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The Political Economy of Change after Communism

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The handful of economists who found themselves suddenly occupying government offices in capitals east of Berlin in the early 1990s knew where they wanted to go. But neither they nor anyone else knew how to get there. To Andrei Shleifer and me, writing about 10 years into the transition, these men—and a few women—seemed like explorers climbing mountain ranges that had never been mapped. They had to trust their intuition and improvise around obstacles, expecting to be swept away at any moment by an avalanche.

So how did they do? And where did they end up? Overall and on average, economic transformation has been a striking success. On numerous indicators, life has improved for citizens of the former communist countries. GDP per capita in the median country was 47 percent higher in 2011 than in 1990—and this figure probably underestimates the increase, given inflated reporting of output at the outset.[1] Consumption by households was 53 percent higher.

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1. These changes are based on GDP per capita in constant local currency units. Statistics on GDP and consumption are from the Penn World Tables (8.0), which have the most complete data. Other statistics are from the World Bank's World Development Indicators. They refer to the average for all 30 postcommunist countries of Eastern Europe, the former Soviet Union, and Mongolia for which data are available. Data and Stata do-files are posted at www.sscnet.ucla.edu/polisci/faculty/treisman/.

Average life expectancy had risen from 69 to 73 years, and infant mortality had dropped from 32 to 14 per 1,000 live births. For every hundred people, the number of phone lines had increased from 12 to 24 and the number of cell phone subscriptions had soared from 0 to 120. More than half of citizens were Internet users, a higher rate than in Latin America, and more than half of school leavers were enrolling in college, up from one quarter in 1990. Although on a few of these indicators the postcommunist countries lagged the world average, on others, such as cell phone and Internet use, the postcommunist states had surged ahead.

Statistics on average performance conceal some major differences. After 25 years, these countries extend across the political and economic landscape. Some—like Poland—have market systems resembling those of their Western European neighbors, democratic regimes, and economies that have doubled in size. Others have fared less well. Turkmenistan, a sultanistic petro-state, reattained its 1990 output level only in 2008. Experts rate it as less of a free market economy than Yugoslavia was before its transition began.

What explains the different outcomes? Many factors may have contributed—the initial conditions inherited, the reform strategies chosen, the nature of the opposition to reform that emerged, the political institutions under which economic battles were fought, even the characteristics of individual leaders. I consider each in turn, after briefly reviewing what happened in the region.

Roads from Serfdom

As of 1985 the countries of the Soviet bloc had much in common. Of course, each country had its own particularities, but communism had artificially compressed variation. All of these countries exhibited distorted and unfree economies, Leninist party dictatorships, and relatively low levels of GDP per capita.

After the communist brace was removed, differences were bound to reappear. And they did. The first quarter century was characterized by rapid divergence. The gap in per capita GDP between the richest and poorest countries in this group grew from $14,000 in 1990 to $21,000 in 2010. Political regimes ranged from oriental despotism to consolidated democracy. In 2013 Georgia ranked 8th on the World Bank's ranking of ease of doing business, while Uzbekistan ranked 146th.[2]

To measure how these countries reformed—or failed to reform—their economies, I use indicators constructed by the European Bank for Reconstruction and Development (EBRD). Each year from 1989 to 2010, EBRD experts rated 29 former communist countries on how closely they resembled a free market economy. Separate subindexes measure eight dimensions: price liberalization, trade and foreign exchange liberalization, large-scale privatization, small-scale privatization, enterprise restructuring, competition policy, banking reform, and reform of securities markets and nonbank financial institutions. I rescale

2. See www.doingbusiness.org/rankings.

these figures so that each indicator runs from 0 (a completely unreformed communist economy) to 1 (a liberal market economy) and use the annual average of the eight dimensions as a summary measure of reform progress to date.[3]

The pattern of change these indicators reveal is not quite what anyone expected. From their highly illiberal starting point, almost all the countries experienced a rapid burst of reform in the early 1990s. Seven years after the start of transition, the reform scores of 21 of the 29 had increased by at least 40 percentage points.[4] The extent of change varied, but the parallel surge is striking. In contrast, after 1996 progress in almost all of these countries slowed to a crawl. All countries except Mongolia and war-torn Bosnia and Yugoslavia reformed more in their first 5 years than in the subsequent 10. For the most rapid reformers, the slowdown is not surprising, as by 1996 they were almost at the top of the scale. Still, all countries plateaued before they reached the top.

By 1996 countries were already divided into leaders and laggards, and their relative rankings changed little in subsequent years. Many moved up or down a few places, but not usually by more than five. In fact, countries' reform scores in 1993 correlate highly with their scores in 2010 (r = 0.79). Reforms followed a characteristic sequence: first liberalization, then privatization, and finally reforms to create market institutions. Countries that led on one type tended to lead on the others, and countries that lagged on one tended to lag on all.

The result was a divergence in economic institutions as noticeable as that in politics and income levels. Already by 1994 the range in EBRD scores had shot up from 18 percentage points to almost 70. The Czech Republic was in the lead, with a score of 0.73. Turkmenistan was at just 0.05. If all communist economies were to a great extent alike, the postcommunist countries appeared determined to be postcommunist in their own way.

As they have been diverging from one another, these countries have been converging toward something else: their neighbors. In income levels, political institutions, and economies, the postcommunist states have become more and more like the non–Soviet bloc countries nearest their borders.

The Baltic States have converged toward Finland; the Caucasus countries toward Turkey and Iran; the states of Central Asia toward Iran, Afghanistan, and China. Central Europe has approached Germany and Austria, with the occasional tug from its neighbors to the east. Russia appears disoriented by the contradictory pulls of Finland and China. Of course, there are exceptions: Mongolia is much more democratic than its neighbors, Belarus more authoritarian. But for the most part, having escaped the gravitational force that previ-

3. Details on the methodology are available at www.ebrd.com/pages/research/economics/data/macro/ti_methodology.shtml. These indicators do not measure the growth rate, welfare of the population, or invulnerability to financial crises (Myant and Drahokoupil 2012). They are intended to capture only the extent of free market institutions.

4. The exceptions were Belarus, Macedonia, Montenegro, Serbia, Turkmenistan, Uzbekistan, and the civil war–torn states of Bosnia and Tajikistan. I consider the start of transition to have been 1989 in Eastern Europe, 1990 in the former Yugoslavia and Mongolia, and 1991 in the former Soviet Union.

