

➤ Does Eastern Europe Still Exist?¹

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The term 'Eastern Europe' is too often used as a geographical term, but it is not. It is a political term, and one that belongs to a particular historical period. Properly speaking, it refers to the nations that were dominated by Soviet-style communism between 1945 and 1989. Sometimes, it also refers to the nations that formed part of the Soviet Union after 1917 or 1918 – at least those considered European and not Asian. Either way, the term is misleading because it refers to a region that was never politically, culturally or ethnically homogenous. Its inhabitants were Catholic, Greek-Catholic, Russian Orthodox, Romanian Orthodox, Lutheran, Baptist, Jewish and Muslim. They spoke Slavic, Romance, Finno-Ugric, Baltic and Germanic languages. They lived in cosmopolitan cities like Berlin, and they lived in isolated rural communities without electricity or running water. They belonged to a wide variety of former empires, such as the Polish-Lithuanian Commonwealth, the Ottoman Empire, Prussia and Czarist Russia.

Between 1945 and 1989, this otherwise disparate group of European nations did nevertheless have quite a lot in common. Some of the resemblance was superficial: posters with hammers and sickles, May Day parades and identikit airlines that served poison instead of coffee. However, some of the resemblance was serious. They all had to contend with a legacy of bad economic decisions: the nationalisation of industry, central planning, a state-dominated retail sector, fixed prices, fixed exchange rates and import-export controls. It is incorrect to assume, as many do, that the fundamental nature of communist economics significantly differed in Hungary, Slovakia, Armenia or Albania.²

Since the fall of the Berlin Wall, the nations of what was once called Eastern Europe have taken very different directions. The economist Anders Åslund argues that despite some of the theoretical debates that took place, individual countries could in practice only take three economic paths after the break-up of the Soviet empire.¹³ They could (like Poland, the Czech Republic, Slovakia, Hungary and the Baltic states) choose the path of radical reform, leading to liberal democratic capitalism. They could (like Russia, Ukraine, Armenia, Moldova and Kazakhstan) become rent-seeking states and crony capitalist societies whose businessmen make money through a symbiotic relationship with corrupt state bureaucrats rather than through economic competition. Or they could (like Turkmenistan and Belarus) re-establish state despotism and swap the language of Marx for nationalism and new cults of personality.

Of course, these are not clean divisions. Romania and Bulgaria started out with crony capitalism, but became more liberal over time and joined the EU in 2007. Russia started out with some of the most radical reforms in the region, but lapsed into crony capitalism when the reforms stopped. Yugoslavia broke up in to parts, and each part took a different path and struggled with the civil war.

The point is that there was not – and is not – anything else. No country in the region selected a happy path between communism and capitalism, because no such path existed; there was no Third Way. The countries that attempted a 'kinder' and more 'gradualist' transition simply got stuck with more corruption. If their business elites learned how to make money from controlled prices, export controls or state sales of natural resources – and if those business elites took over politics – they made crony capitalism permanent.

¹ This contribution is based on a lecture sponsored by LSE IDEAS.

² See David Turnock, *The East European Economy in Context. Communism and Transition* (London: Routledge, 1997).

³ See Anders Åslund, *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia* (London: Cambridge University Press, 2012).

THE TRANSITION TO DEMOCRACY IN POST-COMMUNIST EUROPE

Few of the successes and failures were predictable or predicted. In 1990, nobody guessed that Estonia would become a mini-tiger, or that a cabal of billionaires would rule Russia. Nobody imagined Poland as a more stable member of the EU than Hungary. On the contrary, the predictions for Poland, with its spotty history of democracy and one of the worst-performing economies in the region at the time, were overwhelmingly negative. In 1990, one writer in *Foreign Affairs* opined that a rapid transition to capitalism would produce 'instability' in Poland, because Polish democracy would prompt the return to power of a 1930s-style right-wing mob.⁴

As it turned out, a country's immediate pre-war history did not necessarily predict its post-1989 success – and neither did its religion, geography or size. When examined closely, neither the alleged Catholic-Protestant divide nor the mythical 'Asiatic' cult of the dictator stands up to scrutiny. If religion is so important, why has Catholic-Protestant Hungary fallen into such a funk lately? If geography is so important, why has post-communist Mongolia become such a roaring economic success? Neither can the once-profound divisions between East and West Germany be explained away so simply.

