

## Three decades after the fall of the Berlin Wall

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November 9, 2019

The fall of the Berlin Wall on 9 November 1989 was not only the beginning of the reunification of the Germans as the people of Berlin brought down a monstrous physical barrier that cut through their city since 1961, it was also one of several events that in the months and years to come would have more than 100 million people turn their back to communism, also because of their fortitude to steer their economies out of socialism toward the market, writes Tanja Porčnik is a Senior Fellow of the Fraser Institute specialising in economic and human freedom studies.

Prior to the fall of the Iron Curtain, the former socialist economies – to the East of the now infamous barrier dividing Europe – varied considerably in their degree of openness, soundness of their institutions, economic growth and the development process. Similarly, these countries opted for different paths of market liberalisation, some of them moving rapidly and with great strides to reform and liberalise their economies, while others were only undertaking gradual and few transitional steps.

Today, thirty years later, unsurprisingly, public policies and political institutions of the former socialist economies do not equally support economic freedom. However, notably, they support it to a greater extent than they did before the 1990s.

### **A high pace of economic liberalisation**

Providing a quantitative assessment of the degree of market liberalism, the Fraser Institute Economic Freedom of the World index displays that the highest levels of economic freedom in Eastern Europe, Caucasus and Central Asia in 2017, the most recent data available, were in Georgia, Estonia, Lithuania, the Czech Republic and Latvia, while the lowest levels of economic freedom were in Ukraine, Tajikistan, Azerbaijan, Belarus and Moldova.

Country	1995			2006			2017		
	RATING	RANK	QUARTILE	RATING	RANK	QUARTILE	RATING	RANK	QUARTILE
Georgia				<b>7.65</b>	(25)	1	<b>7.94</b>	(12)	1
Estonia	<b>6.38</b>	(53)	2	<b>8.04</b>	(12)	1	<b>7.89</b>	(13)	1
Lithuania	<b>5.49</b>	(82)	3	<b>7.47</b>	(35)	1	<b>7.88</b>	(16)	1
Czech Rep.	<b>6.19</b>	(58)	2	<b>7.29</b>	(48)	2	<b>7.75</b>	(22)	1
Latvia	<b>5.59</b>	(77)	3	<b>7.81</b>	(17)	1	<b>7.73</b>	(24)	1
Armenia				<b>7.51</b>	(34)	1	<b>7.70</b>	(27)	1
Romania	<b>4.12</b>	(114)	4	<b>7.01</b>	(62)	2	<b>7.68</b>	(28)	1
Albania	<b>5.01</b>	(99)	4	<b>7.15</b>	(55)	2	<b>7.67</b>	(30)	1
Bulgaria	<b>4.85</b>	(101)	4	<b>7.15</b>	(55)	2	<b>7.54</b>	(37)	1
Slovak Rep	<b>5.52</b>	(81)	3	<b>7.66</b>	(23)	1	<b>7.51</b>	(40)	1
Hungary	<b>6.37</b>	(54)	2	<b>7.31</b>	(47)	2	<b>7.27</b>	(54)	2
Croatia	<b>5.07</b>	(94)	4	<b>6.62</b>	(84)	3	<b>7.26</b>	(56)	2
Poland	<b>5.45</b>	(83)	3	<b>7.04</b>	(60)	2	<b>7.24</b>	(59)	2
Slovenia	<b>5.56</b>	(79)	3	<b>7.06</b>	(59)	2	<b>7.15</b>	(67)	2
Kazakhstan				<b>6.87</b>	(72)	3	<b>7.10</b>	(68)	2
North Macedonia				<b>6.72</b>	(78)	3	<b>7.02</b>	(73)	2
Kyrgyz Republic				<b>6.74</b>	(77)	3	<b>6.92</b>	(77)	2
Serbia				<b>6.44</b>	(92)	3	<b>6.89</b>	(80)	2
Montenegro				<b>6.97</b>	(67)	2	<b>6.84</b>	(83)	3
Russia	<b>4.27</b>	(111)	4	<b>6.24</b>	(101)	3	<b>6.78</b>	(85)	3
Bosnia and Herzegovina				<b>6.49</b>	(87)	3	<b>6.69</b>	(92)	3
Moldova				<b>6.65</b>	(82)	3	<b>6.66</b>	(97)	3
Belarus							<b>6.64</b>	(99)	3
Azerbaijan				<b>6.06</b>	(112)	4	<b>6.34</b>	(116)	3
Tajikistan							<b>6.05</b>	(132)	4
Ukraine	<b>3.18</b>	(122)	4	<b>5.98</b>	(114)	4	<b>5.96</b>	(135)	4
AVERAGE (FSE)	5.47			7.03			7.20		
AVERAGE (WORLD)	6.06			6.78			6.59		

Source: Gwartney, Lawson, Hall and Murphy, *Economic Freedom of the World: 2019 Annual Report*.

As the data show, all the former socialist economies in Eastern Europe, Caucasus and Central Asia have strengthened their market features since the fall of the Iron Curtain. This sizeable and wide-spread transformation reflects the region's wholehearted embrace of private property, the rule of law, entrepreneurship, free trade, foreign direct investment and globalisation.

Actually, in the last few decades, economic liberalisation has spread across the former socialist region at a higher pace than in the world, with the average degree of market liberalism in the former socialist economies increasing from 5.47 in 1995 to 7.20 in 2017, while the average level of economic freedom in the world went from 6.06 in 1995 to 6.59 in 2017.

The notable transition of the former socialist economies is also reflected in the fact that while in 1995 none of them ranked in the top economic freedom quartile, when in 2017 ten of them (Georgia, Estonia, Lithuania, the Czech Republic, Latvia, Armenia, Romania, Albania, Bulgaria and the Slovak Republic) were in the top quartile. By contrast, only two countries (Tajikistan and Ukraine) rank in the fourth quartile of economic freedom, while in 1995, six (Romania, Albania, Bulgaria, Croatia, Tajikistan and Ukraine) out of fourteen former socialist countries ranked in the fourth quartile.

### Continue to reform and liberalise

Several of the former socialist economies, such as Georgia and Estonia, have embraced the economic freedom to such an extent and with such a robustness that they have become world-known success stories of market liberalisation by way of opening their markets, decreasing barriers to trade, lowering tax burden, stabilising the monetary system, engaging in deregulation and strengthening the legal system.

By contrast, other former socialist economies have been reserved to a change, finding it challenging or unwilling to increase their level of economic freedom. As an example, Hungary

observed the smallest move from socialism toward the markets during the 1995-2017 period; however, it still increased the economic freedom score by 0.90.

At a time when nationalism and protectionism are emerging in many countries across the world, which only adds to downward pressure on the global economy, countries in Eastern Europe, Caucasus and Central Asia should draw from their own experience and continue to reform and liberalise their economies, which shall not only have positive impact on economic growth, foreign direct investment and wellbeing of the citizens, but will also reduce poverty levels and economic inequalities more successfully than any other economic system.

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