2

Interrelation between economic freedom and democracy: The case of post-communist countries

Marek Dabrowski

Introduction

The post-communist transition which started in Central and Eastern Europe (CEE) and the former Soviet Union (FSU) in the late 1980s and early 1990s involved changes in both economic and political systems. The necessity of such a dual-track transition came from the spontaneous collapse of the previous political system based on the political monopoly of the Communist Party and its total control over the economy and society. In turn, the collapse of the political system was caused by the deep crisis of a centrally planned economy, which reached its growth limits in the 1980s. The economic crisis undermined the social legitimacy of the communist regime. This made the CEE and FSU transition different from the market-oriented reforms that started in China in 1978 and other communist countries in Asia (Vietnam, Laos and Cambodia) in the mid-1980s, which were initiated and then continued by communist parties, with minor modifications of their political systems and official ideologies (see Roland 2018; Dabrowski 2020).

However, despite the initial hopes and expectations, the dual-track transition did not succeed everywhere, especially in the FSU. After initial progress, its political leg (building a democratic system based on political and citizen liberties and the rule of law) was reversed in Central Asia, the Southern Caucasus and Belarus in the 1990s, and in Russia in the 2000s. In the 2010s, an anti-democratic drift hit part of CEE (Hungary, Poland, North Macedonia and Serbia). The economic leg (building an open market economy) proved more successful and in most of the region the basic foundations of a market system were put in place by the first half of the 2000s. However, further reforms, especially in structural and institutional spheres, have stagnated since then and, in a few cases, they have suffered from partial reversal.

Such unfavourable dynamics in both spheres have raised the question as to the interdependence between economic governance and the system of political power or, more precisely, between economic freedom and democracy. Does a democracy, especially a young and immature one, help an open market economy to operate in an efficient and socially just way or perhaps, as advocates of 'market-friendly' or 'development-friendly' autocracies tend to believe, is it an obstacle?[1] Or to look at it from the opposite direction: can a stable democracy survive in a non-market or only a partly market system?

These questions are not new: they were discussed already at the very beginning of the CEE and FSU transition or even earlier, given that most of the attempts at economic reform undertaken in CEE and the Soviet Union from the mid-1950s onwards failed due to political constraints.[2] Furthermore, their importance is not limited to the CEE and FSU regions. After 1980, the dual-track transition (democratization of political systems and market-oriented economic reforms) also happened in Latin America and in large parts of Asia and Africa. In the early 2010s there was a largely unsuccessful attempt at democratization in the Arab world (the so-called Arab Spring), with a negative impact on its economic and political stability. Finally, the worldwide wave of political populism in the second half of the 2010s has led to both domestic economic distortions and serious trade conflicts.

While the focus of this chapter is the FSU and CEE regions, we will also take a broader view, including long-term historical trends. Our main research objective is to examine the mutual interrelation between economic governance and systems of political power in a dynamic comparative perspective. This interrelation can also be seen from the perspective of the ambivalent character of a political power that should serve the public interest and deliver public goods, but for whom the private interests of those who perform this power often lead to its degeneration. Therefore, building up sufficient checks and balances into a political system can improve both economic and political governance.

The chapter starts with an analysis of historical relations between the market economy and democracy worldwide since the beginning of the nineteenth century. This is followed by a discussion of how the market economy helps democracy and vice versa. Then we move to a regional analysis of the CEE and FSU experience in the context of post-communist transition. Next we offer a continuation of this analysis in the form of a brief presentation of four country case studies on how changes in the system of political power influenced, negatively or positively, economic reforms. Finally, we draw our conclusions.

The analytical narrative, which is supported by a simple statistical and correlation analysis, is the dominant methodological approach in this chapter. However, one must remember that synthetic quantification of numerous qualitative characteristics of both economic and political systems (necessary to conduct cross-country comparison based on statistical analysis or to examine interdependence between economic and political variables) is always associated with the risk of misspecification and mismeasurement.

In this chapter, we use various global cross-country surveys of economic and political freedom, democracy, corruption, business climate and so on, but each of them can be and often are questioned on methodological grounds. Most frequently, they are based on either opinion polls of representatives of the business community or expert assessments, each of them unavoidably containing subjective judgements. Furthermore, most indices have a composite character, that is, they are constructed as a simple or weighted average of several detailed components. This raises an additional methodological question on the composition of synthetic indices and the weightings attached to each individual component, potential autocorrelation between them and so on. Nevertheless, and despite the above-mentioned methodological doubts, we believe that using available numeric surveys, especially if they are conducted systematically over several years by institutions which enjoy a high professional reputation, may enrich our analysis as compared with the hypothetical variant based on a pure narrative.

Global trends

Market economy (often called capitalism) and democracy are relatively new phenomena in human history.[3] The contemporary market economy understood as the system that is based on the private ownership of the means of production and freedom of economic activity (without the privileges and restrictions typical of the feudal era) dates back to the beginning of the first industrial revolution, that is, the end of the eighteenth century. Democracy, in the contemporary sense of this word, that is, a political regime which is based on a government accountable to voters, universal suffrage based on the principle of one person–one vote, individual freedom and the rule of law is an even younger phenomenon built up during the nineteenth and early twentieth centuries. In its complete and mature form, it appeared only at the beginning of the twentieth century.

This time mismatch led to the situation in which the early stages of the system of free-market economy (with a limited role of government) was accompanied by political regimes that, by today's standards, were either non-democratic or only partly democratic. Even if the executive branch of government was democratically elected (the United States) or accountable to a democratically elected parliament (the United Kingdom, France and a couple of other European countries), the franchise was limited, excluding women, people with lower material status, former slaves and so on. Universal franchise became a norm in Europe only after the First World War.[4]

This changed gradually during the twentieth century, with most high-income countries and several middle- and low-income countries having both democracy and a market economy. The fastest growth in the number of democracies was recorded in the two last decades of the twentieth century. This was the period of democratic transition in Latin America, Southeast Asia, CEE and the FSU.

However, in the first two decades of the twenty-first century the progress stopped or, according to some metrics, was even partly reversed. This is clearly demonstrated by the most popular global political surveys: Freedom House's Global Freedom Scores (FHGFS), the Bertelsmann Foundation's Transformation Index (BTI) and the Economist Economic Intelligence Unit's Democracy Index (EEIUDI).

Between 2007 and 2017, the percentage of countries rated by the FHGFS as 'Free' and 'Partly Free' decreased, while the percentage of 'Non-Free' countries increased. Correspondingly, between 2003 and 2017 the population in countries ranked as democracies by the BTI barely increased from 4 billion to 4.2 billion, while in countries ranked as autocracies the number climbed from 2.3 billion to 3.3 billion (Schwarz 2018). The EEIUDI shows a further deterioration of democracy scores worldwide in 2020, due to a large extent to the COVID-19-related restrictions on individual freedoms and civil liberties (EIU 2021).