Table 14.1 Convergence toward neighbors outside the Soviet bloc

	Dependent variable		
	(1)	(2)	(3)
	Change 1990–2010 in		Change in EBRD reform score 1989–2010 (0–1 scale)[a]
	Polity2 (0–1 scale)	**GDP per capita** (percent)	
Polity2 of country in 1990	–0.864 (0.091)***		
Polity2 of closest neighbors outside Soviet bloc in 1990	0.609 (0.159)***		
GDP per capita of country in 1990 (purchasing power parity, thousands of 2005 dollars)		–5.194 (2.576)*	
GDP per capita of closest neighbors outside Soviet bloc in 1990		3.051 (1.353)**	
EBRD reform score of country in 1989 (0–1)			–1.048 (0.326)***
Fraser Institute Economic Freedom score of closest neighbors outside Soviet bloc in 1985[b] (0–100)			0.097 (0.040)**
Constant	0.222 (0.133)	31.927 (20.581)	0.131 (0.218)
R^2	0.59	0.16	0.38
N	28	26	28

a. Score for the Czech Republic is for 1989–2008, the last year for which data are available.
b. Fraser Institute index of World Freedom scores are used because EBRD reform scores are not available for neighbors outside the Soviet bloc.

Note: Robust standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: Based on data from World Bank (2014), European Bank for Reconstruction and Development (EBRD 2013), Fraser Institute (2013), and Polity IV database.

ously tethered them to Moscow, the erstwhile satellites have sped outward to merge into their respective neighborhoods.

Table 14.1 documents this pattern. Countries whose closest neighbors outside the Soviet bloc were more democratic in 1990 saw larger increases in their democracy ratings between 1990 and 2010 (column 1). GDP per capita rose more if their non–Soviet bloc neighbors were richer (column 2). And EBRD market liberalism scores rose more if their non–Soviet bloc neighbors were more economically liberal at the start of transition (column 3).[5] In all three

5. Because the EBRD scores are available only for excommunist countries, I use an index of economic freedom produced by the Fraser Institute (Gwartney, Lawson, and Hall 2012) to capture neighbors' economic liberalism as of 1990.

cases, controlling for neighbors' initial scores, a country's own initial score is negatively correlated with the 2010 score, suggesting conditional convergence.

The regressions do not fully explain the pattern of change. Countries could be converging with their non–Soviet bloc neighbors because of some interaction with those countries. Norms or beliefs might diffuse from those neighbors—and the nature of the norms could differ depending on the neighbor's political regime, level of economic development, or liberalism. Trade with richer and more market-oriented neighbors might prompt more development and reform than trade with less modern countries. Alternatively, underlying—previously concealed—similarities might drive the convergence. Countries located next to Western Europe might differ from countries next to Asia because of historical or cultural factors or comparative advantage in the international economy. These factors might lead to geographical convergence after the old regime's fall. Understanding this convergence better requires a closer examination of the correlates of economic reform.

What Role Did Historical Legacy Play?

Did countries' different historical paths leave them with cultures that were more or less favorable toward capitalism? Assessing attitudes at the start of transition is difficult, because few cross-national surveys were conducted until after reforms began—and the results were often volatile.

Two aspects of countries' historical traditions may have left lasting marks. First, many scholars associate particular religions with pro- and antimarket orientations. Following Weber (1905), one might expect more economic reform in countries with Protestant traditions and less in countries where Islam predominates. Second, communist regimes sought to eradicate any cultural support for markets and capitalism. Regimes in power for longer may have been more successful in doing so. Some countries were communized shortly after the Bolshevik Revolution, others only in the late 1940s.

Both the religious composition of the population and the length of exposure to communism are correlated with subsequent change in countries' economic reform scores (table 14.2). The strongest religious effects are for the proportions of Protestants and Muslims in the population: More Protestants are associated with more reform, more Muslims with less reform. Of course, given the small number of countries, and especially of Protestant ones, one should be cautious interpreting the results. Longer exposure to communism is robustly significant: For each year a country was communist, it reformed 0.5–0.7 percentage points less. These historically rooted factors can more than account for the convergence toward neighbors on economic liberalism (the 1985 economic freedom score of noncommunist neighbors [column 3] becomes insignificant and negative).

Two other features of countries' initial conditions that might influence their readiness to reform are their starting income levels and the degree of economic distortion, measured as their level of trade with the outside world.

Table 14.2 Correlates of reform in transition economies

Variable	Dependent variable: Change in EBRD reform score 1989–2010 (1)	(2)	(3)	(4)
EBRD reform score 1989 (0–1)	–1.019 (0.286)***	–1.352 (0.252)***	–1.298 (0.239)***	–0.929 (0.271)***
Proportion of population Protestant or Anglican in 1995	0.924 (0.288)***	0.543 (0.227)**	0.660 (0.326)*	0.389 (0.222)*
Proportion of population Catholic in 1995	0.174 (0.070)**	0.079 (0.079)	0.100 (0.096)	
Proportion of population Orthodox Christian in 1995	0.008 (0.05)	–0.042 (0.06)	–0.083 (0.088)	
Proportion of population Muslim in 1995	–0.245 (0.116)**	–0.232 (0.112)*	–0.285 (0.119)**	–0.235 (0.114)**
Years under communism		–0.005 (0.002)*	–0.005 (0.002)**	–0.007 (0.003)**
Fraser Institute Economic Freedom score of closest neighbors outside Soviet bloc in 1985			–0.038 (0.055)	
GDP per capita in first year of transition				0.008 (0.008)
Exports as percent of GDP in first year of transition				–0.001 (0.001)
Distance from Düsseldorf (thousands of kilometers)				0.000 (0.000)
Constant	0.651 (0.054)***	0.987 (0.147)***	1.218 (0.418)***	0.992 (0.134)***
R^2	0.64	0.7	0.69	0.67
N	28	28	27	25

Note: Robust standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Source: Based on data from World Bank (2014), European Bank for Reconstruction and Development (EBRD 2013), Fraser Institute (2013), Polity IV database, and Association of Religion Data Archives National Religion database.

Column 4 shows that neither of these variables correlates with the pace of reform, and religion and communist history remain significant. These factors also remain significant controlling for proximity to Western Europe, as measured by distance from Düsseldorf.

It may well be that the geographical convergence on reform strategy reflected underlying cultural commonalities, associated with countries' different religious and communist-era legacies. But how did such legacies translate into slower or faster reform? I return to this question after examining the consequences of adopting different reform strategies.

