

## HOW CAPITALISM WAS BUILT

Second Edition

Anders Åslund is known for making bold predictions that initially arouse controversy but become common wisdom a few years later. He foresaw the collapse of the Soviet Union in his book *Gorbachev's Struggle for Economic Reform* (1989). He depicted the success of Russia's market transformation in *How Russia Became a Market Economy* (1995), when others saw little but chaos. After Russia's financial crisis of 1998, Åslund insisted that Russia had no choice but to adjust to the world market (*Building Capitalism*, 2002), although most observers declared the market economic experiment a failure.

- Why did Russia not choose Chinese gradual reforms?
- Why are the former Soviet countries growing much faster than the Central European economies?
- How did the oligarchs arise?
- Where are the postcommunist countries heading?

These are just some of the questions answered in this book, *How Capitalism Was Built*, which tells the story of how all but three of twenty-one former communist countries were transformed into market economies from 1989 to 2011, but fewer than half of them became democracies.

Anybody who wants to understand the often confusing dramas unfolding in the region and to obtain an early insight into the future will find this book useful and intellectually stimulating.

Anders Åslund is a leading specialist on postcommunist economic transformation with more than thirty years of experience in the field. The author of twelve books, he also has worked as an economic advisor to the Russian government, to the Ukrainian government, and to the president of the Kyrgyz Republic.

Dr. Åslund joined the Peterson Institute for International Economics in Washington, DC, in 2006. Before that he was the director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace. He teaches at Georgetown University. He was the founding director of the Stockholm Institute of Transition Economics and professor at the Stockholm School of Economics. Dr. Åslund was born in Sweden and has served as a Swedish diplomat in Moscow, Geneva, and Kuwait. He earned a Ph.D. from Oxford University.

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*Private Enterprise in Eastern Europe*, 1985.

*Gorbachev's Struggle for Economic Reform*, 1989.

*Post-Communist Economic Revolutions: How Big a Bang?* 1992.

*How Russia Became a Market Economy*, 1995.

*Building Capitalism: The Transformation of the Former Soviet Bloc*, 2002.

*Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed*, 2007.

*How Ukraine Became a Market Economy and Democracy*, 2009.

*The Last Shall Be the First: The East European Financial Crisis, 2008–10*, 2010.

With Valdis Dombrovskis, *How Latvia Came Through the Financial Crisis*, 2011.

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*For Anna, Carl, and Marianna*

# How Capitalism Was Built

*The Transformation of Central and Eastern Europe,  
Russia, the Caucasus, and Central Asia*

Second Edition

ANDERS ÅSLUND

Peterson Institute for International Economics  
Washington, DC



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Contents

<i>List of Tables and Figures</i>	<i>page x</i>
<i>Acknowledgments</i>	<i>xiii</i>
<i>List of Abbreviations</i>	<i>xv</i>
Introduction: A World Transformed	1
Overview of the Arguments of This Book	4
1. Communism and Its Demise	14
Real Socialism	14
Decline and Fall of Socialism	19
The Demise of Communism in Central Europe	27
The Collapse of the Soviet Union	30
2. Radical Reform versus Gradualism	36
The Radical Reform Program: A Big Bang	38
Gradual Reform Programs	44
Rent Seeking: The Scourge of Transition	55
Criticism of Radical Reform after the Russian Financial Crash	60
3. Output: From Slump to Recovery and Boom	65
Sharp Decline in Recorded Output and Varied Recovery	67
Exaggeration of the Slump	70
Radical Reform: Least Decline and Early Recovery	77
Late Reformers: Boom from 1999 until 2008	84
4. Liberalization: The Creation of a Market Economy	92
Two Strategies of Deregulation	93
Liberalization of Foreign Trade	100
Labor Market Policy	102

Combat of Monopoly: Gas and Coal	108
A Big Bang: Vital in Deregulation	112
5. From Hyperinflation to Financial Stability	115
High and Persistent Inflation	116
Establishing National Currencies	119
Radical Fiscal Adjustment Was Key	123
Monetary Policy: From Loose to Strict	128
Exchange Rates: Currency Board or Free Float	133
Tax Policy: From Social Democratic to Liberal	137
Dramas of Financial Stabilization	141
The Russian Financial Crash of 1998	147
International Assistance: Insufficient but Crucial	152
Major Lessons from Postcommunist Stabilization	159
6. Privatization: The Establishment of Private Property Rights	164
Differing Aims of Privatization	166
Small-Scale Privatization: If Started, Swiftly Done	176
Large-Scale Privatization: The Biggest Headache	177
Privatization of Land, Real Estate, and Housing	186
New Enterprise Development: The Ultimate Success	187
Great Achievements of Privatization	190
The Economic Role of Oligarchs	201
Are Oligarchs Economically Efficient?	206
Vital: Speed and Legitimacy of Property Rights	211
7. The Social System	215
Incomes: Differentiation and Poverty	216
Life and Health	221
Education Adjusting to Demand	227
Social Transfers and Pension Reform	230
Three Alternative Social Models	237
8. The Politics of Transition	239
Democratic Breakthrough and Consolidation: Critical for Successful Transformation	240
The Political Economy of Policy Reform	248
An Underreform Trap	252
The Politics of Oligarchy	258
Putin's Alternative: Consolidation of Authoritarian Power	260
Renewed Democratization: Colored Revolutions	264
Ideology, Parties, Electoral Rules, and Constitutions	267

