

What Happened in East European (Political) Economies?

A Balance Sheet for Neoliberal Reform

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Assessing the results of neoliberal reform remains controversial even twenty years after 1989. While neoliberal reform programs 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 article 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.

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In the past decade, one has increasingly heard the claim that the transition in Central and Eastern Europe (CEE) is over. The drama of transition has been replaced by a boring if prosperous normality. While the global financial crisis imperils this normality, the publication of a devastating new attack on the effects of mass privatization in the *Lancet*, a leading medical journal, shows that assessments of neoliberal economic policies remain hotly contested.

The *Lancet* takes aim at one of the central policies of the capitalist revolutions of 1989, mass privatization. Its authors, David Stuckler, Lawrence King, and Martin McKee (2009), claim that rapid privatization through vouchers, a key tenet of neoliberal economic policy in the region, is strongly associated with increases in mortality rates in post-Communist countries from 1989 to 2002.¹ Mass privatization and social stress caused by rapid economic transformation is found to be associated with a 12.8 percent increase in male mortality rates. Countries with mass privatization programs experienced 61 percent more unemployment than countries that engaged in more gradual privatization. For many former Soviet countries, unemployment was highly associated with increased mortality rates. Social capital, measured by membership in social organizations, mitigated the effect of mass privatization on

mortality in Central Europe. Stuckler et al. also concluded “four of the five worst countries, in terms of life expectancy, had implemented mass privatization, whereas only one of the five best performers had done so.”²

The prestige of the *Lancet* and the publication of a summary of the study on the front page of the *Financial Times* on 15 January 2009 garnered an instant reaction from Jeffrey Sachs, one of the leading advocates of mass privatization in the transition countries. Sachs wrote in a 19 January 2009 letter to the editor of the *Financial Times* that the findings of the *Lancet* article would not stand up under serious scrutiny, that correlation is not causation, and that it is speculative to tie any one policy to the mortality crisis in post-Communist countries. Moreover, he argued that Poland did not experience a mortality increase, despite having one of the most radical economic reform programs (though Stuckler et al. argue that Poland’s mass privatization program was much delayed and, when implemented, much smaller than in other countries). Sachs’ comments were posted in a debate in one of the *New York Times*’ online blogs and also resulted in a rebuttal from the *Lancet* article’s authors published 22 January 2009 in the *Financial Times*. No doubt, the research program into the effects of mass privatization will gain from the publicity and controversy of the *Lancet* study.

The stakes in the debate on the effects of mass privatization and neoliberal reforms in general are high. It concerns not only whether 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 these countries 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. 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 tragedy greater than the one that CEE has itself endured.

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 color 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 colors (often including brown and green in the same pack) and contained different volumes of beer. 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 on a 1950s-era machine that shot beer wildly into the bottles. Beer would often overflow (this explained the frequent stickiness as well as the nonuniform 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 U.S. 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 landmark description of the socialist economy,³ which develops academic concepts such as central planning and “soft budget constraints,” does not begin to describe the bizarre, Kafka-esque character of Communist-era factory production. In my tours of factories and collective farms in Poland, the Czech Republic, and Slovakia in 1990 and 1993–94, I met Stakhanovite million-liter milkmaids, drank copious amounts of vodka with CEOs who seemed to have the whole afternoon to visit with a foreign student, and listened to the sobbing confessions of a brewery owner whose company was facing bankruptcy.

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 Communist 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 enacted 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 U.S. President Ronald Reagan and U.K. 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 were 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.⁴ 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, Vaclav Klaus in the Czech Republic, and Yegor Gaidar in Russia, rose to government economic posts as if by an unwritten law of gravity. They imposed shock programs 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 percent 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 opportunity for whole new businesses, most visibly in the consumer sector, where demand had been depressed for so 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 behavior 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. When I was working as an analyst for an economist forecasting service in the mid-1990s, my editor asked why I, alone among analysts, was projecting Poland would join the European Union by the end of our ten-year forecast period. Despite hearing my perspective, my editor maintained the consensus view that rapid membership was unlikely at best. While Jeffrey Sachs 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) percent of 1989 GDP.

Rapid reform produced many success stories, including entrepreneurs who made fortunes trading cars or consumer goods, or transformed state enterprises to make millions. However, the shock program 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.⁵

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.⁶ 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 from catastrophic economic conditions abroad 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.⁷

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 neighbors. Poland, one of the most radical reform countries, reached 127 percent of its 1989 economic level by 2000, while nonreformist neighboring Belarus was still at 62.7 percent.⁸ 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 gorge 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 that was too great for the West to endure.