The list of countries that have recorded a substantial deterioration in political rights and civil liberties since 2007 includes, among others, Azerbaijan, Bahrain, Burundi, Central African Republic, Congo (Brazzaville), Dominican Republic, Ethiopia, Gabon, Honduras, Hungary, Mali, Mauritania, Mexico, Nicaragua, Poland, Russia, Tajikistan, Turkey, Venezuela and Yemen (Abramowitz 2018; EIU 2021). This negative trend affected not only emerging-market and developing countries with a short historical record of political freedom and democracy, but also some developed countries considered stable democracies that suffered from the wave of political populism. For example, scores for the US deteriorated in all the above-mentioned surveys.

As a result, there are still many non-democratic regimes in the world. Among them, there are examples of both market-oriented autocracies and anti-market and populist dictatorships.

Figure 2.1 plots the 2020 Heritage Foundation Index of Economic Freedom (HFIEF) against the 2020 FHGFS. The HFIEF is the synthetic measure of the degree of economic freedom, macroeconomic stability and property rights protection on a scale from 0 (the least free) to 100 (the freest).[5] In turn, the FHGFS is the sum of political rights (maximum 40) and civil liberty (maximum 60) scores. That is, its scale runs from 0 (the least free) to 100 (the freest), similarly to the HFIEF. Both surveys present 2019 data.

The correlation between degrees of economic and political freedom is not very strong, but it exists. At the same time, there are several outliers.

Figure 2.1 Interrelationship between economic and political freedom in the world, 2019. Source: https://www.heritage.org/index/ranking and https://freedomhouse.org/countries/freedom-world/scores.

Hong Kong, Singapore, the United Arab Emirates, Qatar, Rwanda, Bahrain, Malaysia, Azerbaijan and Kazakhstan belong to the group of countries which enjoy more economic than political freedom. One could say they are examples of market-friendly autocracies. Kiribati and Micronesia and a few other countries represent the opposite asymmetry, that is, more political freedom and democracy than economic freedom.

Nevertheless, it is hard to find historical or contemporary examples of a stable and sustainable democracy without a predominantly market economy based on private ownership. The above-mentioned examples of democracies with limited economic freedom relate to cases where all basic institutions of market economy, including private ownership of the means of production, are in place. In the next section we will try to explain why democracy without basic market institutions such as private ownership of the means of production and freedom of market choice is not sustainable.

Market economy and democracy: how they help each other

In this section, we examine in a more detailed manner how a market economy and a democracy can help or even reinforce each other. We start with an analysis of the ways in which a market economy can help build and consolidate a liberal democracy (EBRD 1999, Box 5.3, 113):

1. A market economy makes citizens economically independent of the government, which, unlike in a centrally planned economy, is not the single owner and employer. This is also the reason why one cannot identify examples of democratically managed centrally planned or non-market economies. In such economic systems governments possess too much power and too many instruments for influencing the everyday life of each individual. This also means that individual freedom lacks an economic foundation and that there are no elementary checks and balances in the economic and social spheres provided by a market economy.
2. A market economy also limits the power of government bureaucracy and creates room not only for economic freedom but also for civil liberties. A limited government creates fewer opportunities and, therefore, temptations for power abuse, corruption, state capture by interest groups and so on. Freed from the need to interfere in business activity, the government can concentrate on the delivery of

public goods, and this becomes a key criterion of assessment of the quality of both the government and civil service.

3. A market economy helps support a country's external openness, which not only provides economic and social benefits but also helps in the free flow of information, the application of international human rights standards and additional safeguards against power abuse.
4. It creates demand for the rule of law, which is an indispensable element of an effective liberal democracy (see Fukuyama 2012; 2015).
5. It helps to develop civil society institutions, a broad middle class and a culture of cooperation based on self-interest, which reinforces democracy. In particular, the middle class is often seen as the natural political basis of liberal democracy (Lu 2005; Moyo 2018), although there are also more sceptical opinions about its role (Mei 2019; Motadel 2020).
6. A well-functioning market system helps economic development, which in turn creates demand for political freedom and democracy. Several authors, for example Barro (1999), Lipset (1959), Przeworski and Limongi (1997) and Fukuyama (2004), argue that countries with higher GDP per capita are more likely to be democratic than autocratic, although there are also other determining factors. For example, the availability of large natural resource rent is an obstacle to democratization, even in countries with high GDP per capita (see below). We try to verify this hypothesis by plotting FHGFS against GDP per capita level in purchasing power parity (PPP) terms (Figure 2.2).

Figure 2.2 seems to confirm, at least partly, the hypothesis that higher income per capita is associated with freer political regimes. However, this relation is not very strong. There are several outliers on both sides: quite a large number of low- and lower-middle-income countries have a democratic political system and many high- and upper-middle-income countries are autocracies. Among the latter, one can mention the Gulf and other oil-producing countries (Azerbaijan, Brunei Darussalam, Kazakhstan and Russia), Hong Kong and Singapore. Again, apart from Hong Kong and Singapore, this would be in line with the hypothesis of the anti-democratic impact of a high resource rent.

Such an impact can work via two channels: (1) politicians' preference for private patronage rather than the supply of public goods, and (2) weaker public scrutiny due to lower taxation (which is replaced by a natural resource rent). This is why resource-rich countries require

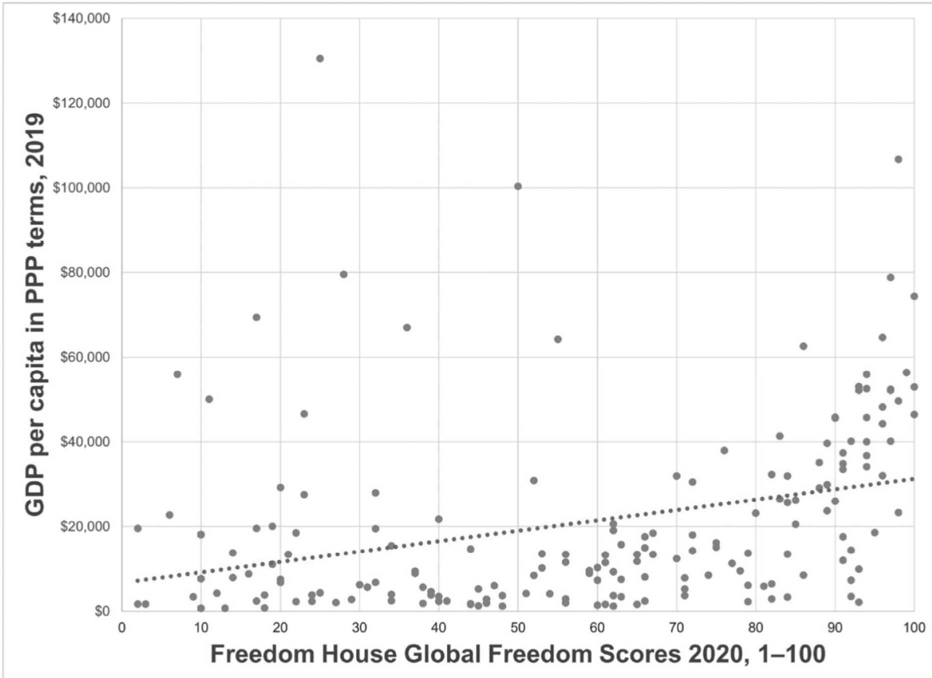

Figure 2.2 Interrelationship between political freedom and GDP per capita level in PPP terms, 2019. Source: https://www.heritage.org/index/ranking and https://freedomhouse.org/countries/freedom-world/scores.

additional checks and balances in their political systems to resist autocratic tendencies (Collier and Hoeffler 2005).