<i>Contents</i>	ix
How to Tame the Leviathan: Reform of the Communist State	275
Why Has Democracy Building Done So Poorly?	277
9. From Crime Toward Law	283
An Explosion of Crime	284
Attempts at Building a Legal System	287
Corruption: The Bane of Transition	292
10. The Importance of the European Union	301
The Dream of Europe	303
Western Failure to Act in the East	307
The Persistent Failure of the CIS	313
Trade Policy: A Gulf between the EU and the CIS	318
European Neighborhood Policy and Eastern Partnership	323
11. The Global Financial Crisis, 2007–2012	326
Success Bred Overheating	327
Exchange-Rate Dilemmas	332
Crisis Resolution	336
Banking Crisis	339
Outcome of the Crisis Resolution	345
The EU Countries Suffered More But Reformed More	353
12. Conclusions: A World Transformed	358
A Broadening Divide between the EU and the Post-Soviet World	358
Achievements and Revelations	361
<i>Bibliography</i>	367
<i>Index</i>	401



Tables and Figures

Tables

3.1. Patterns of GDP Growth, 1995–97	<i>page 79</i>
6.1. Methods of Privatization of Medium-Size and Large Enterprises	179
8.1. Ex-Communist Vote Share in Parliamentary Elections in Postcommunist Countries, 1989–2000	254
8.2. Communist Party Electoral Performance and Market Economic Transformation, 1998	255
10.1. EU Agreement Policy and EU Accession	304
10.2. U.S. Peace Dividend, 1992–99	313
12.1. Success of Transition	359

Figures

3.1. Official GDP growth, 1990–2010	66
3.2. Total official fall in GDP from 1989 to nadir	68
3.3. GDP per capita in purchasing power parities, 1990, 1995, and 2010	70
3.4. Underground economy, 1989–95	72
3.5. Central Europe: Growth in exports, investment, and GDP, 1991–2009	89
3.6. Russia: Growth in exports, investment, and GDP, 1991–2009	91
4.1. World Bank/European Bank for Reconstruction and Development (EBRD) transition index, 1990–2007	95
4.2. Early reform: Radical or gradual?	96
4.3. Labor regulations as a problem in doing business, 2008	107
4.4. Unemployment rate, 2000–10	107
4.5. Russian and Polish coal production, 1988–2010	111

*Tables and Figures*

xi

5.1. Moderate inflation: Hungary and the Czech Republic, 1989–94	117
5.2. Resolute stabilization: The Baltics, 1991–94	117
5.3. Hyperinflations: Russia, Belarus, and Ukraine, 1991–96	118
5.4. Renewed inflationary crises: Bulgaria, Romania, Russia, and Belarus, 1996–2000	119
5.5. Fiscal balance, 1989–99	125
5.6. Fiscal balance, 1999–2008	125
5.7. General government expenditures, 1989–2010	128
5.8. Russia's budget balance, 1992–2010	148
5.9. Countries in transition: net capital flows, 1992–99	154
5.10. Current-account balance, 1990–99	161
5.11. Current-account balance, 1999–2008	162
5.12. Total external debt, 1991–2009	163
6.1. De novo share of GDP, 1995	190
6.2. Private sector as a share of GDP, 1991–2010	191
6.3. Democracy and privatization, 2010	192
6.4. Privatization and corruption, 2010	200
7.1. Inequality: Change in Gini coefficients, 1988–2002	218
7.2. Male life expectancy, 1989–2009	222
7.3. Infant mortality, 1989–2009	223
7.4. Official population change, 1989–2010	226
8.1. Democracy and market reform, 2007	246
8.2. Democracy and corruption, 2010	248
9.1. Control of corruption, 2000 and 2011	294
10.1. Annual increase in intra-CIS trade, 1996–2010	321
10.2. Openness of the economy, 1990, 2000, and 2010	323
11.1. Inflation, 2005–11	328
11.2. Current-account balance, 2007 and 2009	329
11.3. Fiscal balance, 2005–10	347
11.4. Public debt remains limited, 2010	348
11.5. Real unit labor cost, 2008–11	349
11.6. Real effective exchange rate, 2008–10	350
11.7. Investment, 2000–10	353
11.8. European convergence, GDP in PPPs as a share of EU: Substantial and likely to continue	356
11.9. Romania versus Moldova, GDP per capita PPPs, 1989–2010	357

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The responsibility for any remaining faults rests with me.

Anders Åslund  
 Washington, DC  
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Abbreviations

BEEPS	EBRD–World Bank Business Environment and Enterprise Performance Survey
CBR	Central Bank of Russia
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CMEA	Council of Mutual Economic Assistance
CPSU	Communist Party of the Soviet Union
EBRD	European Bank for Reconstruction and Development
ECE	Economic Commission for Europe (United Nations)
EIB	European Investment Bank
EU	European Union
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GDR	German Democratic Republic
GNP	Gross national product
IFI	International financial institution
ILO	International Labor Organization
IMF	International Monetary Fund
IPO	Initial public offering
NBP	National Bank of Poland
OECD	Organization of Economic Cooperation and Development
PPP	Purchasing Power Parity
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
VAT	Value-added tax
WTO	World Trade Organization