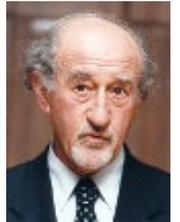


# Academics should be careful not to exaggerate the progress made in Central and Eastern Europe since the fall of the Berlin Wall

[blogs.lse.ac.uk/euoppblog/2014/12/11/academics-should-be-careful-not-to-exaggerate-the-progress-made-in-central-and-eastern-europe-since-the-fall-of-the-berlin-wall/](http://blogs.lse.ac.uk/euoppblog/2014/12/11/academics-should-be-careful-not-to-exaggerate-the-progress-made-in-central-and-eastern-europe-since-the-fall-of-the-berlin-wall/)

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On 9 November, Europe marked the 25<sup>th</sup> anniversary of the fall of the Berlin Wall. [Ivan T. Berend](#) and [Bojan Bugaric](#) write that while the anniversary has motivated several commentators to celebrate the achievements made in the region during the post-communist period, we should be careful not to exaggerate the progress made within Central and Eastern European states. They argue that significant challenges still remain, including the danger of 'democratic regression' in countries such as Hungary and Slovenia.



This year marked the 25<sup>th</sup> anniversary of the fall of the Berlin Wall, the symbol of the division of Europe, and the collapse of the Soviet Bloc. The anniversary generated a wave of studies and articles examining the results Central and Eastern European countries achieved during this 'short' period of transition from communism to democracy. Some of them, such as Andrei Shleifer and Daniel Treisman's recent [analysis](#), portray the transition as hugely successful, declaring that Central and Eastern Europe are, in addition to having close ties to the West, considered to be "normal" or even "better than normal".



Their argument for the titular 'normalcy' is based upon the fast growth of the region's economy, which is reflected by factors such as the ever-growing number of car owners and the remarkably good quality of information technology; the latter is, in some areas, even better than in the West. In general, the quality of life has improved markedly since the fall of Communism. This is not to say, however, that these celebratory accounts completely disregard issues the region is facing – they acknowledge for example that democracy is being undermined by authoritarianism in certain countries.

It would be misguided to deny that Central and Eastern Europe has developed both economically and socially in the last twenty-five years. However, the picture these authors paint is extremely one-sided and overly rosy. After the failure of Communism, they argue, the countries of the East did not have to do anything more than 'return' to Europe to re-emerge as what the authors deem to be "normal". Furthermore, in classifying them as such, they pay no heed to the fact that the countries of the region were never normal in comparison to the West and that the region had long been nothing more than the periphery of Europe, exhibiting both socio-economic and political backwardness. In order to see this, one needs to look no further than the region's average per capita income level, which was between one third and one half of the Western one during the last century and a half. Central and Eastern Europe remained rural and agricultural up to the Second World War.

Even today they continue to exhibit elements of peripheral backwardness. By treading a far too narrow path, they have undermined their progress. This post-Communist path was not only limiting in its specificity but also characterised by serious mistakes – after a sharp economic decline in the early 1990s, the region as a whole needed twenty years to reach the 1989 stage again (however, some Central European countries managed to cover this distance in a relatively short period of ten years and subsequently went through an impressive modernisation).

During the first few years, the social shock of transformation had an enormous impact, leading to a large percentage of society – in some cases as much as 20-30 per cent – falling into poverty. Not only has income differentiation increased strongly; a corrupt, kleptocratic oligarchic layer with close ties to respective governments has emerged as well. It is little wonder then that nearly half of both Moldova and Albania's labour force is searching for opportunities

for work abroad and that about 800,000 Poles and 400,000 Hungarians, mostly young and educated people, have emigrated to the West.

The region's economy is developing, but it is doing so as a dependent backyard of the West. The region became attractive to the West mainly because of its cheap, well-trained labour force and its culture of industriousness. Wages were about one-tenth to one-fifth of the West European wage level, which attracted a huge inflow of foreign capital, thus building up a network of subsidiaries and value-chains and establishing modern export sectors of the economies. It is crucial to note that in the age of financialisation of the advanced economies, when finance, insurance and real estate businesses have surpassed manufacturing, the region does not have an independent banking sector; an average of 87 per cent of banking assets is in the hands of giant European multinational banks. The same is true for insurance.

From the mid-1990s on, \$15-30 billion of Western capital is annually being invested in the region (in the case of the Czech Republic, Estonia and Hungary, the investments equal 10-15 per cent of the respective GDPs). Until the 2008 crisis, capital inflow into the region amounted to more than \$200 billion. It is not particularly surprising then that in the early twenty-first century, foreign multinational companies dominated the economies of several of these countries. Nearly half of the people employed in industry worked for foreign companies and in Hungary, for example, 82 per cent of investments, 73 per cent of sales and 89 per cent of industrial exports were produced by foreign companies. Furthermore, one-third of Hungarian industrial exports were in the hands of four Western multinational companies.

In Poland and the Czech Republic, about 60 per cent of industrial exports were being produced by foreign-owned companies. The major Western retail chains represented a huge part of Eastern markets; in the Czech Republic, one of the most advanced economies of the region, sales by Western retail chains amounted to almost half of the country's retail sales. Even telecommunications and the well-developed car industry are all in Western hands. Some Central European countries are even called Volkswagen-land due to VW factories representing the bulk of their car industries.

