

Comparing Apples: Normalcy, Russia, and the Remaining Post-Socialist World*

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Abstract

Shleifer and Treisman (2005) argue that Russia is a “normal country.” Their benchmark for normalcy, however, refers primarily to middle-income countries like Mexico and Argentina. We propose that a more meaningful benchmark is the experience of other post-socialist transition countries, which share common political and economic histories with Russia, and have faced similar transition obstacles since communism’s collapse. We compare Russia’s economic performance, media freedom, democracy, and corruption since Russia began transition, to these benchmarks in all other post-socialist countries since they began their transitions. We find that Russia consistently and significantly performs below normal compared to its cohort.

1 Introduction

Did Russia's transition from socialism fail or succeed? Popular accounts of Russia's transition clearly suggest the former. Important recent work by Shleifer and Treisman (2005), however, challenges this common view. Russia is not a "collapsed and criminal state." It is, as they call it, "a normal country." In characterizing Russia this way, Shleifer and Treisman do not mean that Russia is without economic and political defects. But these defects, they argue, are the typical sort faced by middle-income countries, such as Mexico or Argentina.

We contradict Professors Shleifer and Treisman with some trepidation. While their account performs an important service in correcting exaggerated descriptions of complete Russian failure, we argue that it goes too far in the other direction. Russia is not a "normal country," if "normal" refers to the experience of other post-socialist transition countries with common social, political, and economic histories under communism.

Although countries like Mexico and Argentina have similar incomes to Russia's, their social, political, and economic histories are markedly different. These economies therefore provide a limited point of comparison for assessing Russia's normalcy. A more meaningful comparison would compare apples with apples—Russia's experience with the experiences of other countries transitioning from socialism. Shleifer and Treisman perform such a comparison to a limited extent, but do not do so systematically.

It is especially useful to locate Russia's success relative to the post-socialist transition countries that define the frontier of transition success, and thus the transition potential, for countries like Russia. The experiences of these post-socialist nations tell us how well a country like Russia could be reasonably expected to perform in transitioning from socialism to the market. To determine this, we compare Russia's experience with those of the Visegrad Group—

the Czech Republic, Hungary, Poland, and Slovakia. While we consider Russia side-by-side with all post-socialist transition economies (including the Visegrad Group, all former Soviet republics, Albania, Bulgaria, Romania, and the former republics of Yugoslavia), these four countries form our primary benchmark for assessing Russia's normalcy and success.

Shleifer and Treisman make their case by responding to seven common assertions about Russia's political and economic climate:

- Russia's economic contraction following the launch of transition was nowhere near as bad as it has been made out to be, and has completely reversed by now.
- The macroeconomic turbulence Russia experienced during the 1990s was very typical of similar economies, and the financial crisis of 1998 set the stage for strong economic growth since.
- The argument that bungled privatization programs resulted in extreme income inequality is untrue and, while inequality did rise, it is well in line with like countries.
- While transition has resulted in a small class of oligarchs, this is typical of developing countries, and these tycoons did not enrich themselves by stripping the assets of the companies they acquired nor are they responsible for depressing economic performance.
- The institutions of democracy in Russia are weak but very much in line with other middle-income countries.
- Restrictions on freedom of the press in Russia are troubling, but no more so than in other middle-income countries.
- There is a strong relationship between GDP and corruption and Russia is right where this relationship predicts it would be.

Data limitations prevent us from comparing Russia to the other transitioning post-socialist countries for some of these points. Further, we agree with Shleifer and Treisman on a number of them. Several of their most important claims, however, require revision. We focus on Russia's economic collapse and recovery, media freedom in Russia, the establishment of democratic institutions in Russia, and corruption in Russia.

We are not the first to consider Russia's status relative to other post-socialist countries for some of these categories. Charles Gati's (1996) excellent paper, written in 1995, compared Russia to several cohort transition countries in terms of economic performance (extent of reform and growth) and political and civil rights. The results of Gati's analysis led him to "grudgingly positive estimates" that ranked Russia in roughly the middle of the pack in these categories. Gati assigned letter grades to each of the countries he considered, ranging from "A" to "F." Russia received a "C" in both areas. He further classified transition countries into "leaders," "laggards," and "losers." Russia ranked in the middle "laggards" category.

Our analysis is complementary to Gati's but considers a larger number of performance categories with more detailed data, for a larger number of countries, covering more years. Several of our findings confirm Gati's assessment: namely, the Baltic states and Visegrad countries of Central Europe have the best post-socialist performance record, while countries like Tajikistan, Kazakhstan, and Azerbaijan have among the worst.

Our results for Russia, however, are less optimistic than in Gati's assessment. The additional insight enabled by a more comprehensive and up-to-date analysis of Russia's relative performance suggests that Russia is near the bottom of the post-socialist countries, or at least below "normal," in nearly every category we consider. Thus, rather than a "C," our results indicate that Russia is probably closer to a "D," and in some cases perhaps lower.

More recently, Fish's (2005) superb work explores the failure of Russian democracy in depth. Our examination shares much in common with Fish's. Although he focuses on democracy in particular, which is only a subset of our analysis, his revealing investigation of openness, economic freedom, and development in Russia uniformly confirms our findings here: Russia is well-below "normal" compared to the remaining post-socialist world.

2 Economic Collapse and Recovery

Using official Goskomstat statistics, Shleifer and Treisman calculate that Russia's GDP contracted 39 percent between 1991 and the beginning of economic recovery in 1998. We get a similar result using World Bank (2005a) data and Maddison's (2003) data. However, Shleifer and Treisman contend that Russia's actual contraction was, in fact, much less.