Looking at the relationship from another angle, one can also identify several channels through which democracy can help build a competitive market economy and ensure that it functions properly (see, for example, de Haan and Sturm 2003):

1. Liberal democracy involves a system of checks and balances, which limits the concentration and abuse of political power (also in the economic sphere) and strengthens the rule of law.
2. Liberal democracy increases the transparency of government actions and constrains opportunities for corruption, rent-seeking and the capture of state institutions by interest groups; therefore, it increases the effectiveness of government operations and regulations (Lundstrom 2005) and creates the long-term guarantee and stability of property rights.
3. The democratic rotation of political elites and their accountability to the electorate also reduce the incidence of power abuse, corruption and state capture, protecting societies from the phenomenon of

‘crony capitalism’, that is, an economic system which serves the interests of those who are in power and their close associates.

4. Civil liberties support economic freedom.
5. The democratic legitimacy of a government helps it take unpopular but sometimes badly needed economic decisions.
6. Autocratic countries are less open to the external world than democratic ones (Lundstrom 2005), which is of great importance in the era of globalization.

The above findings contradict some opinions (for example, the so-called Lee thesis – see Knutsen 2010) that the system of autocratic power may help carry out market-oriented reforms and take economically rational but unpopular decisions due to the absence of checks and balances and the need in democratic regimes to reach compromises. However, such opinions are based on the myth (or naïve assumption) of the benevolent autocrat who can rule in the best interests of her/his society. In real life, such autocrats do not exist. Their main strategic interest is to hold on to power and maximize personal and group benefits.

More generally, a benevolent political power is a rare phenomenon. The ambivalent nature of political power involves a permanent conflict between public interest, which it is supposed to serve, and the personal or group interests of people who perform this power and often abuse it. This is why the institutions of liberal democracy (in particular, systemic checks and balances) are important to mitigate this conflict. It can be seen very well in the history of post-communist transition in the CEE and FSU regions.

Post-communist transition: a regional analysis

The history of post-communist transition in CEE and the FSU in the 1990s clearly demonstrated the advantages of early democratization. It allowed for the limiting of the influence of the old political elite, consisting of the functionaries of the former communist parties, army, security service, old-style administration, managers of state-owned enterprises (‘red’ directors), chairmen of state and collective farms and the like, none of them enthusiasts of the market system. Therefore, the fastest and most comprehensive economic transition happened in the Central European and Baltic states, where democratization was the deepest and led to the rapid replacement of the old political elite (Aslund et al. 1996; de Melo et al. 1997; Dethier et al. 1999; Aslund 2002, 359–63). A radical political transformation removed the potential resistance of the old elite, gave economic reformers stronger political legitimacy to take economically needed but often unpopular decisions, and created a window of political opportunity for conducting economic reforms.[6]

At the later stage of transition (late 1990s and early 2000s), a new set of incentives to both economic and political reforms in parts of CEE was created by the process of accession to the European Union (EU) (Roland 2002). In many instances, the EU-related incentives replaced the initial domestic pro-reform consensus, which eroded over time (Dabrowski and Radziwill 2007). In the Western Balkan region this window of opportunity was opened later – after the EU summit in Thessaloniki in June 2003, which offered countries of the former Yugoslavia and Albania the possibility to join the EU. With the exception of the Baltic states, the FSU countries never received this kind of geopolitical offer, which had a negative impact on their economic and political reform process in the new millennium.[7]

While in the first stage of the post-communist transformation the limited attempts at genuine democratization either stopped or significantly delayed market-oriented economic reforms (see above) later

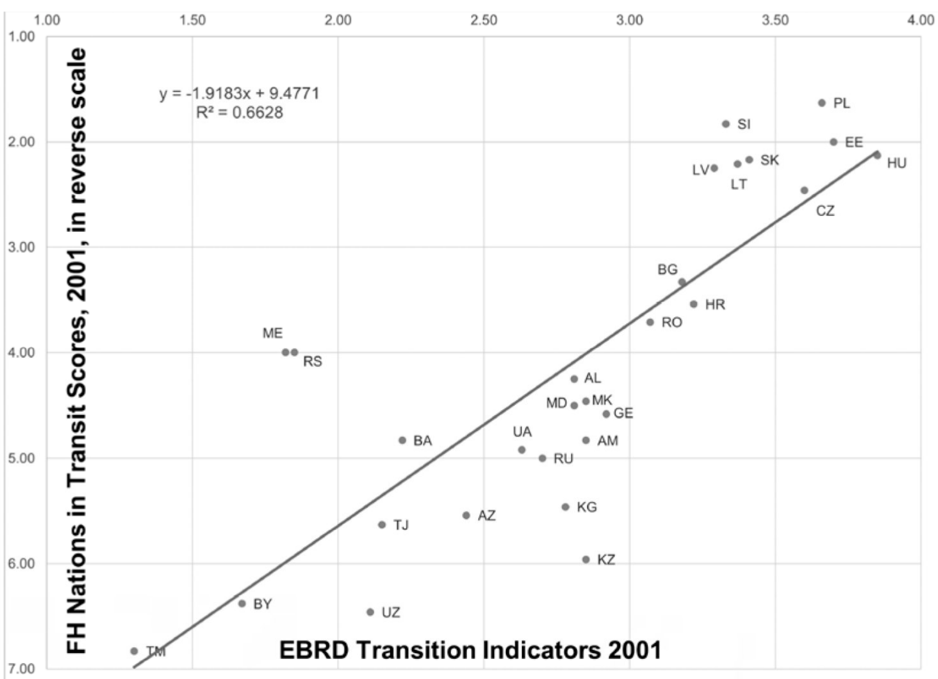

Figure 2.3 Interrelationship between the FH Nations in Transit Score and EBRD transition indicators, 2001. Source: www.ebrd.com/downloads/research/economics/macrodata/tic.xls and https://freedomhouse.org/reports/publication-archives.

on (that is, in the 2000s and 2010s), autocratic tendencies were usually accompanied by widespread corruption, state capture and an increasingly privileged position of oligarchs, who were closely associated with the system of political power and government bureaucracy ('crony capitalism'). This is clearly seen in most FSU countries, and in part of CEE.

At the same time, in countries with unreformed or only partly reformed economic systems there has not been enough space for the emergence of strong groups of entrepreneurs and a market-oriented middle class to fight for political freedom, democratic governance and the rule of law.

The interrelation between progress in economic reforms and political freedom in post-communist countries is illustrated by Figures 2.3 and 2.4. In Figure 2.3, the Freedom House (FH) indices of political and civil liberties are plotted against the transition indicators of the European Bank for Reconstruction and Development (EBRD). Both relate to 2001, that is, the first decade of transition.