Did Speed Matter?

Among people committed to economic reform at the start of the 1990s, the desired endpoint was clear: a flourishing, globally integrated market system. Consensus also existed on the main elements of reform: price and trade liberalization, macroeconomic stabilization, privatization, competition policy, the creation of market institutions, and the construction or reconstruction of a social safety net.

But how were reformers to achieve these goals? Economists quickly split into two camps. Some favored moving on all fronts simultaneously, in a strategy known to its supporters as "radical reform" and to its critics as "shock therapy." Others, who advocated a more measured pace and deliberate sequencing of elements, were dubbed "gradualists."

Both sides drew on a battery of arguments, some economic and technical, others practical and political. Radical reformers noted that individual reforms were complementary and likely to fail unless introduced together. If not combined with measures to enhance competition, partial liberalization would create opportunities for rent seeking (Murphy, Shleifer, and Vishny 1992; Balcerowicz 1994, 82). The bureaucrats ensconced in state offices—ignorant of economics, inefficient, often corrupt—were not up to the task of managing a carefully sequenced program. Many were already busy grabbing assets. The economic collapse that brought reformers to office ruled out delay. With only a few months' worth of grain reserves and no hard currency with which to buy more, Russia's Yegor Gaidar saw no choice but to leap to market pricing (Gaidar 2000).

On the political side, radicalists urged speed to exploit the fleeting public euphoria after communism ended and before the communists regrouped. This honeymoon of "extraordinary politics" would soon yield to dismay over the pain of adjustment. As Poland's chief reformer Leszek Balcerowicz put it, "Bitter medicine is easier to take in one dose" (Balcerowicz 1994, 84–86). Others hoped that rapid reform—in particular, privatization—would create a class of property owners who would then fight to preserve and expand market relations (Åslund 1995; Bocyko, Shleifer, and Vishny 1995, 151).

For their part, gradualists often asserted—or sometimes assumed—that radical reforms would bring more economic pain than a slower approach. Changing too much at once would lead to disorganization and the waste of resources (Blanchard and Kremer 1997 later formalized this idea). Peter Murrell (1992a, 1992b) argued that reform should proceed by means of localized experiments, reducing the risk to the population. Invoking Edmund Burke, he insisted that new market institutions would have to evolve at their own pace and could not be willed into being by technocrats in a hurry. Others saw political advantages to sequencing: Reformers could forge different coalitions to back parts of the program even if no broad coalition would support the package as a whole (Dewatripont and Roland 1992, 1995). Many were inspired by the apparent successes of a gradual approach in China (Murrell 1992a, 80).

Table 14.3 Relationship between speed of reform and change in output in transition economies

	(1)	(2)	(3)
Type of reformer	**Average output contraction up to 2010 or recovery year** (percent of transition year output)	**Average output contraction during first three years of transition, including estimate of unofficial output** (percent of adjusted transition year output)[a]	**Average unemployment rate during first five years of transition**[b]
Radical	–203	–38	9.0
Moderate	–282	–43	9.2
Slow	–420	–56	19.5

a. Data available only for Azerbaijan, Bulgaria, the Czech Republic, Estonia, Georgia, Hungary, Latvia, Moldova, Poland, Romania, Russia, Ukraine, and Uzbekistan and only up to 1994.
b. Data on unemployment (using definition of the International Labor Organization) available only for Albania, Bulgaria, the Czech Republic, Croatia, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Mongolia, Montenegro, Poland, Russia, Slovakia, Slovenia, and Yugoslavia.

Note: Radical reformers: Countries that increased their EBRD score by at least 40 percentage points in the first three years of transition. Moderate reformers: Countries that increased their EBRD score by 25–40 percentage points in the first three years of transition. Slow reformers: Countries that increased their EBRD score by less than 25 points in the first three years of transition. Estimates are based on GDP per capita in real terms, adjusted for purchasing power parity. GDP per capita in 1989 in Belarus, the Czech Republic, Lithuania, Kazakhstan, and Poland were calculated using EBRD macroeconomic indicators.

Source: Based on data from World Bank (2014), European Bank for Reconstruction and Development (EBRD 2013), Penn World Tables (8.0), and Kaufmann and Kaliberda (1996) (for estimates of unofficial output 1989–94).

So who was right? Did radical reform impose more pain than gradual reform? In fact, countries with faster early reforms tended to have smaller output contractions and lower unemployment. It was the slow reformers that suffered most. Starting from each country's transition year, I summed the annual shortfalls in real GDP per capita (relative to the transition year) in all years until output recovered to the initial level (or until 2010, if it came first). On this metric Tajikistan was the "champion", registering a total contraction equal to almost 10 times its transition year output. By contrast, the Czech Republic, Estonia, Poland, Slovenia, and Mongolia all had decreases of less than one transition year's output.

Of course, the early national accounts data should be treated with caution. Much informal production avoided detection, and the initial level of output was inflated by counting shoddy goods that no free consumer would have bought. Still, the relationship remains negative even after adjusting the GDP figures to include estimates of unofficial output, using the electricity consumption–based measures of Daniel Kaufmann and Aleksander Kaliberda (1996) (see column 2 in table 14.3).

Unemployment data in the early years are sketchy. But restricting attention to countries for which figures on unemployment, using the International

Labor Organization (ILO) definition, are available reveals that average unemployment rates were lower in the first five years of transition in the more radical reformers. One should not put too much trust in statistics collected in the middle of an economic revolution, and the differences are not always statistically significant, given the small number of countries and large variation. Still, there is no evidence that a slower approach to reform reduced the disruption of transition. All signs point in the opposite direction.

With hindsight the impassioned debates between gradualists and radical reformers look like a distraction. The intellectual jousting often pitted Hungary against Poland. Hungary's leaders prided themselves on moving more judiciously than Poland's ideologues. In June 1991 Hungary's finance minister, Mihaly Kupa, rejected a "very rapid transition to markets" and pledged "not to exclude anyone from this process of transition." Yet looking at the two countries' EBRD scores over the years since transition, it is hard to tell them apart. In some years Hungary lagged slightly behind Poland, in others it took the lead. The two countries were never separated by more than 14 percentage points—and that gap existed only in the first year (1990). Compared with the huge gaps that opened up between Hungary and Poland on the one hand and Turkmenistan (which scored about 75 points below both of them in 2010) on the other, the nuances of strategy look secondary to other factors.