What, then, led to success or failure? Why did some countries manage to carry out radical reforms while others did not? As it turned out, a few historical experiences mattered a good deal, but not necessarily the ones pointed out in 1990. For example, it made a big difference whether a country had been dominated by Soviet-style communism for 40 years or for 70 years. A clear line divides the region into two camps: those countries that formed part of the Soviet bloc from 1918 and those that did so from 1945. This line not only separates the old Warsaw Pact bloc from the Soviet Union, but also puts the Baltic states and Western Ukraine on one side and Russia and Eastern Ukraine on the other. In other words, this line lay between societies that still contained people who were brought up with pre-Soviet values and people who were not.

There was also a difference between those countries that had an active opposition movement in the 1970s and 1980s (or at least an active and self-organising civil society) and those that did not. Slovenly and inefficient dictators like General Jaruzelski of Poland produced more active citizens than those who still used terror to suppress their critics in 1988 and 1989, like Nicolae Ceaușescu.⁵

This points to the single most important factor in determining whether a given post-communist country succeeded or failed in its transition to liberal capitalism: the existence or absence of an alternative elite. By alternative elite, I mean something specific – not just a few economists, but a larger class or group of people who had worked together in the past, who had adopted an alternative set of values and who, by 1989 or 1990, were at least somewhat prepared for government.

In Poland, an alternative elite existed for several reasons: because memories of a pre-communist past were recent enough to be real; because of a national tradition of resistance, most recently against Nazi occupation, but historically against the Russian and Prussian empires; because the Polish economy was so full of holes that black marketeers (small capitalists) could operate freely and because borders were relatively open so that these black marketeers could trade; because those relatively open borders meant that people knew how life was lived in the western half of Europe; because the Polish Catholic Church was not destroyed and could thus provide both an alternative source of values and a physical space for opposition to meet; because Cardinal Wojtyła was elected Pope John Paul II and drew mass crowds during his trip to Poland in 1979. One could make similar lists for Hungary, East Germany and even Lithuania and Estonia. Some of these contributing factors might be connected to a country's particular historical destiny, culture and location; some of them were accidents.

4 See Abraham Brumberg, 'Poland: The Demise of Communism', *Foreign Affairs*, 69/1.

5 See Sorin Antohi and Vladimir Tismaneanu, eds. *Between Past and Future: The Revolutions of 1989 and their Aftermath* (Budapest: CEU Press, 2000).

The existence of an alternative elite was important, but it was even more important for the alternative elite to have a clear sense of direction. There was never any doubt about this direction in the case of the central Europeans. When working as a journalist in the region in 1989 and 1990, I heard people repeatedly stating their desire 'to be normal'. 'Normal' in 1989 and 1990 meant Western European: Western European democracy and capitalism, Western European welfare state, Western European political parties and Western European media. There was no desire for experimentation. The debate rested on the question: 'do we move faster towards Europe or do we move slower towards Europe?' Those who moved faster avoided being stuck halfway.

It was also very important that the new rulers of the new democracies had thought, at least to some degree, about what they wanted to do before they arrived. All through the 1980s, Polish, Czech and Hungarian economists had been holding informal meetings to discuss how it might be possible to someday privatise and decentralise their economies. These were pipe dreams at the time: all of the conversations were theoretical, and this particular group of economists was considered somewhat bizarre and perhaps rather fringe. But they were ready when they suddenly and unexpectedly got the opportunity to carry out their plans. Leszek Balcerowicz, Poland's first finance minister, was one of them; Václav Klaus, until recently the Czech president, was another. This readiness resulted from the fact that all of them had a clear sense of direction. Where do we want to go? Western Europe. How do we want to get there? Fast.

The precise techniques proved less important. In particular, the exact method of privatisation, although a central topic of debate and discussion at the time, was ultimately not nearly as important as the speed with which privatisation took place and the perceived fairness of the process. Various types of privatisations, such as voucher privatisation and stock market, could work as long as they took place more or less transparently.⁶ No one was happy with the privatisation process in one's country, but ultimately the most unhappy were the ones who did not do it at all.

There is one more element to add to the picture. Whoever took charge in 1990 had to understand the need for a radical break with the past. Former communists, such as Ion Iliescu (president of Romania in 1990), generally proved worse at understanding this than former opposition leaders, such as Tadeusz Mazowiecki (prime minister of Poland in that same year). It also helped if whoever took charge did so in an atmosphere of serious crisis. Poland in 1990 faced a rapid deterioration. Hungary, in contrast, did not face such a grave situation, and successive Hungarian governments only felt the need to make a few adjustments.