Rapid growth that started in the region after 2000, however, began to unravel this seemingly clear relationship between neoliberal reforms and economic growth. Most CEE countries experienced rapid economic growth after 1998–2000, 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 Communist laggard Belarus. By 2007, Poland was at 169 percent of its 1989 level, while Belarus was at 146 percent. The EU-8 average was 151 percent. Albania (which achieved 152 percent of 1989 GDP in 2007), Armenia (143), Azerbaijan (160), Mongolia (153), Turkmenistan (204), and Uzbekistan (150) also posted rapid growth rates in the 2000s.⁹ Oil and other commodity price rises clearly played a role, but other factors, such as lack of conflict and geopolitics, also played a part. 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 European Bank for Reconstruction and Development (EBRD), those countries that had not returned to 1989 levels of GDP by 2007 included FYR Macedonia (96 percent of 1989 GDP in 2007), Kyrgyzstan (95), Montenegro (85), Serbia (68), Ukraine (68), Georgia (60), Tajikistan (56), and Moldova (51). The paths to growth have thus been varied—and not clearly connected to the extent of neoliberal economic reform.

This suggests that while neoliberal reforms cannot be burdened with all the responsibility for the collapse, neither can they claim credit for the return to growth. A major factor for the former Soviet Union (and indeed the rest of the region) was the oil price boom of the 2000s and the transition to the Putin regime. Another was the accession of the CEE countries to the European Union. EU membership gave these countries enormous growth prospects by making their markets, regulatory environments, and trade relations much more secure. 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 fueled 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 stopped. Many CEE countries also employed more social spending than typically advised by neoliberal reformers, such as Janos Kornai or Jeffrey Sachs. Poland, the poster child for neoliberal reform in the region, spent as much as 16 percent of its GDP on pensions alone in the mid-1990s before falling back to 12.5 percent in 2007, still one of the highest levels in Europe along with Italy and Slovenia.

In the global economic crisis that started in September 2008, neoliberal reform countries were not spared. Indeed, their greater openness to international trade and their foreign-owned banking systems may have made them more vulnerable to the collapse of the Western financial system.¹⁰ Trillions of dollars of Western loans to CEE countries, sometimes denominated in foreign currency, began to unravel as local currencies plummeted. Latvia's growth rate changed from positive 10 percent to negative 10 percent. Hungary became one of the first countries to fall under an

International Monetary Fund recovery program, while Ukraine suffered a run on banks in the wake of its gas dispute with Russia. At the time of this writing, CEE is seen as perhaps the first most vulnerable region to the current economic collapse.

Finally, there is the comparison with China. While CEE countries have experienced a roller-coaster ride after the end of Communism, China has managed to successfully transform its socialist economy without the deep transitional recession that cost CEE countries between 15 (Czech Republic) and 75 (Georgia) percent of total economic output. China was able to do 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. For those who believe that the comparison with China is valid, the shock therapy strategy of reform has proven disastrous.¹¹ Others, who believe that a Chinese path was excluded from the beginning, believe that neoliberal shock therapy paid off. In particular, they argue that the Chinese strategy is not one that could have been applied under conditions of democracy. Still, China has averaged 9 percent growth for more than twenty years, causing a massive increase in living standards and a reduction in poverty from 53 percent to 8 percent in 2001. Unemployment stands at 3–4 percent, versus 10–15 percent in CEE. One-third of the economy remains state owned, including most of the largest and most important enterprises and banks. The three largest banks in the world are now Chinese state-owned banks.

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. In East-Central Europe, the European Union accession process was a third force. 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 economic basket cases. Others, such as Ukraine and Latvia, have proven vulnerable to crises in the international economy and are again on a trajectory of despair. From the perspective of today, it remains unclear whether neoliberal economic reforms were a huge success or failure. Geopolitics seems at least as important. Those countries that joined the European Union or forged a close relationship with Russia in natural resource exports have done well economically, while those betwixt and between have suffered the most.

Democracy and Development

The economic success of both the democratic West and the authoritarian East of the post-Communist space raises some important questions about the impact of democracy on development. Democracy has been the wild card in CEE economic development since 1989. The 1989 revolutions were born in hope that idealistic 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 warn that mass protests might emerge from the current 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 argued that it was not workers but elites who were likely to overturn reform programs to keep in place high “transitional” rents from imperfect reform. Likewise, builders of capitalism were thought to be nervous about subjecting their economic reform programs 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 argued for rapid economic reforms to take place before a democratic electoral reaction made such reforms impossible.¹²

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 Transition Report data showed that post-Communist democracies reformed more than authoritarian regimes did and also returned to growth faster.¹³ Greskovits argued that “it now seems justified to write in the past tense: the breakdown literature has failed.”¹⁴ 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.