That said, speed was of the essence: In the early 1990s it determined which countries made it to the endpoint—a liberal market economy—and which got stuck halfway. Countries that started more slowly never caught up, and they suffered larger output contractions and higher total unemployment. Hungary did so well not because it was gradualist but because, in practice, it was not. The race went to the hares, not the tortoises.

Were the gradualists entirely mistaken? They were right that some types of change would take longer. Although in a narrow sense the reformers could create new market institutions—unemployment insurance, regulatory regimes—they could not dictate how the laws and agencies they formed would operate in the field. In this sense new institutions did have to evolve. The creation of market institutions proceeded more slowly than liberalization and privatization. The EBRD ratings for this measure show much less of an early surge and a steadier rise, continuing after 2000. Where the gradualists erred was in thinking that the best environment for the evolution of market institutions was a stagnating or very slowly reforming communist economy. If this were the case, institutional reforms would have advanced fastest in countries in which liberalization and privatization were slowest. In fact, the opposite was true: As of 1996 the extent of institutional reforms correlated strongly and positively with the extent of liberalization ($r = 0.77$) and privatization ($r = 0.85$). The best setting for institutions to evolve turned out to be one in which rapid market reform was taking place (see Havrylyshyn 2006).

In light of the subsequent slowdown, the collective surge of reform in the early 1990s is surprising. These years were clearly different. Disintegration of the Comecon bloc forced policymakers throughout the region to react. In many places the explosion of macroeconomic crises as the old economic bureaucracies disintegrated left leaders without the option to regulate prices and trade as before. Liberalization occurred in part by default. At the same time, given the porous borders, Russia's freeing of prices made it hard for other former Soviet republics to control them: Consumer goods would have disappeared across the Russian border, where traders would have pocketed huge profits. Fashion may also have played a role, with the new leaders of former Soviet republics copying Moscow's economic policies out of confusion over what else to do.[6]

Winners and Losers from Reform

Countries' contrasting reform paths might reflect differences in the way opposition to reform emerged. Observers had expected a counterattack; the question was the direction from which it would come. At the outset two views prevailed. The first considered the main obstacle to decommunization to be communists. Everywhere members of the old party elite retained high political—or at least bureaucratic—offices. These *apparatchiks* lacked the human capital and motivation to create a market system. Successful reform would require replacing them—through elections or, perhaps, lustration.

The second view saw the main opponent of reform as the general public, who, proponents of this view assumed, would turn against the reformers as the pain of transition materialized. The path to the new order ran through what Adam Przeworski (1991) called the "valley of transition" and Ralf Dahrendorf dubbed the "valley of tears." For the majority of citizens, consumption would fall, recovering only after some time. In the interim, "populists" could rally the "losers" to vote the reformers out of office, reinstate the communists, and reverse progress toward the market.

If the main threat was the organized opposition of the losers, the solution seemed clear but unpalatable. In some Latin American and Asian countries, authoritarian rulers introduced far-reaching market reforms while repressing resistance (Haggard and Webb 1993, 145). The German political thinker Claus Offe wondered whether "democratic rights must be held back to allow for a healthy dose of original accumulation" (Offe 1996, 41). Even people who rejected authoritarian options sometimes saw a strong, insulated executive as necessary.

But were the old communist elite or the new "losers" from reform the real problem? After a few years another possibility emerged. As predicted, partial reforms created huge opportunities for arbitrage and rent seeking (Åslund 1995). John Hellman (1998) argued that it was not the "losers" but precisely the rent-seeking "winners" from early reform—state managers turned private owners, new bankers, oligarchs, and mafiosi—who conspired to freeze it midway. Having grown rich on "transitional" rents, they "captured the state" in order to preserve such income streams. Challenging the argument that new

6. I thank John Odling-Smee for these observations.

property owners would lobby for the rule of law, Konstantin Sonin (2003) used a formal model to show how the rich in transitional societies might prefer that the state not protect the property rights of the poor.

If this diagnosis were correct, what would the solution be? Hellman argued for more inclusive and competitive democracy—"more frequent elections and shorter executive tenures" as well as broad coalition governments (Hellman 1998, 205). Greater leader turnover would undermine corrupt alliances, and coalition governments would help dissipate rents. Of course, if the "winners" of reform had captured the state, they were unlikely to take Hellman's advice and institute competitive, inclusive arrangements that would undermine their profits. And frequent turnover might just empower successive teams of rent seekers, each hungrier than the last.

Andrei Shleifer and Daniel Treisman (2000) suggested that reformers could sometimes design context-specific strategies to wean both new and old elites from their opposition to particular measures. Some could be coopted, persuaded to exchange their rents for other less socially costly benefits. Others could be isolated and deprived of leverage. Both strategies required skill and courage on the part of reformers, who would have to turn on their erstwhile allies, shaping new coalitions to push market reform forward.

To what extent do events bear out these views? The argument that "losers" would reverse reforms relied on assumptions that turned out to be flawed, for two main reasons. First, economic reforms—especially radical ones—were assumed to lead to recession in the short run. Second, voters were expected to respond to such recessions by voting out the incumbents in favor of populists, who would undo the reforms. In fact, it was not just rapidly reforming countries that experienced a transitional recession, all countries did. The countries that reformed least in the first three years suffered the largest output drops. Moreover, what voters really disliked turned out to be not painful reform but simply pain. They rejected incumbents who presided over bad economic times whether they were shock therapists, gradualists, or conservative communists.

Rejecting pain meant rejecting almost everyone. Andrew Roberts (2010, 57–84) examined the 34 legislative elections that occurred through 2004 in 10 of the more democratic postcommunist countries.[7] In almost 90 percent of these elections, the government coalition lost votes—on average 15 percentage points. These losses were completely unrelated to the government's reform record, as measured by the EBRD scores. But they did correlate with poor economic performance, especially high unemployment. Voters were more likely to throw out governments that presided over poor performance. In short, what cost incumbents votes and often control of the government was not reform but the economic crises that sometimes prompted it.

7. The countries were Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. Roberts did not include the first semifree elections in each country, in which communist parties still set the terms and stacked the deck.