At the time of this analysis, EBRD indicators measured progress in economic reforms in nine dimensions – large-scale privatization,

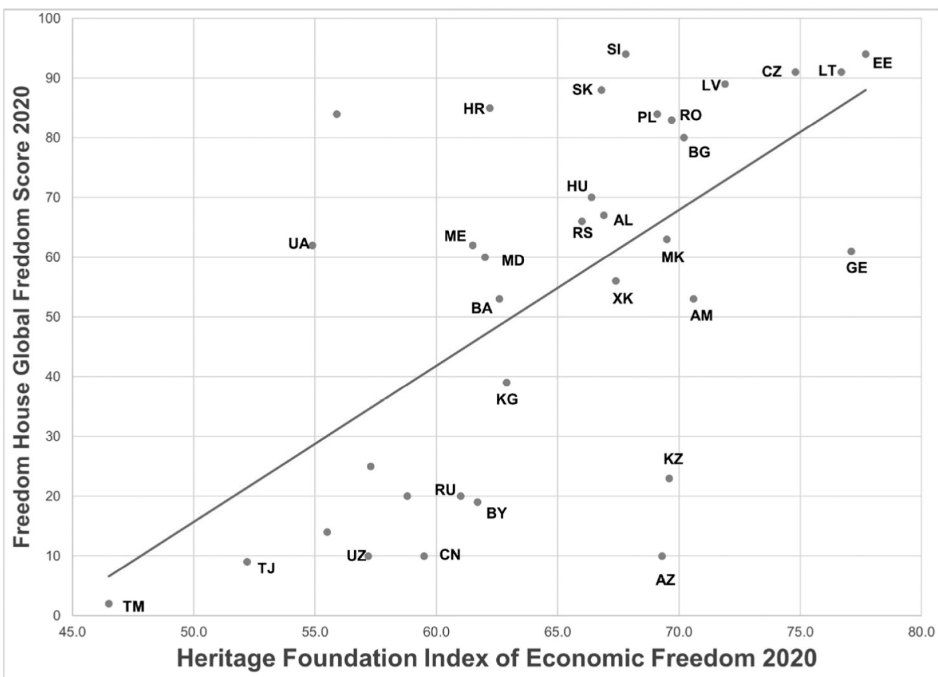

Figure 2.4 Interrelationship between the FHGFS and HFIEF in the former centrally planned economies, 2019. Source: https://www.heritage.org/index/ranking and https://freedomhouse.org/countries/freedom-world/scores.

small-scale privatization, enterprise restructuring, price liberalization, trade and forex system, competition policy, banking reform and interest rate liberalization, securities markets and non-bank financial institutions, and overall infrastructure reform – on a scale from one to four (a higher score meant more advanced reforms).

The FH Nations in Transit (FHNIT) synthetic Democracy Score (on a scale from one to nine; a higher score meant more democracy and political freedom) was an average of its seven subcategories: electoral process, national democratic governance, civil society, local democratic governance, independent media, and judicial framework and independence.

Analysing Figure 2.3, one can draw the conclusion that there existed a rather close correlation between economic and political reforms in the 1990s and the early 2000s. Countries that were leaders in building a democratic political system (Hungary, Czechia, Poland, Slovenia, Slovakia and the Baltic countries) were also the most advanced in market-oriented economic reforms. At the other end of the analysed spectrum, in countries where the system of political power remained unchanged or changed little in comparison with the Soviet past (Turkmenistan, Uzbekistan, Belarus and Tajikistan), progress in building a market mechanism was limited.

Figure 2.4 illustrates a similar interrelation but almost two decades later and using different indicators and expanding the analysed group of countries (by adding the former centrally planned economies in East Asia). The progress in building a market system is measured by the HFIEF while the system of political power is characterized by the FHGFS.[8] Both are measured on a scale from 0 to 100 where higher scores mean more freedom (both economic and political), similarly to Figure 2.1.

Figure 2.4 suggests a certain correlation between economic and political freedom, although not as strong as in Figure 2.3. There are the same leaders of both dimensions as in 2001 – the Baltic countries and Czechia – while Hungary and Poland suffered a substantial downgrade, especially in the second half of the 2010s. Turkmenistan and Tajikistan remained at the bottom of both ratings,[9] while Uzbekistan and Belarus made some improvements on the economic front (their political freedom scores remained largely unchanged).

There are outliers on both sides of the trend line. In Mongolia and Ukraine, the degree of political freedom substantially exceeds the degree of economic freedom. This raises questions about the sustainability of their democratic (or in the case of Ukraine partly democratic) political systems. This question is particularly important in Ukraine where the repeated failures of the economic reform efforts (only partial and incomplete) led to the resurgence of autocratic tendencies, the most spectacular during the presidency of Viktor Yanukovych (see Dabrowski 2017; Havrylyshyn and Kalymon 2020).

There are even more countries on the opposite side of the trend line, that is, countries where the degree of economic freedom is substantially higher than that of political freedom. It applies, in the first instance, to Azerbaijan and Kazakhstan and, to lesser extent, to China, Russia, Belarus, Uzbekistan and Vietnam. However, Figure 2.4 also shows the limits of 'market-friendly autocracies': no country with a low political freedom score (below 30) belongs to the 'mostly free' category in the HFIEF (with a score over 70). Belarus and Russia are at the bottom of the 'moderately free' category (between 60 and 70). China, Vietnam, Cambodia, Laos, Uzbekistan and Tajikistan belong to the economically 'mostly unfree' group (between 50 and 60). Turkmenistan is considered a 'repressed' economy (a score of below 50).

There are also two general conclusions that can be drawn from this part of our analysis. Firstly, a comparison of regression parameters in Figures 2.1 and 2.4 suggests stronger correlation between economic and political freedom in the formerly centrally planned economies of Europe and Asia compared with the global sample. Secondly, CEE countries are more advanced, on average, in building a market economy and liberal democracy compared with the FSU and Asian communist countries.

How do changes in the system of political power impact economic systems and economic policies in CEE and the FSU?

While the graphical correlations in the previous section provide a static picture of the interdependence between economic and political freedom at two points in time (2000 and 2019), this section will be devoted to a dynamic analysis. More precisely, we will try to look at how changes in systems of political power have affected changes in economic governance. Interest in such an analysis comes from the above-mentioned reversal of democratic progress both worldwide and in the FSU and CEE regions observed in the 2000s and 2010s.

According to the FHNIT survey (which covers the FSU and CEE regions), since 2007 one can observe a systematic deterioration in both the synthetic Democracy Score and all its seven subcategories – electoral process, national democratic governance, civil society, local democratic governance, independent media, and judicial framework and independence

– for all the analysed subregions, that is, Central Europe, the Balkans and Eurasia (FSU) (Csaky and Schenkkan 2018; Csaky 2020).

Does the autocratic trend in the FSU and CEE negatively affect economic governance? The cross-country analysis conducted in the previous section suggests a positive answer. The same answer comes from a dynamic analysis of individual countries.

