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# Preface

A quarter of a century ago, the economies of the former Soviet bloc were in deep political and economic distress. The choice of future direction was wide open, and guidance, while available, was not entirely clear. Soon, each country in the region chose or was forced to choose a new direction for its economic governance and orientation. Those initial choices turned out to be of great and lasting significance, even if some changed course later. For most of Eastern Europe, these decisions led to a great rebirth of economic well-being and political rights.

These momentous, fascinating, and still relevant shifts of policy regime are quickly passing into the mists of memory. Therefore, we at the Peterson Institute brought together all of the greatest living economic policymakers who participated in making and implementing those historic decisions. We wanted them all to hammer out what had worked and what had not. The initiative was taken by Simeon Djankov, former minister of finance of Bulgaria and a visiting fellow at the Peterson Institute, and Anders Åslund, our long-time senior fellow who specializes in research on postcommunist transition. We held this unique conference in early May 2014 in Budapest, in cooperation with Wolfgang Reinicke, director of the Public Policy School at the Central European University. We are most gratified that truly all of the relevant still active great reformers participated, and did so actively. The discussion was impressive, and our authors kindly incorporated comments in their papers.

At an event of this nature, one always asks what is new, different, and surprising. In general, much of the Western economists' conventional wisdom holds up even after 25 years' reflection. Early, radical, and comprehensive economic reforms work best. Belief in the need to start with liberalizing politics and democratization has clearly risen over time. Privatization offers an in-

trinsic dilemma—it is necessary for the success of both democracy and market economic reform, but it has become less popular over time virtually everywhere. Even these precepts, however, are being forgotten or actively denied in large parts of the former Soviet bloc, so it is good to have them authoritatively established.

Beyond that, three important and original observations stand out from this effort. The first is that the biggest and rising problem of postcommunism is the remaining secret police networks. Being nontransparent, professional, international, and self-serving, they were ideal as the basis for organized crime networks. A second, more positive observation is that a second wave of reform is both possible in transition economies and can work well. Slovakia shows that such reforms can kick-start a half-reformed economy, whereas Georgia impresses as a country salvaged from near state failure by very radical market reforms. The most worrisome observation is that two significant countries in the region have turned around and reversed seemingly successful market economic reforms, namely, Russia and Hungary.

The overall conclusion of the participants is that a well-functioning market economy can be built in a relatively short time span, most of the postcommunist countries managed to do so, and their people benefited from that accomplishment. So doing is, however, indeed an accomplishment, requiring leadership—success is far from guaranteed. Several economies in the region pursued a different path or failed in transition reforms and still have not yet recovered their income level of 1989. While the postcommunist countries have tended to converge with their richer neighbors, they have hardly converged among themselves. At present, reforms are not speeding up but slowing down and as a result, so is economic growth.

The Institute would like to thank The Foundation to Promote Open Society, a part of Open Society Foundations; Peter Aven; the Victor Pinchuk Foundation; and the Gaidar Foundation for their generous support of this ambitious and unique project. I believe that this volume will be the lasting analytical testimony of those economic leaders who made transition work—and those reflections are all the more rewarding and relevant by virtue of being brought together and discussed under the guidance of Åslund and Djankov. I hope that they will serve not only as the record of the past achievement but as the inspiration for a renewal of economic liberalization where it is still needed in postcommunist Europe.

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ADAM POSEN  
President  
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