Despite economic pain, majorities in many countries continued to favor the market. The Central and Eastern Eurobarometer regularly polled the populations of 21 postcommunist countries between 1990 and 1997. Even in the year of their country's largest GDP per capita contraction, the majority in Albania, Bulgaria, the Czech Republic, Slovakia, Estonia, Lithuania, Romania, Poland, and Slovenia agreed that "the creation of a free market economy—that is, one largely free from state control" was right for their country's future. In addition, in Hungary, Latvia, and Macedonia, a larger percentage thought the free market economy was right for them than thought it was wrong.[8] In the year of the largest contraction, in all 13 countries for which data were available, the share of respondents who said reforms were going "too slow" exceeded the share that said they were going "too fast"; the gap averaged 34 percentage points.

Thus although turnovers to left-wing (not to mention right-wing) governments did occur as economies crashed, the new "populists" generally resisted the temptation to reverse reforms. Roberts finds no relationship between what parties promised on reform before elections and what they did in office (as measured by the EBRD).

Hungary's experience is instructive. As GDP per capita bottomed out in 1993–94, falling to about 17 percentage points below its 1989 level, angry voters returned the reconfigured former communists to power in a landslide. This result would seem to fit the populist revanche story—except that 56 percent of Hungarians that year believed that economic reform was progressing not too quickly but too slowly. The new socialist government under Gyula Horn wisely disregarded ideology to continue reforms, introducing a necessary but painful fiscal austerity package.

Was it the power of pseudo-market insider elites that caused the reform slowdown from the mid-1990s? Such an explanation seems plausible. Virtually everywhere one heard stories of newly minted oligarchs or bureaucrats corrupting the government and courts to seek private advantages. Whenever reforms slowed, the delay seemed to make someone rich.

But this argument also has some problems. First, its timing is off. Market reforms surged in the early 1990s, then logjammed after 1995. Most estimates of rents suggest that they started out huge and fell sharply by the mid-1990s (Åslund, Boone, and Johnson 1996). Governments cut subsidies, reined in inflationary policies, and privatized state enterprises, at least partly depriving them of fiscal support. To some extent these achievements reflected successful maneuvering by reformers, cutting out the "winners" by shifting coalitions midstream (Shleifer and Treisman 2000). Rents were also eroded as other market actors adapted or arbitraged away opportunities. Of course, some rents remained, especially around the still-regulated energy sectors, but in most countries rents were far smaller than they had been a few years earlier.

8. See Åslund, Boone, and Johnson (1996) and the data at zacat.gesis.org/webview/index.jsp?object=http://zacat.gesis.org/obj/fStudy/ZA3648; Roberts (2010).

It could be that by the mid-1990s the early “winners” had accumulated enough capital to capture the state. Measuring state capture is difficult. But Joel Hellman, Geraint Jones, and Daniel Kaufmann (2000) present one index of the extent of state capture as of 1999. The index is based on answers by firm managers to a set of survey questions about whether their business had been affected by the purchase by others of presidential decrees, parliamentary legislation, court decisions, and other regulatory outputs. On this measure state capture was highest in Azerbaijan and lowest in Uzbekistan. If capture were associated with less reform in the period from the mid-1990s, one would expect to see a negative correlation between the index of state capture and the change in countries’ reform scores between 1995 and 1999. In fact, the correlation is slightly positive (r = 0.22), suggesting that countries where corrupt lobbying was most effective reformed slightly more on average. Azerbaijan, for instance, recorded substantial increases in liberalization and privatization.

The “losers and populism” story seems to be mostly wrong and the “winners and state capture” story plausible but problematic. What about the claim that the old communists were the main obstacle? There is some evidence to support this view, but it is not as strong as one might expect. Simply comparing the average increase in reform score in years when a former high communist official was the head of the executive with years in which the head was not a communist or member of a communist successor party and had not been a high communist official reveals almost no difference. There is also no clear relationship between the speed of reform and the share of seats in the legislature held by communist parties and their successors. This result might seem strange, but former communists were far from homogeneous. Although some certainly blocked reforms, others—for instance, Lithuania’s Brazauskas—oversaw periods of rapid progress. The Gaidar reforms in Russia occurred under a president who had been a member of the Soviet Politburo a few years earlier.

The Role of Democracy

The fear that democracy would empower the losers to reverse market reform got things exactly backwards: Democracy turned out to be the single strongest predictor of reform speed. All communist countries were highly authoritarian in the late 1980s. Some made quick transitions to much more accountable regimes; others did not. Early in the transition, scholars noted a strong correlation between economic liberalism and democracy among these countries in a given year (EBRD 1999).

Using the polity2 measure of democracy, I show here that this relationship remains strong in a dynamic setting. I focus not just on the differences across countries but on differences between more and less democratic periods in the same country. Estimating an error correction model, I demonstrate that there is a long-run equilibrium relationship between how democratic a postcommunist country’s political system is and how economically liberal its economy is (table 14.4). In countries that remained authoritarian, the economy tended

Table 14.4 Democracy and economic reform in the postcommunist world

	Dependent variable: Change in economic reform score					
	(1)	(2)	(3)	(4)	(5)	(6)
Economic reform $score_{t-1}$	–0.173 (0.019)***	–0.134 (0.016)***	–0.315 (0.035)***	–0.307 (0.035)***	–0.306 (0.040)***	–0.317 (0.036)***
$Democracy_{t-1}$	0.089 (0.018)***	0.060 (0.012)***	0.064 (0.033)*	0.064 (0.031)**	0.062 (0.031)*	0.066 (0.033)*
Δ $Democracy_t$	–0.032 (0.025)	0.008 (0.030)				
Δ $Democracy_{t-1}$		0.118 (0.042)***	0.053 (0.024)**	0.037 (0.022)	0.041 (0.019)**	0.052 (0.023)**
Δ Economic reform $score_{t-1}$		0.222 (0.038)***	0.126 (0.043)***	0.151 (0.041)***	0.148 (0.040)***	0.122 (0.042)***
Ln GDP per $capita_{t-1}$				–0.003 (0.015)	–0.001 (0.016)	
Δ Ln GDP per $capita_{t-1}$				0.047 (0.045)	0.051 (0.045)	
Ln Oil income per $capita_{t-1}$					–0.003 (0.005)	
Δ Ln Oil income per $capita_{t-1}$					–0.003 (0.009)	
Economic $crisis_t$ (growth < –5 percent)						–0.008 (0.009)
Country and year fixed effects	No	No	Yes	Yes	Yes	Yes
Long-run elasticity	0.51	0.45	0.20	0.21	0.20	0.21
Constant	0.057 (0.013)***	0.048 (0.011)***	0.146 (0.043)***	0.175 (0.147)	0.169 (0.151)	0.153 (0.045)***
R^2	0.38	0.46	0.63	0.62	0.60	0.63
N	530	519	519	517	508	519

(continues on next page)

to converge to a partially reformed state around the middle of the EBRD scale. Countries that became highly democratic also moved comprehensively toward free markets.