If one looks at developments in countries that experienced an autocratic drift, market-oriented economic reforms were either stopped or partly reversed. This has happened in, among others, Slovakia (1994–8); Belarus after 1996; Russia after 2003; North Macedonia, Turkey and Hungary since the beginning of the 2010s; Ukraine (2010–14); and Poland after 2015. On the contrary, progress in democratization enabled the launch of or return to economic reforms (Slovakia after 1998, Serbia after 2000, Georgia after 2003, Ukraine since 2014 and North Macedonia since 2018).

Below we will briefly analyse four country case studies: Slovakia (1994–2006), Russia (since 1998), Georgia (since 2004) and Hungary (in the 2010s), which offer us a more detailed and sometimes a more nuanced picture. The selection of these particular cases is motivated by (1) the strength of change in the political regime at the given point in time, (2) relative advancement of economic reforms at the moment of political regime change (we are interested in cases of reversal of economic reforms rather than their non-starting) and (3) data availability.

Slovakia

During his third term in office (1994–8), Prime Minister Vladimir Meciar and his People's Party (Movement for a Democratic Slovakia) slowed down or even partly reversed the political and economic reforms of the early 1990s. On the political front, there was substantial deterioration in the civil liberties component of the Freedom House Freedom in the World (FHFIW) survey (the earlier version of the FHGFS),[10] which led to the country being downgraded from 'free' to 'partly free' in 1996–7. Economically, the HFIEF scores deteriorated systematically between 1995 and 2000 (Figure 2.5).

As a result, Slovakia was not invited to start the EU accession negotiation at the EU summit in Luxembourg in December 1997 (unlike Czechia, Estonia, Hungary, Poland and Slovenia), join NATO at the Madrid summit in July 1997 (unlike Czechia, Hungary and Poland) or to join the OECD (unlike Czechia, Hungary and Poland). This series of rejections caused a domestic political shock,[11] which led to the formation

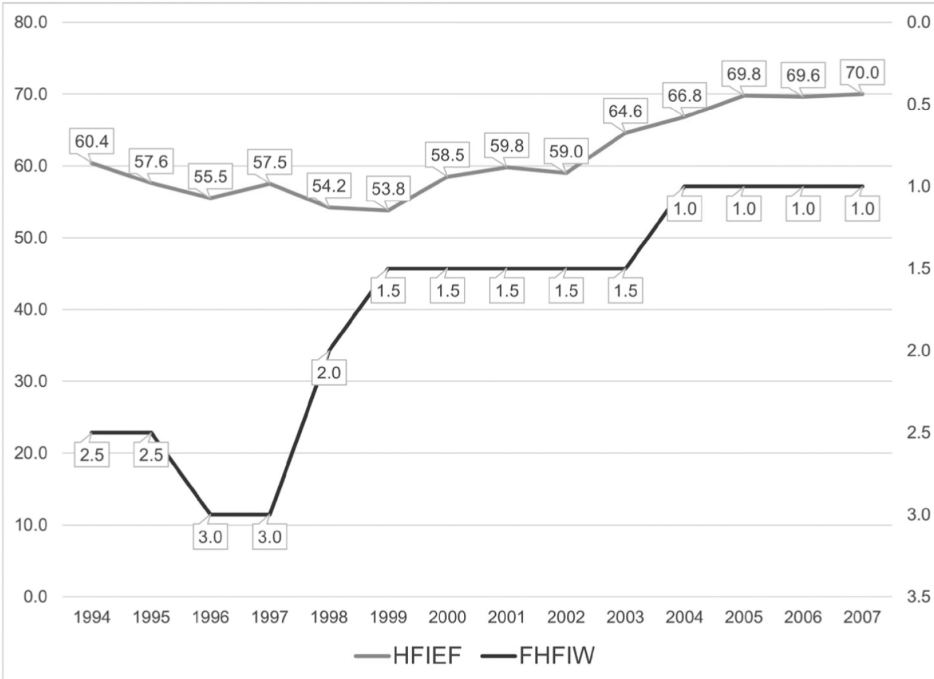

Figure 2.5 Slovakia: HFIEF (left axis) vs. FHFIW (right axis) scores, 1994–2007. Source: https://freedomhouse.org/sites/default/files/2020-02/2020_All_Data_FIW_2013-2020.xlsx and https://www.heritage.org/index/explore?view=by-region-country-year&u=637278786962730727.

of the broad coalition government of Prime Minister Mikulas Dzurinda after the parliamentary election in September 1998. His government returned the country to the path of liberal democratic institution-building and, with some time lag, the continuation of market-oriented economic reforms. Eventually, Slovakia joined the OECD in 2000, and the EU and NATO in 2004. Economic reforms were continued even after the second Dzurinda government was replaced by a left-wing coalition in 2006.

Russia

The deterioration of Russia's FHFIW scores began in 1998 and continued systematically over the two decades that followed (Figure 2.6). In 2004 Russia was downgraded from 'partly free' to 'unfree'. However, its impact on the economic system has not been as clear as one might have expected. Between 1995 and 2015, the HFIEF oscillated around 51 and 52 with some ups and downs. That is, it did not deteriorate as a result of the country's autocratic drift but also did not improve, despite the numerous economic reform programmes adopted by the Russian government. During these 20

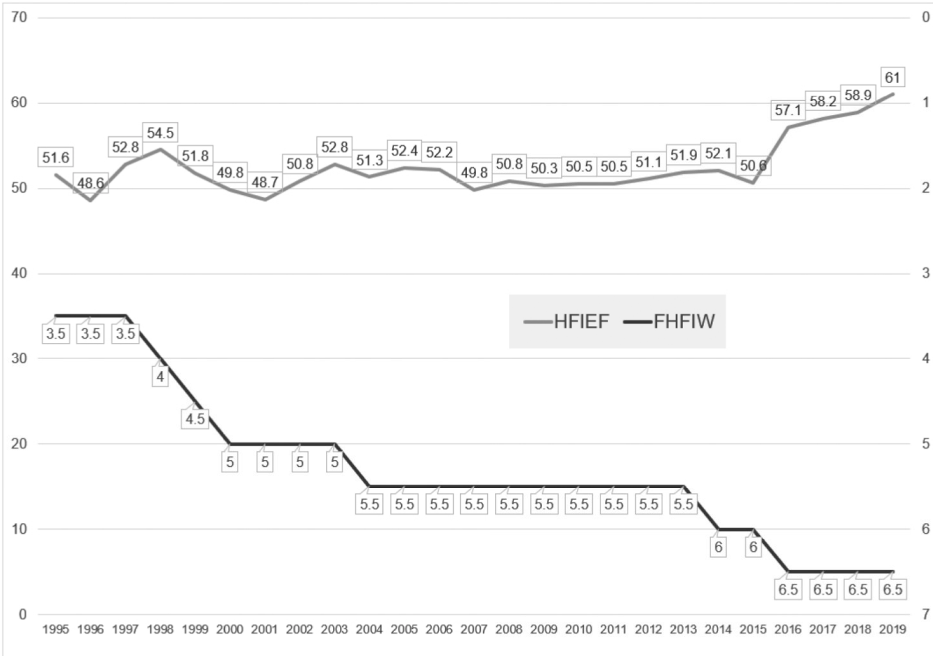

Figure 2.6 Russia: HFIEF (left axis) vs. FHFIW (right axis) scores, 1995–2019. Source: https://freedomhouse.org/sites/default/files/2020-02/2020_All_Data_FIW_2013-2020.xlsx and https://www.heritage.org/index/explore?view=by-region-country-year&u=637278786962730727.

years Russia occupied the bottom of the 'mostly unfree' category, sporadically (1996, 2000–1 and 2007) falling into the group of 'repressed' economies.