In other words, economic growth was for the most part unrelated to the effects of domestic research and development. It is therefore more appropriate to speak about the rise of a dual economy with an advanced export system and a less-developed, local sector-oriented domestic market.

The celebratory accounts also fail to consider the importance of the huge inflow of aid from the European Union. On 5 October, 2014, the New York Times reported that Poland, a country with a 2013 GDP of \$518 billion, would receive a total of \$318 billion of EU aid in the period between 2008 and 2020. This is more than two times the modern-day value of the amount the Marshall Plan comprised. While the annual average the Marshall Plan accorded to each recipient country was \$2.5 billion, Poland will have been receiving \$26.5 billion per year by 2020.

While Hungary's prime minister has declared at mass rallies that "we will not be colonies [of the EU]," he had no qualms about signing a 2014-2020 budget agreement with the EU that will provide nearly \$40 billion of aid for Hungary, a country with an annual GDP of \$125 billion. In the last decade, the 'backward' regions of the EU, Central and Eastern Europe included, received an amount of EU aid fourteen times as much as what the Marshall Plan provided. Furthermore, the aid provided by the EU increased these countries' GDPs by an additional 5-7 per cent each year. Thus, foreign capital inflow and European Union aid play a major role in advancing the economies of the

European Parliament President Martin Schulz speaking during a ceremony on 9 November to mark the fall of the Berlin Wall. Credit: Martin Schulz (CC-



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less developed Central and Eastern Europe. It will be quite some time before Central and Eastern Europe can be considered as economically “normal” and close to their Western neighbours.

### **Central and Eastern Europe since the fall of the Berlin wall: still ‘unfinished’ Europe?**

In terms of politics, the transformation of most of the region was characterised by exaggerated nationalism. Civil wars erupted in regions from Yugoslavia to Moldova and Ukraine. In 1989, the region comprised eight countries; today, there are twenty-eight, many of them with explosive border problems. Most unfortunately, even episodes of right-wing nationalism such as those of the Mečiar in Slovakia and the Kaczyńskis in Poland are not solely a thing of the past.

In the twenty-five years since the fall of the Berlin Wall, many Central and Eastern European countries have managed to significantly strengthen their nascent democracies. For many observers, this trend of consolidation has signalled the ultimate victory of democracy and rule of law over the legacy of totalitarianism. However, the most recent governance reports for the region show a clear backslide in key governance institutions in the last five years.

Hungary [recently adopted](#) a new constitution that directly dismantles basic checks and balances, entrenches a deeply problematic illiberal political order and undermines some of the basic principles of the EU political constitution. Slovenia, one of the ‘success stories’ of the transition, is experiencing its biggest constitutional and political crisis since its independence in 1991. The capture of the state by various political and informal groups in the region has reached such a dramatic extent that it is undermining the independence and credibility of almost all rule of law institutions in these countries. It seems that only Poland has so far been able to resist the lure of authoritarianism.

As these examples of democratic regression into various forms of ‘[illiberal democracy](#)’ in Central and Eastern Europe show, democratic consolidation is still far from complete. The most disturbing detail is the vulnerability of ‘consolidated democracies’ such as Hungary or Slovenia to ‘democratic regression’, which reminds us that democracies are inherently unable of being ‘definitely established’. While significant progress in the development of ‘electoral democracy’ in the region has been achieved, ‘liberal democracy’ still remains fragile and weak. Moreover, the legal institutions of liberal democracy in Central and Eastern European countries significantly differ from those of their Western European counterparts. Behind a façade of harmonised legal rules transposed from various EU legal sources, several cracks have begun to appear, exposing the fragility of constitutional democracy in these countries.

As a consequence, Central and Eastern European countries are once again displaying certain features of “lands in between” which call attention to their constantly precarious and indeterminate location on the political map of Europe. *Zwischen-Europa*, as some interwar German writers called it, lies in the territory between the West and the Russian East and is said to have been the “unfinished part of Europe” for most of the 20th century. Its political and legal institutions were similarly “caught” in between the democratic West and the authoritarian East.

*For more on this topic, see the authors’ [LSE ‘Europe in Question’ \(LEQS\) Discussion Paper](#)*

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*Note: This article gives the views of the authors, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

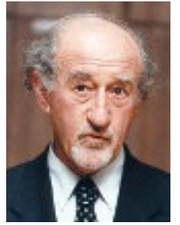
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### **About the authors**

**Ivan T. Berend** – *University of California, Los Angeles (UCLA)*

Ivan T. Berend is a Distinguished Professor of History at UCLA; he is also a former fellow of All Souls College, Oxford and a member of the British Academy and six other European academies of sciences. He was President of both the Hungarian Academy of Sciences and the International Committee of Historical Sciences. He is the author of 30 books including, most recently, *An Economic History of Nineteenth-Century Europe: Diversity and Industrialization* (Cambridge University Press, 2012) and *Europe in Crisis: Bolt from the Blue* (Routledge, 2012).



**Bojan Bugarič** – *University of Ljubljana / Harvard University*

Bojan Bugarič is a Visiting Scholar at the Minda de Gunzburg Center for European Studies at Harvard University. He is an Associate Professor of Law at the University of Ljubljana, Slovenia. He served as Deputy Minister at the Ministry of the Interior in the Slovenian government from 2000-2004 and was a Fulbright Visiting Professor at UCLA in 1998. He has published widely in academic journals including, most recently, the *International Journal of Constitutional Law* and *UCLA Journal of International Law and Foreign Affairs*.



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