But was it really democracy that led to economic reform? Or was it that for other reasons certain countries were positively predisposed toward both economic and political reforms? Could some global shock have caused political and economic reforms to cluster in the same years purely by coincidence?

Using year and country dummies to control for any common global shocks and country characteristics that were fixed throughout the transition period, I isolated the relationship between democracy and markets within individual countries. The link remains strong. Moreover, democracy helps explain why countries with Islamic traditions and longer histories of communism re-

Table 14.4 Democracy and economic reform in the postcommunist world *(continued)*

	Dependent variable: Change in economic reform score					Dependent variable: Change in democracy
	(7)	(8)	(9)	(10)	(11)	(12)
Economic reform $score_{t-1}$	–0.336 (0.036)***	–0.306 (0.036)***	–0.295 (0.037)***	–0.315 (0.035)***	–0.315 (0.035)***	–0.034 (0.097)
$Democracy_{t-1}$	0.067 (0.029)**	0.064 (0.033)*	0.062 (0.036)*	0.062 (0.033)*	0.064 (0.033)*	–0.193 (0.054)***
Δ $Democracy_{t-1}$	0.044 (0.023)*	0.046 (0.025)*	0.038 (0.026)	0.054 (0.024)**	0.053 (0.024)**	0.047 (0.069)
Δ Economic reform $score_{t-1}$	0.112 (0.043)**	0.135 (0.044)***	0.130 (0.052)**	0.124 (0.042)***	0.126 (0.043)***	0.029 (0.093)
War_{t-1}	–0.029 (0.014)**					
Civil war_{t-1}	–0.027 (0.023)					
Ln Foreign aid_{t-1}		–0.001 (0.001)				
Δ Ln Foreign aid_{t-1}		–0.001 (0.002)				
EBRD score of $neighbors_{t-1}$			–0.003 (0.012)			
Δ EBRD score of $neighbors_{t-1}$			0.042 (0.025)			
Will join European Union within five years				0.002 (0.006)		
Joined European Union in previous five years				–0.005 (0.008)		
Country and year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Long–run elasticity	0.20	0.21	0.21	0.20	0.20	Not significant
Constant	0.152 (0.041)***	0.135 (0.040)***	0.112 (0.037)***	0.148 (0.043)***	0.146 (0.043)***	0.17 (0.044)***
R^2	0.64	0.61	0.57	0.63	0.63	0.22
N	519	497	469	519	519	520

Note: Figures in parentheses are standard errors clustered by country. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. The long-run elasticity characterizes the long-run relationship between democracy and economic liberalism.

Source: Based on data from World Bank (2014), European Bank for Reconstruction and Development (EBRD 2013), Polity IV database, National Religion Dataset in the Association of Religion Data Archives, www.thearda.com/Archive/Files/Downloads/WRDNATL_DL2.aspd, and Michael Ross petroleum income database.

formed less. Adding countries' average democracy scores in the first 18 years to the regression in column 4 of table 14.2 shows that democracy has a strongly significant positive effect (not shown). The effect of Islam becomes insignificant and actually turns positive, and the influence of years under communism falls by more than half (and is rendered insignificant). The proportion of variance explained jumps from 0.67 to 0.78. A plausible interpretation is that a Muslim religious tradition and a longer experience of communism reduced a country's odds of democratization and that less political reform meant less economic reform.[9]

Democracy also remains significant after controlling for a variety of other possible causes of economic reform, including countries' income levels and growth rates, economic crisis, revenue from oil and gas, wars, civil wars, foreign aid, EU membership (planned or achieved), even the average reform scores of their neighbors (in case reform diffused across borders). Among these variables the only one that proved significant after controlling for democracy as well as country and year was war (on average if the country was at war the previous year, its EBRD score increased by 3 percentage points less that year). Current and future EU members did reform more—but they did so in all years, not just the years before or after accession. The negotiation and admission process itself had no discernible effect.

In which direction does causation run? Did political reforms induce economic reforms or vice versa? Did free markets and private property—along with the economic development they stimulate—foster stable democracy? There is no sure way to answer these questions, but Granger tests of causality, which explore whether changes in one series tend to precede changes in the other or vice versa, offer some evidence. They show that a rise in democracy in one year strongly predicts a rise in economic reform the next (table 14.4, column 11), but faster economic reform in one year has no significant effect on political reform the following year (table 14.4, column 12). Free markets may well support democracy over the longer term, but in the very short run there is evidence that political reforms induced economic liberalization.

The Federal Republic of Yugoslavia provides a vivid illustration. Under Slobodan Milošević politics became even less democratic in the 1990s than it had been under the late communist regime. Milošević also reintroduced price regulations (in 1994). Only after his fall from power and rapid democratization under his successor, Vojislav Koštunica, did Serbia embark on major economic reforms that allowed it to catch up with the rest of postcommunist Europe. In Belarus the dynamic moved in the opposite direction. The country began edging toward the market during its democratic period in the early 1990s. After it succumbed to authoritarian rule under Aleksandr Lukashenko, it reversed its economic reforms.

9. A Muslim religious tradition and more years under communism correlate robustly with less democratization in postcommunist countries, according to Treisman (2012).

After accounting for most other factors, the long-run level of market liberalism is about 20 percentage points higher in a perfect democracy than in a perfect autocracy. In the short run a jump in democracy leads to an increase in economic reform. The postcommunist countries' experience strongly rebuts the argument that authoritarian insulation is necessary for reform.[10]

Why did democracy matter? How did it facilitate economic changes? The Polity democracy indicator includes several elements. One measures the extent to which the legislature, judiciary, or other institutional checks and balances constrained the chief executive. A second captures whether the chief executive was chosen in competitive elections.

Table 14.5 shows that both measures are related to the pace of economic reform, but in different ways. The introduction of competitive elections for the chief executive was associated with a short-run increase in countries' reform scores, but there was no tendency for systems with such elections to converge to any particular level of market liberalism. An increase in constraints on the executive had no short-run impact on reform—but more constrained executives were associated with more liberal economies in the long run (column 1).