The situation has changed, perhaps surprisingly, since 2016, when the further decline in political freedom scores was accompanied by a systematic improvement in the HFIEF. As a result, the Russian economy was upgraded in the HFIEF 2020 (which measures the economic regime in 2019) to 'moderately free'. Even more surprisingly, the highest gains were recorded in the 'property rights' and 'government integrity' categories even if the accompanying narrative paints a rather bleak picture.[12]

Thus, the Russian case does not fully support our hypothesis that autocratic drift has a negative impact on the quality of economic governance, at least according to the metrics used in our analysis.

Georgia

In the 2010s Georgia was systematically rated as the freest FSU economy and one of the freest post-communist economies not only by the HFIEF but also in the World Bank's Doing Business survey (Doing Business

2020). Looking at Figure 2.7, one may find that this position was the result of systematic improvements since 1999 or even earlier. On the political reform front, the country is not such a star performer, although it does not belong to the group of autocracies. It has been systematically rated as a 'partly free' country by the FHFIW survey.

Nevertheless, the dynamic of changes in both spheres (economic and political) looks interesting for our analysis. The periods of acceleration of the economic reforms coincided with periods of political liberalization: in 2004–6, immediately after the so-called Rose Revolution in November 2003; in 2012–13, after the election victory of the Georgian Dream coalition (which renewed the process of democratization); and in 2016–17, as a result of the implementation of the Association Agreement with the EU. On the contrary, the periods in which the political freedom scores deteriorated – 2000–3 (the second term of President Eduard Shevardnadze) and 2007–11 (the end of the first term and second term of President Mikheil Saakashvili) – were associated with the stagnation of economic reforms or even with their partial rollback.

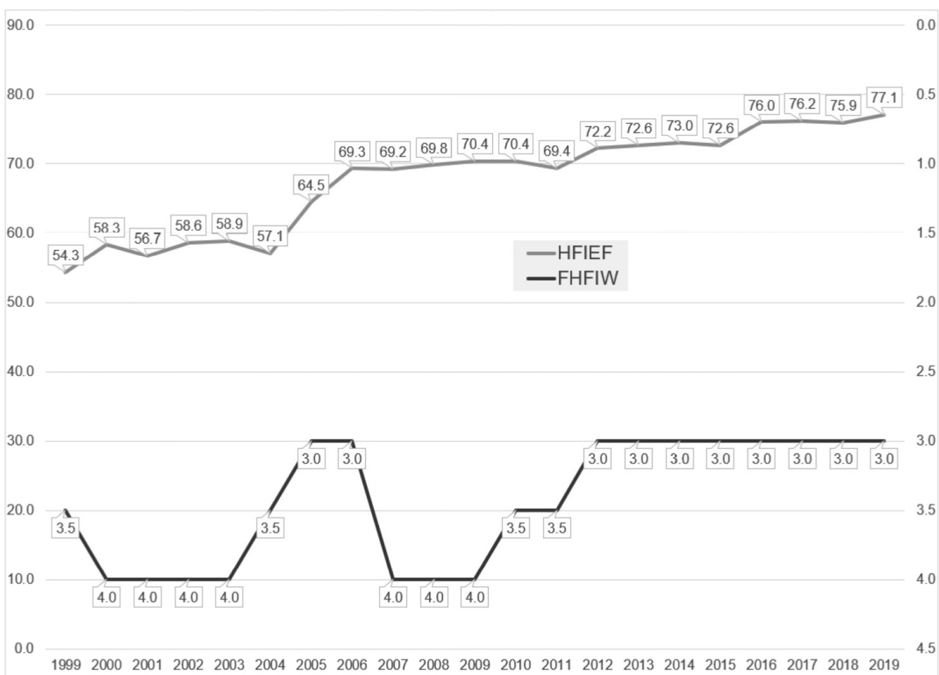

Figure 2.7 Georgia: HFIEF (left axis) vs. FHFIW (right axis) scores, 1999–2019. Source: https://freedomhouse.org/sites/default/files/2020-02/2020_All_Data_FIW_2013-2020.xlsx and https://www.heritage.org/index/explore?view=by-region-country-year&u=637278786962730727.

Hungary

Once a reform leader in the entire CEE–FSU region (see the section 'Post-communist transition: a regional analysis' and Figure 2.3), in the 2010s Hungary started to suffer from autocratic drift. After the overwhelming election victory of the FIDESZ Party in May 2010, which gave it a constitutional majority in the parliament, its leader and Prime Minister Viktor Orbán started to implement, step by step, a model he called an 'illiberal state' (Toth 2014). As a result, the country's scores in the FHFIW survey systematically deteriorated, as illustrated by Figure 2.8. In 2018, Hungary was downgraded to the 'partly free' category, the first such case among the EU member states.

The autocratic drift has negatively affected the economic system. Despite fluctuations, the HFIEF represents a downward trend and Hungary is rated as the only 'moderately free' economy.

Overall, the analysis in this section confirms (perhaps with the exception of Russia) our previous findings on the interrelation between political and economic reforms in the CEE and FSU regions. However, in