Yet the easy relationship between democracy and growth in the post-Communist world started to change when the former Soviet countries returned to growth in the 2000s. The dramatic expansion that returned to the post-Communist countries in the new millennium lifted nearly all boats: democracies and authoritarian regimes alike. The fastest-growing economies in CEE were Russia, Ukraine, Latvia, and Slovakia (not to mention Turkmenistan and Uzbekistan), hardly a testament to the greater growth performance of democracies. Furthermore, 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.¹⁵ 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.¹⁶

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 Russia or 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 behavior and create a single set of rules of the game that enable participants to coordinate their expectations and behavior. 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. Note that the fastest growing economy in recent times has been China. Many other Asian countries have also followed the path of authoritarian developmentalism. Lately, Russia has adopted this strategy as well.

Twenty years after 1989, we can see that the effect of democracy on economic growth is contingent. Those countries with prospects of EU membership built democracy and market economies without much friction while others turned to authoritarian regimes to promote growth, much as the early theorists of transition worried and predicted.

Conclusion

Twenty years after 1989, it remains unclear whether the neoliberal reform programs that shaped the CEE economies 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. Also, one cannot say for certain that the last word on democracy and development has been spoken. 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 also plays 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.

With Europe currently in the grip of a global recession, we are about to write a new chapter in the history of post-Communist economic reform. As the debate about mass privatization shows, however, we are very far from a consensus view. Twenty years may simply be too early to judge the results of the massive economic experiment launched in the heady days of 1989.

Notes

1. David Stuckler, Lawrence King, and Martin McKee, "Mass Privatisation and the Post-Communist Mortality Crisis: A Cross-national Analysis," *The Lancet* 373 (2009): 399–407.

2. *Ibid.*, 404.

3. Janos Kornai, *The Socialist System: The Political Economy of Communism* (Princeton, NJ: Princeton University Press, 1992). It should be pointed out that Kornai, in a separate book, *The Road to Freedom*, opposed mass privatization on the grounds that firms needed real owners, not financial intermediaries.

4. Janine Wedel, *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989–1998* (New York: St. Martin's Press, 1998).

5. Jan Fidrmuc, "Economic Reform, Democracy and Growth during Post-Communist Transition," *European Journal of Political Economy* 19 (2003), 585.

6. European Bank for Reconstruction and Development (EBRD), *Transition Report 2007: People in Transition* (London: EBRD, 2007). Reports data from the World Bank–EBRD "Life in Transition" survey of 29,000 households in twenty-eight transition countries conducted in September 2006.

7. David Ost, *The Defeat of Solidarity: Anger and Politics in Postcommunist Europe* (Ithaca, NY: Cornell University Press, 2005).

8. Fidrmuc, "Economic Reform," 586. Moldova's output in 2000 was 32.2 percent of its 1989 level Russia's stood at 62.3 percent after hitting a nadir of 55.8 percent in 1998.

9. EBRD, *Transition Report 2007*.

10. Rachel Epstein, *In Pursuit of Liberalism* (Baltimore: Johns Hopkins University Press, 2008).

11. Gerard Roland, "The Political Economy of Transition," *Journal of Economic Perspectives* 16, no. 1 (Winter 2002): 29–50.

12. Leszek Balcerowicz, "Understanding Postcommunist Transitions," *Journal of Democracy* 5, no. 4 (October 1994): 75–89; Jeffrey Sachs, *Poland's Jump to the Market Economy* (Cambridge, MA: MIT Press, 1993). For a review of the "tensions" and "breakdown" literature, see Mitchell A. Orenstein, Stephen Bloom, and Nicole Lindstrom, "A Fourth Dimension of Transition," in *Transnational Actors in Central and*

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13. Stephen Fish, "The Determinants of Economic Reform in the Post-Communist World," *East European Politics and Societies* 12, no. 1 (December 1997): 31-78.

14. Bela Greskovits, *The Political Economy of Protest and Patience: East European and Latin American Transformations Compared* (Budapest: CEU Press, 1998).

15. Milada Vachudova, *Europe Undivided* (Oxford, UK: Oxford University Press, 2005).

16. Mitchell A. Orenstein, *Out of the Red: Building Capitalism and Democracy in Postcommunist Europe* (Ann Arbor: University of Michigan Press, 2001).

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