed EU membership in order to solve their geopolitical and economic dilemmas, they had to adhere to democratic governance. And when democratic governance is stable, it can help to support economic growth. Democracy creates a system of perpetual policy experimentation, in which each succeeding government has an opportunity to try policies that it thinks will work better to achieve growth. This institutionalization of policy innovation helps to explain why democracies on average outperform most authoritarian regimes in enabling economic growth.

Without supportive geopolitical conditions, however, democracy can have a negative impact on growth. When there are no international bounds on democratic competition, it can devolve into a free-for-all struggle between elites, as in Ukraine. Elites may not be satisfied with winning once and then letting the opposition take its turn in power. The concerned parties may have too much at stake to risk losing control and want to avoid losing rents from government-controlled businesses.

Under such conditions, authoritarian regimes may be better for growth, insofar as they place limits on elite behaviour and create a single set of rules of the game that enable participants to coordinate their expectations and behaviour. They create a Hobbesian world in which the Leviathan is empowered to pursue the common good. Of course, most authoritarian regimes fail at this. However, some do exceptionally well. While CEE countries experienced a roller-coaster ride after the end of communism, China managed to successfully transform its socialist economy without the deep transitional recession that cost CEE countries much of their pre-1989 economic output. It did this by keeping the hand of the state firmly in control while also maintaining a vast state sector that employs millions of workers in less than fully productive jobs. Such an approach is completely incompatible with democratic governance. Nevertheless, China has averaged 9 per cent growth for more than twenty years, causing a massive increase in living standards and a reduction in poverty from 53 per cent to 8 per cent in 2001. Unemployment stands at 3–4 per cent as compared with 10–15 per cent in CEE. Some will argue that the Chinese example is irrelevant to Central and Eastern Europe, as that path was precluded from the start. Nevertheless, the Chinese example, which has many followers in Asia, is an increasingly attractive development model and seems to have been influential in Putin's Russia.

The fate of democratic regimes in CEE highlights the impact of geopolitics on the success of transitioning economies. The importance of the European Union in the success of the EU-10 countries cannot be forgotten. EU membership gave these countries enormous growth prospects by making their markets, regulatory environments and trade relations much more secure. Countries which adopted the euro, such as Slovakia, benefited from greatly improved credit ratings; those which did not enjoyed the benefits of a low domestic currency and open access to the massive European market. One result of market harmonization has been a vast expansion of the East European car industry. An industry previous known for laughably substandard products, such as the Trabant, which fuelled the local equivalent of stand-up comedy, is now home (in Bratislava, Slovakia) to the Volkswagen Touareg. Yet the foreign direct investment that made these changes possible began to improve dramatically in 1998, the year that EU membership negotiations began and neoliberal reforms effectively ground to a halt.

Countries which allied more closely with Russia also fared well, buoyed in part by high commodity prices. In 2007, the worst-off countries were the ones that either had failed to advance to membership in the European Union or had not strongly allied with Russia, or had a history of civil strife, such as Moldova, Georgia and parts of the Western Balkans. According to the EBRD, those countries that had not returned to 1989 levels of GDP by 2007 included FYR Macedonia (96 per cent of 1989 GDP in 2007), Montenegro (85 per cent), Serbia (68 per cent), Ukraine (68 per cent), Georgia (60 per cent) and Moldova (51 per cent). Oil and other commodity price rises clearly played a role, but so too did internal conflict and geopolitical stability. The paths to growth have thus been varied – and not clearly connected to the extent of neoliberal economic reform.

Conclusion

The CEE experience since 1989 has been shaped by the shock therapy strategies of economic reform adopted in much of the region and the deep economic crisis they helped to induce. Twenty years later, it is still unclear whether these programmes were really the best path to reform and whether they (alone or in combination with other factors) were responsible for the upsurge in growth after 2003. In fact, countries have had different results from these policies. The new member states of the European Union experienced a U-shaped recession, eventually returning to growth after three to eight years. Countries further to the south and east took longer to embrace reforms and return to growth after the initial plunge. Some countries, such as Moldova, remain in serious economic difficulties. Others, such as Ukraine and Latvia, have proven vulnerable to crises in the international economy and are again on a trajectory of despair.

The jury is also still out on the relationship between democracy and development. In some respects, democracies have done better. Yet other important countries returned to growth only after they had eschewed democracy. Lurking in any assessment of the post-communist experience must be the comparison with China, which suggests that post-communist structural reform requires neither neoliberal radicalism nor democracy. China has grown dramatically and avoided the severe transitional recession that afflicted CEE by maintaining a large state sector, allowing a dynamic private sector to flourish alongside it, and using a single-party authoritarian political regime to direct policy and investment.

Geopolitics, meanwhile, has played an enormous role. For new member states of the European Union, democracy and advanced capitalism have indeed gone hand in hand. Those that failed to enter the European home have had a different experience. In the non-EU post-communist space, good political and economic relations with Russia and the absence of civil strife are the best determinants of well-being, not neoliberal reform or democratization.

In the wake of the financial crisis, the future of the European Union, and particularly the eurozone, looms more uneasily. As Russia becomes more dependent on eternally increasing prices for its natural resources, the long-term sustainability of its current growth kick, and that of its allies, also seems unclear. Ultimately, twenty years may simply be too early to tally the results of transition. The massive economic experiment launched in the heady days of 1989 will likely evade scholarly consensus for at least another twenty.

Chapter 14

Social Change and Social Policy

Terry Cox

With the end of communist rule and the dismantling of the distinctive economic and social institutions of the 'state socialist' system, the citizens of Central and Eastern Europe experienced profound changes to their ways of life and standards of living. In particular, patterns of social inequality and the institutional arrangements governing employment and social welfare underwent significant changes. In terms of inequalities, it was a case of the replacement of one pattern of social stratification that had been shaped by the policies and criteria of the state-managed and state-owned economy with a different pattern, shaped more by the pressures of a market economy. In terms of social welfare, the changes involved a move from a situation where communist governments had, in principle, provided a guarantee of employment and of a comprehensive range of welfare rights, albeit at a low level, to a system that sought to protect the most vulnerable, while the changes that were taking place in the economy allowed others the opportunity of significant gains in their incomes and standards of living.

Social structure of 'state socialism'

The period of communist rule in Central and Eastern Europe witnessed a rapid expansion of the industrial working class, an increase in the numbers of people in routine clerical and administrative positions to run the vast new bureaucracies of communist rule and its state-owned 'planned' economy, and the emergence of a new ruling elite of political and industrial managers and policy makers. Also typically (except in Poland) most peasants or individual family farmers were absorbed into collective or state farms. To begin with the 'socialist transformation' of East European societies involved rapid upward social mobility from peasant to worker and from both into managerial and professional positions, with increased levels of education leading to a growing intelligentsia.