Did democracy prompt reform by stimulating turnover of leaders? "New political leaders, and the new elite that support them, have had greater incentive to introduce reforms," according to the European Bank for Reconstruction and Development (EBRD 1999, 106). Throughout the world, new leaders are more likely to introduce constitutional reforms than leaders who have been in office a long time. Turnover does not appear to have been a crucial factor in explaining reform, however. Controlling for country, year, and war, the pace of economic reform in postcommunist countries was not significantly higher the year after leader change (column 2). Nor did the frequency of elections appear to make a difference (columns 3–4). Turnover of bureaucratic or local political officials could have facilitated reform—I lack the data to explore whether or not it did—but the replacement of central leaders did not in itself have an easily discernible general effect.

Did competitive elections support reform? Increasing the competitiveness of executive elections had a short-run positive effect on reform, although the level of competitiveness did not have a clear long-run effect (column 1). When a single party dominated the legislature, market reform was slower. The larger the vote share won by the largest government party, the less that government reformed (column 6). Hellman (1998) argues that broader government coalitions "have a lower risk of being captured exclusively by the net winners of reform," who want to lock in their gains. In fact, the more parties there were in a government coalition, the less market reform took place (column

10. Using a broader dataset, Giuliano, Mishra, and Spilimbergo (2010) find that around the world democracy tends to support the adoption of economic reforms. Amin and Djankov (2014) find that democracy predicts better performance on the World Bank's Doing Business indicators.

Table 14.5 How did democracy stimulate economic reform?

	(1)	(2)	(3)	(4)	(5)
Economic reform score$_{t-1}$	–0.347 (0.042)***	–0.297 (0.034)***	–0.310 (0.044)***	–0.340 (0.068)***	–0.316 (0.046)***
Democracy$_{t-1}$		0.065 (0.023)***	0.069 (0.027)**	0.156 (0.066)**	0.071 (0.031)**
Δ Democracy$_{t-1}$		0.028 (0.025)	0.020 (0.021)	–0.074 (0.035)*	0.022 (0.023)
Δ Economic reform score$_{t-1}$	0.087 (0.040)**	0.116 (0.049)**	0.197 (0.044)***	–0.088 (0.099)	0.197 (0.052)***
War$_{t-1}$	–0.082 (0.033)**	–0.079 (0.031)**	–0.077 (0.020)***	n.a.	–0.085 (0.023)***
Competitive elections for chief executive$_{t-1}$	0.004 (0.008)				
Δ Competitive elections for chief executive$_{t-1}$	0.025 (0.009)***				
Constraints on executive$_{t-1}$	0.072 (0.028)**				
Δ Constraints on executive$_{t-1}$	0.019 (0.025)				
Leader changed$_{t-1}$		0.001 (0.005)			
Years since last presidential election[a]			–0.002 (0.001)		
Years since last legislative election[b]				–0.001 (0.001)	
Proportion of votes for winner in first round of presidential election[a]					–0.007 (0.020)
Country and year fixed effects	Yes	Yes	Yes	Yes	Yes
Long-run elasticity	0.21[c]	0.22	0.22	0.46	0.00
Constant	0.168 (0.035)***	0.104 (0.029)***	0.05 (0.033)	0.093 (0.08)	0.052 (0.039)
R^2	0.65	0.62	0.61	0.76	0.64
N	500	512	285	169	288

(continues on next page)

7). Presumably, the additional veto players created by multiparty government protected rent seekers as well as the public.[11]

Although leader turnover did not prompt reform in general, turnover to the first noncommunist head of government did. Countries in which all leaders since the start of transition had been communists, members of communist

11. Frye (2010) argued similarly that greater political polarization—as manifested by ideological splits between executive and legislative—slowed reform.

Table 14.5 How did democracy stimulate economic reform? *(continued)*

	(6)	(7)	(8)	(9)
Economic reform score$_{t-1}$	–0.305 (0.060)***	–0.292 (0.038)***	–0.292 (0.035)***	–0.294 (0.034)***
Democracy$_{t-1}$	0.134 (0.060)**	0.074 (0.028)**	0.061 (0.019)***	0.068 (0.020)***
Δ Democracy$_{t-1}$	–0.075 (0.036)*	0.065 (0.033)*	0.030 (0.023)	0.027 (0.023)
Δ Economic reform score$_{t-1}$	(0.186) (0.089)*	0.131 (0.046)***	0.110 (0.047)**	0.090 (0.051)*
War$_{t-1}$	n.a.	–0.067 (0.042)	–0.078 (0.033)**	–0.073 (0.034)**
Proportion of votes for largest government party in legislative election[b]	–0.045 (0.022)*			
Number of parties in government coalition		–0.004 (0.001)**		
Leader is communist party or former communist party official; no turnover occurred			–0.013 (0.007)*	–0.012 (0.007)*
Leader is communist party or former communist party official, turnover to noncommunist government did occur			–0.003 (0.002)	–0.001 (0.004)
Proportion of seats in legislature held by communist or successor parties				–0.021 (0.018)
Country and year fixed effects	Yes	Yes	Yes	Yes
Long-run elasticity	0.44	0.25	0.21	0.23
Constant	0.133 (0.075)	0.110 (0.041)**	0.110 (0.026)***	0.116 (0.025)***
R^2	0.78	0.62	0.62	0.63
N	161	448	512	504

a. Only presidential systems.
b. Only parliamentary systems.
c. Elasticity for constraints on the executive.

Note: Figures in parentheses are standard errors clustered by country. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Dependent variable is change in EBRD score.

Source: Based on data from World Bank (2014), European Bank for Reconstruction and Development (EBRD 2013), the Polity IV database, and the Database on Political Institutions.

successor parties, or former high communist officials were slower to create markets (columns 8 and 9 in table 14.5).

In short, over the longer run the checks and balances of democracy led to greater economic liberalism. At the same time, competitive and frequent elections helped dislodge the old communist leadership and motivate leaders to reform. Other aspects of democracy, such as a free press, may also have mattered. I lacked adequate data to explore them.