Consequently, Hungary has never managed to shake its addiction to borrowing and budget deficits. Even worse, Hungarians seem sunk in a perpetual gloom. A close Hungarian friend, when confronted with the imminent Eurozone crisis, threw his hands up and lamented 'why is it that every club we join immediately falls apart?'

EASTERN EUROPE AND THE FINANCIAL CRISIS

There is another side to this story. Although impossible to predict in 1989, Eastern Europe has in many cases survived the financial storm better than Western Europe. Indeed, the West could learn lessons in economic management from the East. I pointed this out at a conference in Vienna to a crowd that listened indulgently, but apparently unbelievably as it fired mocking questions afterwards. I had established the fact that Eastern Europe as a meaningful political concept had disappeared, and that the countries of what used to be Eastern Europe have gone their separate ways. Whilst everyone nodded, they did not draw the obvious conclusions.

⁶ See David Lane and Martin Myant, eds. *Varieties of Capitalism in Post-Communist Countries* (New York: Palgrave Macmillan, 2007).

This is hardly surprising. In Austria, as in the UK, the notion of 'Eastern Europe' lives on as a kind of prejudice. When newspapers use the expression 'Eastern European', it is usually code for backward, primitive and possibly criminal. Murder suspects are often described as having 'Eastern European accents' – as if a Latin language like Romanian or a Slavic language like Bulgarian sound alike. There is also a tendency, especially in the UK, to group Eastern Europeans into one of two categories: Romanian and Bulgarian labourers, whom one prefers to keep out of the country because they might work harder than the natives, and Russian oligarchs, for whom all doors are opened and to whom everything is for sale.

That kind of prejudice makes it more difficult for the western half of the European continent to draw lessons from what we used to refer to as 'the East'. It is also foolishly short-sighted: within Europe several countries managed to turn utterly disastrous economies around, evade the temptations of the far-right and the far-left and carry out major structural and political reforms during periods of political tumult. Better yet, one or two countries recently repeated this feat for a second time, during one of the worst international banking crises in recent memory.

It is worth looking more closely at the very instructive comparison between Latvia and Greece. In the wake of the 2008 crash, the Latvian government slashed public spending, fired a third of its civil servants and reduced salaries of those remaining while refusing to inflate the currency. The country's GDP declined dramatically, falling over 20 percent in two years. Yet as Latvia's economy plunged in 2009 and 2010, there were no strikes, no protests and no fury: the Latvians, occupied by others for so long, see economic viability as a matter of life and death and as a key component of national sovereignty. Not only did the country accept the need for a change of course, it also re-elected the prime minister who imposed it. This prompted Latvia's recovery: since 2011, GDP has been growing at more than five percent and the budget deficit has fallen dramatically.⁷

In contrast, relatively smaller budget cuts in Greece have led to a GDP decline of 18 percent as well as strikes and riots since the crisis began.⁸ The Greeks have voted their politicians out of office more than once, shown increased support for a fascist party to compete with the already existing far-left parties and thrown petrol bombs at banks. There are some technical explanations for the differences. Budget cuts were applied differently in Greece and Latvia. The Latvians hit bureaucrats hard, but pensioners less so. Perhaps more importantly, they also made the biggest cuts right away. As they learned in 1990, drawing out a crisis creates more pain over time. The Greeks made cuts slowly and failed to convince their public or creditors of their commitment. They protected bureaucrats, but made pensioners suffer. People and capital continue to flee the country, and although the crisis has stabilised it has not been resolved. In short, uncertainty persists.

Political explanations also account for the differences. Latvian politicians explained the real reason for the cuts to their fellow citizens and reminded them of the need to preserve national sovereignty. In contrast, none of the Greek parties have found a way to persuade Greek voters of the need to change their way of thinking. Instead, anti-German rhetoric is at an all-time high.

Why have the Greeks not tried to learn earnestly from the Latvians, as the Latvians once tried to learn earnestly from the French or the British? I suspect the explanation lies in the misleading term 'Eastern Europe', in its connotations of backwardness and crime. So let us abolish the term – or rather, confine it to history. Eastern Europe, in the old sense, no longer exists. ■

7 'Real GDP growth rate – volume', *Eurostat*, 14 June 2013, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcod=e=tec00115>.

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