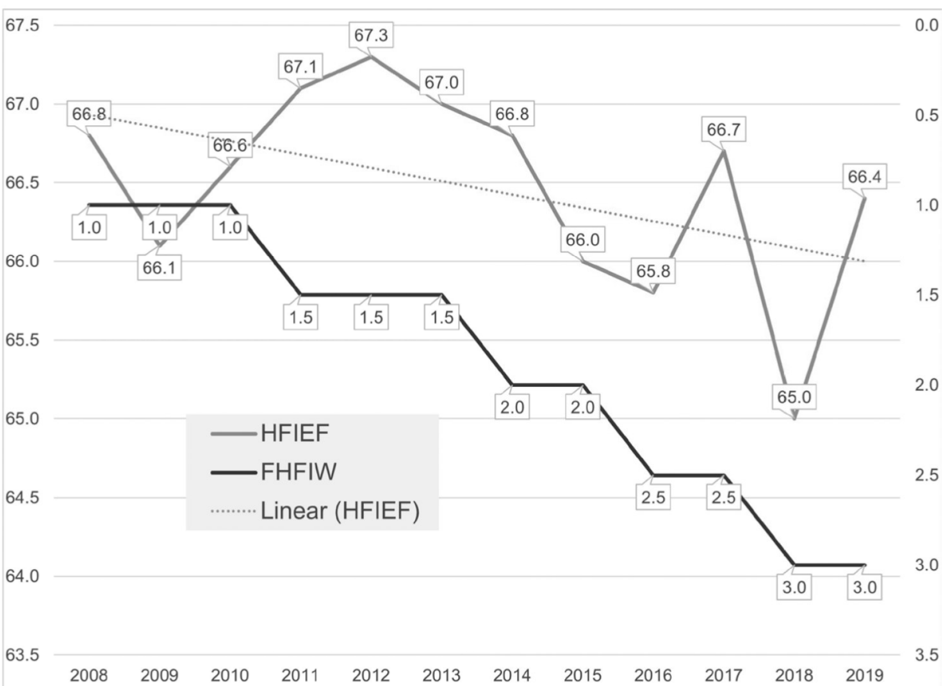

Figure 2.8 Hungary: HFIEF (left axis) vs. FHFIW (right axis) scores, 2008–19. Source: https://freedomhouse.org/sites/default/files/2020-02/2020_All_Data_FIW_2013-2020.xlsx and https://www.heritage.org/index/explore?view=by-region-country-year&u=637278786962730727.

our dynamic analysis changes in political regime have played the role of an exogenous factor, that is, we have focused on a direction of causality going from the system of political power to economic governance. The findings presented in this section should serve as a warning signal that the autocratic drift observed in several FSU and CEE countries may have negative consequences beyond the sphere of civil and political rights, democracy and the rule of law. Most likely, it will undermine economic governance in the region, making it less transparent and more prone to corruption, rent-seeking and oligarchic capture.

Conclusion

With a few exceptions, our analysis confirms the interdependence between economic governance and the system of political power. In the contemporary world this interdependence works in both directions: economic freedom based on a market mechanism helps democracy and political freedom, and vice versa. By contrast, administratively repressed economies with distorted market mechanisms can be found more often in countries with an autocratic system of political power, while the autocratic drift in a political system often leads to more institutional and structural distortions, less competition and imprudent macroeconomic policies.

One explanation of such interdependence may refer to the ambivalent character of political power which, if unconstrained, becomes driven by the private interests (including economic ones) of a ruling elite.

While the discussed interdependence does not have a deterministic character (that is, there are several outliers on both sides of the correlation line), there are clear limits as to how 'market-friendly' autocracies can be and how economically distorted democracy can be. Genuinely free-market economies in autocracies are rare, and non-market democracies, which are politically stable in the longer term, are even rarer.

Furthermore, the examined interdependence has a non-linear character and works with a certain time lag. That is, changes in one sphere do not have an immediate and proportional impact on the other. This has been confirmed, among others, by the country case studies examined in the previous section.

In the former communist economies of CEE and the FSU, the interdependence between a market economy and democratic political system is even stronger than elsewhere in both static and dynamic terms. At the very beginning of the transition period, in the early 1990s, political transition facilitated economic transition. Countries which managed to democratize quickly and remove the old political and economic elite created the space for rapid and comprehensive economic reforms. The economic transition in countries in which the systems of political power did not change or changed only slightly was substantially delayed.

At the later stages of transition or post-transition development, in the 2000s and 2010s, several episodes of autocratic backsliding in both the FSU and CEE stopped further economic reforms and quite often led to their partial rollback. They also ushered in oligarchic systems based on a far-reaching symbiosis between political and economic power ('crony capitalism').

Unlike the situation in CEE and the FSU, the building of a market economy in communist countries in Asia (China, Vietnam, Laos and Cambodia) was initiated and conducted by communist parties, which made little to no changes to the political systems. In the early 2000s, however, Asian economic reforms reached their limits and their economic and political systems do not now differ so much from those of Russia and most of the FSU.

The interdependence between systems of economic governance and systems of political power requires further examination in both empirical and normative terms.

Notes

1 Myrdal (1968, Vol. 2) and Polterovich and Popov (2005) are among those who are sceptical about the helpful role of immature democracy in economic modernization and boosting economic growth.
2 This disappointing experience led many scholars in CEE and the Soviet Union (some of them becoming future reformers) to a conviction that genuine market reforms are impossible without deep changes in the political system, that is, breaking up the political monopoly of a communist party (see, for example, Gaidar 1989).
3 In this chapter we use 'market economy' rather than 'capitalism' because the latter is historically associated with hot ideological debates and, therefore, contains sometimes unnecessary emotional content.
4 See Fukuyama (2015) for a historical analysis of democratic systems.
5 The HFIEF consists of 12 detailed indices related to property rights, judicial effectiveness, government integrity, tax burden, government spending, fiscal health, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom and financial freedom.
6 Balcerowicz (1994) called such a window the 'period of extraordinary politics'.
7 To be fair, not all FSU countries were interested in closer ties with the EU.
8 EBRD transition indicators were discontinued in 2014. FHNIT Democracy Scores do not cover Asian communist (post-communist) countries.
9 Tajikistan has backtracked in both ratings since the early 2000s.
10 In the FHFIW survey higher scores mean less political freedom.
11 The very fact that Slovakia did not receive an invitation to join these three organizations/integration blocs while Czechia did was particularly humiliating for Slovak society.
12 See https://www.heritage.org/index/country/russia.

References

Abramowitz, Michael J. 2018. 'Freedom in the world 2018: Democracy in crisis', Freedom House. Accessed 14 March 2021. https://freedomhouse.org/sites/default/files/2020-02/FH_FIW_Report_2018_Final.pdf.

Aslund, Anders. 2002. *Building Capitalism: The transformation of the former Soviet bloc*. Cambridge: Cambridge University Press.

Aslund, Anders, Peter Boone and Simon Johnson. 1996. 'How to stabilize: Lessons from postcommunist countries', *Brookings Papers on Economic Activity* (1): 217–313. Accessed 14 March 2021. https://www.jstor.org/stable/2534649.

Balcerowicz, Leszek. 1994. 'Understanding post-communist transitions', *Journal of Democracy* 5(4): 75–89.

Barro, Robert J. 1999. 'Determinants of democracy', *Journal of Political Economy* 107(S6): 158–83.

Collier, Paul and Anke Hoeffler. 2005. 'Democracy and resource rents', University of Oxford, Department of Economics, August. Accessed 14 March 2021. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.501.5736&rep=rep1&type=pdf.

Csaky, Zselyke. 2020. 'Nations in transit: Dropping the democratic facade in Europe and Eurasia', Freedom House. Accessed 14 March 2021. https://freedomhouse.org/report/nations-transit/2020/dropping-democratic-facade.

Csaky, Zselyke and Nate Schenkkan. 2018. 'Nations in transit 2018: Confronting illiberalism', Freedom House. Accessed 14 March 2021. https://freedomhouse.org/report/nations-transit/nations-transit-2018.

Dabrowski, Marek. 2017. 'Ukraine's unfinished reform agenda', Bruegel Policy Contribution 24/2017, 27 September. Accessed 14 March 2021. https://bruegel.org/wp-content/uploads/2017/09/PC-24-2017-1.pdf.