Table 14.6 Speed of reforms in postcommunist countries under selected leaders

Rank	Leader	Country	Period evaluated	Average annual change in EBRD score	Divergence from level predicted on basis of country and year characteristics: Coefficient	Standard error
1	Gaidar	Russia	1992	0.25	0.167	0.015
2	Balcerowicz	Poland	1990–91	0.18	0.087	0.021
3	Popov	Bulgaria	1991	0.20	0.061	0.021
116	Videnov	Bulgaria	1995–96	0.01	–0.068	0.009
117	Roman	Romania	1989–91	0.04	–0.084	0.023
118	Kravchuk	Ukraine	1991–93	0.05	–0.086	0.012

Note: Leaders are ranked on the speed of reform in the years in which they were in office, as measured by the change in the EBRD score, adjusting for the lagged EBRD score, fixed characteristics of the country, year, democracy level, war, and the proportion of seats in parliament held by communist or communist successor parties. Years are assigned to the leader who was in office as of October 1 of the given year (to avoid evaluating leaders who had been in office less than three months by year's end). Note that reforms could be faster or slower in the given years for additional reasons other than the leader's actions.

Source: Based on data from European Bank for Reconstruction and Development (EBRD 2013).

The Role of Leaders

Did individual leaders make a difference? Certain reform programs quickly became associated with the economists who designed them (the "Gaidar reforms," the "Balcerowicz plan"). "Successful domestic reform depends on vigorous political leadership," Jeffrey Sachs insisted, as Russia's leader wavered in 1994 (Sachs 1994, 503). In evaluating what happened, how can one separate out the contributions of the individual leaders from the context in which they acted?

To begin, one can look at how much the country's EBRD score changed each year during a particular leader's tenure. Doing this for the roughly 120 leaders who served in the postcommunist countries during the transition period reveals considerable variation.[12] Yegor Gaidar had the highest average annual reform score increase (0.25 in 1992), followed by Dimitar Popov in Bulgaria (0.20 in 1991) and Leszek Balcerowicz in Poland (0.18 in 1990–91) (table 14.6).

However, simply comparing the extent of reform ignores the huge differences in settings. A leader inaugurated when his country was already near the top of the scale obviously could not reform much more. For a variety of reasons, particular years may have been more or less favorable to reform, distorting the scores of leaders who served in those years. Reforming in a country like the Czech Republic poses a different set of challenges than reforming in Azerbaijan.

12. By "leader," I mean the president in presidential systems and the prime minister in parliamentary and semi-presidential ones; in addition, I included Gaidar, who served as acting prime minister of Russia, and Balcerowicz, who served as deputy prime minister of Poland.

A more informative comparison would control for factors other than leadership believed to influence the pace of market reform. I calculated the extent to which actual reform levels under given leaders diverged from the levels that would be predicted on the basis of the country's level of democracy, its previous year level of economic liberalism, any fixed characteristics of the country, any common shocks to all countries in a given year, whether the country was at war, and the proportion of legislative seats held by communists or communist successor parties. These estimates compare each leader not to all other postcommunist leaders but to other leaders who served during the postcommunist period in the same country, under roughly similar conditions.

Adjusting in this way, Gaidar's reforms in Russia in 1992 stand out even more. Not only was Gaidar's annual reform score higher than that of any other reformer, the gap was greater after taking into account Russia's middling level of democracy and the fact that former communists dominated the Supreme Soviet. In this ranking, Balcerowicz ranks second, followed by Popov.

Although the same names are in the top three, the ranking of other reformers changes depending on the context. In 1992, for example, more reform occurred in Lithuania under Vytautas Landsbergis (an increase of 14 percentage points) than in Tajikistan under President Rahmon Nabiyev (an increase of 10 points). However, Landsbergis led a small country on the fringe of Scandinavia that had just undergone a democratic revolution, whereas Nabiyev headed a Central Asian autocracy descending into civil war. Judged against their countries' later experiences, Nabiyev's liberalization, although limited, looks unexpectedly vigorous (he ranks ninth in the adjusted ratings) and Landsbergis' rather tepid (he places near the bottom).

Of course, one should not take such measures—especially small differences in them—too seriously. Teams, not individuals, generally accomplish reforms. The head of government may sometimes have resisted rather than spearheaded the reforms implemented on his watch. Because the ratings adjust for democracy, dictators' economic reform performance is judged against the authoritarian institutions they themselves sustain. Other idiosyncratic events in the country during the year could explain the result (some early liberalization, for example, was probably spontaneous). The timing of the ratings is imperfect, as EBRD scores are annual but leaders often take office midyear.

Still, leaders clearly mattered. Had Yegor Gaidar overseen Ukraine's economy in 1992 or Leonid Kravchuk overseen Russia's, short-run outcomes in the two countries would probably have been quite different.

Concluding Remarks

Twenty-five years after transition began, a considerable accumulation of data exists with which to assess the course of economic reform in the postcommunist countries. Several points stand out.

Where it was achievable, a strategy of rapid, simultaneous reform on multiple fronts worked better than a slower approach. It generally resulted in less, not more, economic dislocation. Opponents of reform were able to exploit delays at least as effectively as its supporters.

Attempts to understand the politics of reform in terms of stylized groups of supporters and opponents ("winners," "losers," former communists), which were popular during transition, turned out to have limited value, possibly because the identities and interests involved were too fluid and complex to fit a single script. Many losers continued to believe they would be better off under a full-fledged market system than under a return to communism. Almost by definition rent seekers opposed reforms that would eliminate their income streams. Nevertheless, most rents—except those associated with oil, gas, and natural monopolies—dissipated over time, either automatically or as a result of the reformers' maneuvering. As for excommunists, they turned out to be a mixed bunch, with some actively supporting market reform and few outright reversing it.

In the end what mattered most was the nature of the political institutions that processed the changing conflicts between economic groups. Democratic institutions seem to have nudged decision making in the direction of more economic freedom. Reforms that made government more responsive, accountable, and transparent also increased the odds of market reform.

Historical traditions shaped the odds. They seem to have worked largely through their influence on political reform. Democracy broke through more quickly in countries where communism had been installed more recently. The predominantly Muslim countries of Central Asia and Azerbaijan became consolidated autocracies. Where democracy triumphed, freer markets usually followed. Where it failed, economic freedom often also suffered.

Certain leaders made a clear difference. At some moments, the situation demanded leaders who were able to craft competent and ambitious plans and then plunge ahead against a typhoon of criticism. At other moments successful leadership meant having the flexibility and strategic sense to switch coalitions at crucial points, disappointing former allies, compromising with former opponents, and doing whatever else was necessary to move reform forward.

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