Dabrowski, Marek. 2020. 'Transition to a market economy: A retrospective comparison of China with countries of the former Soviet bloc', *Acta Oeconomica* 7(S1): 15–45.

Dabrowski, Marek and Artur Radziwill. 2007. 'Regional vs. global public goods: The case of post-communist transition', *CASE Network Studies and Analyses* 336. Accessed 14 March 2021. http://www.case-research.eu/sites/default/files/publications/13493806_sa336_0.pdf.

De Haan, Jakob and Jan-Egbert Sturm. 2003. 'Does more democracy lead to greater economic freedom? New evidence for developing countries', *European Journal of Political Economy* 19(3): 547–63. Accessed 14 March 2021. https://www.sciencedirect.com/science/article/pii/S0176268003000132/pdfft?casa_token=nbgtAkwE52wAAAAA:svGoQWcIJXc2d1IyIAZtC53iI4p3tvo6xzFhxKlRzTmgCMFDYD1-C0S1mkMnyZokIUqZ0b2S6pg&md5=25b89dd2c87e7e0699a6e13d27f78782&pid=1-s2.0-S0176268003000132-main.pdf.

De Melo, Marta, Cevdet Denizer, Alan Gelb and Stoyan Tenev. 1997. 'Circumstances and choice: The role of initial conditions and policies in transition economies', *World Bank Policy Research Working Paper* 1866. Washington, DC: World Bank.

Dethier, Jean-Jacques, Hafez Ghanem and Edda Zoli. 1999. 'Does democracy facilitate the economic transition? An empirical study of Central and Eastern Europe and the former Soviet Union', *World Bank Policy Research Working Paper* WPS 2194. Washington, DC: World Bank. Accessed 14 March 2021. http://documents.worldbank.org/curated/en/918811468776043640/114514322_20041117135529/additional/multi-page.pdf.

Doing Business. 2020. *Doing Business 2020: Comparing business regulation in 190 economies*. Washington, DC: World Bank Group. Accessed 14 March 2021. https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf.

EBRD (European Bank for Reconstruction and Development). 1999. *Transition Report 1999: Ten years of transition*. London: European Bank for Reconstruction and Development. Accessed 14 March 2021. https://www.ebrd.com/publications/transition-report-1999-english.pdf.

EIU (Economist Intelligence Unit). 2021. 'Democracy index 2020: In sickness and in health?', The Economist Economic Intelligence Unit. Accessed 14 March 2021. https://www.eiu.com/n/campaigns/democracy-index-2020.

Fukuyama, Francis. 2004. *State Building: Governance and world order in the 21st century*. Ithaca, NY: Cornell University Press.

Fukuyama, Francis. 2012. *The Origins of Political Order: From prehuman times to the French Revolution*. London: Profile Books.

Fukuyama, Francis. 2015. *Political Order and Political Decay: From the industrial revolution to the globalisation of democracy*. London: Profile Books.
Gaidar, Egor. 1989. *Ekonomicheskie reformy i ierarkhicheskie struktury* [Economic reforms and hierarchical structures]. Moscow: Nauka.
Havrylyshyn, Oleh and Basil Kalymon. 2020. 'Ukraine's new government must act fast or face failure', *UkraineAlert*, 5 March. Atlantic Council. Accessed 14 March 2021. https://www.atlanticcouncil.org/blogs/ukrainealert/ukraines-new-government-must-act-fast-or-face-failure/.
Knutsen, Carl H. 2010. 'Investigating the Lee thesis: How bad is democracy for Asian economies?', *European Political Science Review* 2(3): 451–73.
Lipset, Seymour M. 1959. 'Some social requisites of democracy: Economic development and political legitimacy', *American Political Science Review* 53(1): 69–105. Accessed 14 March 2021. https://scholar.harvard.edu/files/levitsky/files/lipset_1959.pdf.
Lu, Chunlong. 2005. 'Middle class and democracy: Structural linkage', *International Review of Modern Sociology* 31(2): 157–78. Accessed 14 March 2021. https://www.jstor.org/stable/41421642.
Lundstrom, Susanna. 2005. 'The effect of democracy on different categories of economic freedom', *European Journal of Political Economy* 21(4): 967–80. Accessed 14 March 2021. https://www.sciencedirect.com/science/article/pii/S017626800500011X?casa_token=9-laTRcgXSwAAAAA:rxoJsL5pjraLoYUdZCdz42SY-ENFPHqj51tP_UYPuvCYPPRCkPxcp-AZAzmZA678cOugb5NrILs.
Mei, Danni. 2019. 'The Growing Middle Class and the Absence of Democracy in China'. MA thesis, City University of New York. Accessed 14 March 2021. https://academicworks.cuny.edu/cgi/viewcontent.cgi?article=4236&context=gc_etds.
Motadel, David. 2020. 'The myth of middle-class liberalism', *New York Times*, 22 January. Accessed 14 March 2021. https://www.nytimes.com/2020/01/22/opinion/middle-class-liberalism-populism.html.
Moyo, Dambisa. 2018. 'Why the survival of democracy depends on a strong middle-class', *The Globe and Mail*, 20 April. Accessed 14 March 2021. https://www.theglobeandmail.com/opinion/article-why-the-survival-of-democracy-depends-on-a-strong-middle-class/.
Myrdal, Gunnar. 1968. *Asian Drama: An inquiry into the poverty of nations*. New York: Pantheon.
Polterovich, Victor and Vladimir Popov. 2005. 'Democracy and growth reconsidered: Why economic performance of new democracies is not encouraging', *New Economic School Working Paper*. Accessed 14 March 2021. https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1755005_code920334.pdf?abstractid=1755005&mirid=1.
Przeworski, Adam and Fernando Limongi. 1997. 'Modernization: Theories and facts', *World Politics* 49(2): 155–83. Accessed 14 March 2021. https://www.jstor.org/stable/25053996.
Roland, Gerard. 2002. 'The political economy of transition', *Journal of Economic Perspectives* 16(1): 29–50. Accessed 14 March 2021. https://www.jstor.org/stable/pdf/2696575.pdf?refreqid=excelsior%3A5279402217648b0535511c00af958a56.
Roland, Gerard. 2018. 'The evolution of post-communist systems: Eastern Europe vs. China', *Economics of Transition* 26(4): 589–614.
Schwarz, Robert. 2018. 'Democracy under pressure: Polarization and repression are increasing worldwide', Bertelsmann Stiftung. Press Release, 22 March. Accessed 14 March 2021. https://www.bertelsmann-stiftung.de/en/press/press-releases/press-release/pid/democracy-under-pressure-polarization-and-repression-are-increasing-worldwide/.
Toth, Csaba. 2014. 'Full text of Viktor Orbán's speech at Băile Tuşnad (Tusnádfürdő) of 26 July 2014', *The Budapest Beacon*, 29 July 2014. Accessed 14 March 2021. https://budapestbeacon.com/full-text-of-viktor-orbans-speech-at-baile-tusnad-tusnadfurdo-of-26-july-2014/.