They identify two sources of bias in official statements of Russia's output. On the one hand, socialist-era data are biased upward by bonus-seeking enterprise directors who inflated reported output. On the other hand, official numbers from the post-socialist period are biased downward by tax-evading managers who under-report output. Furthermore, official statistics do a particularly poor job of reflecting social welfare over this time. During the socialist period, a great deal of production was shoddy consumer goods that no one wanted, or military hardware that citizens did not consume. After socialism, consumer industries became much more responsive to consumer preferences and a substantial portion of military-oriented production ceased. Thus, quite apart from the issue of bias, the welfare decline observed in the official statistics between the socialist and post-socialist periods was considerably smaller than these data present on their surface.

Shleifer and Treisman also persuasively argue that Russia's underground economy grew substantially during the transition period. While it is not possible to document this directly, they present data on electricity consumption on the grounds that production uses electricity whether it is underground or not. According to the official Goskomstat statistics, while official GDP fell 26 percent between 1990 and 2002, electricity consumption fell only 18 percent. This suggests that the official statistics overstate the decline Russia's economy experienced during the transition. Other indicators of Russian living standards, such as expanding retail trade, rising per capita ownership of automobiles and other durable goods, increased living space, and the growing number of Russians going abroad as tourists, corroborate the fact that official GDP numbers falsely reflect Russia's true economic status.

Finally, Shleifer and Treisman point out that economic collapse following the end of socialism was prominent in every one of the former Soviet and Soviet-bloc countries. In most cases, this economic decline has been reversed. They conclude that a sharp initial economic contraction is to be expected in any fairly industrialized transitional economy, so Russia's performance has been more or less normal given the circumstances.¹

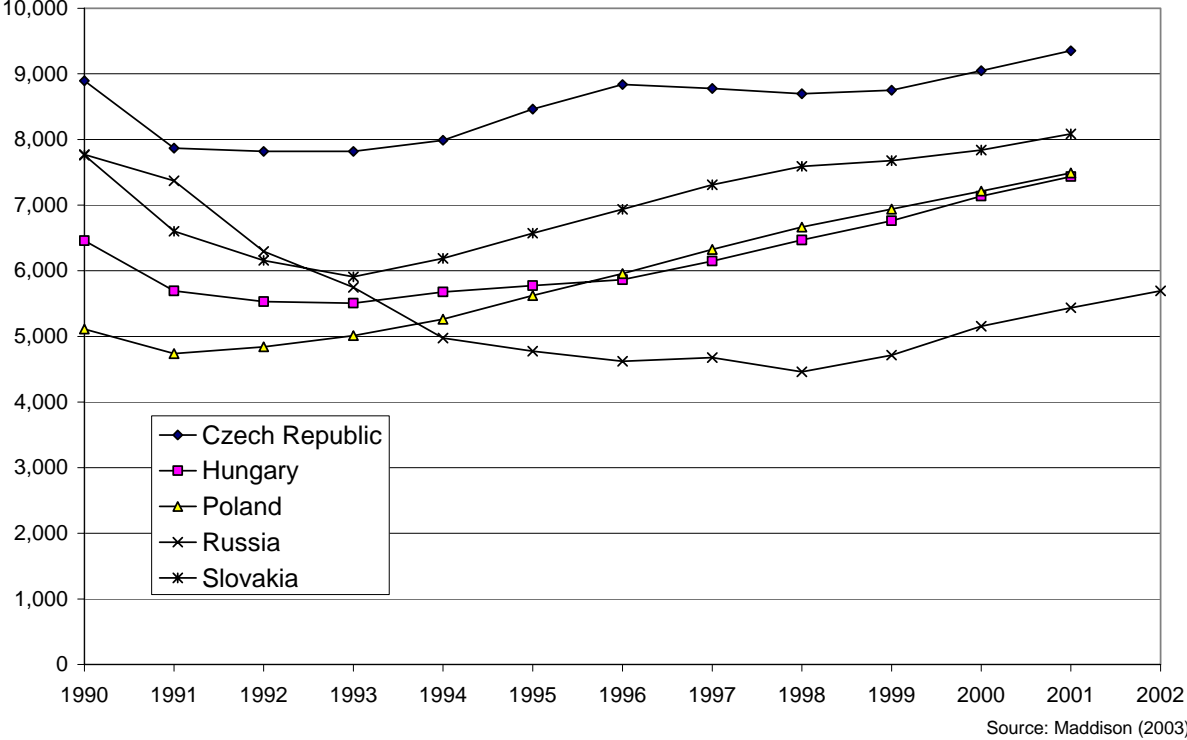
We agree that Russia's contraction is overstated in the official statistics and has been wildly overstated in popular perceptions. But it does not follow from this that Russia is "normal" and has performed well economically. To determine Russia's normalcy in this regard, we compare its economic performance with those of our benchmark countries—the Visegrad Group—and with those of all other post-socialist transition countries.

As Shleifer and Treisman point out, biased official statistics pose a problem for evaluating the *absolute* performance of post-socialist transition economies, such as Russia's. They do not, however, inhibit our ability to evaluate the *relative* economic performance of these

countries. All had lower actual incomes under socialism than depicted in the official figures, and all have higher incomes today than these figures reflect. Since the official output statistics for all post-socialist countries are similarly biased, there is no reason to suspect that the relative performances of these countries are other than those revealed by the data.

Figure 1 shows the Visegrad Group’s per capita GDPs in 1990 purchasing power parity (PPP) dollars, along with Russia’s, as compiled by Maddison (2003).² We use PPP calculations of GDP rather than calculations based on market exchange rates (MER) to perform our comparisons, since, as Nordhaus (2005) demonstrates, the economic basis of MER statistics is flawed for international comparisons.

Figure 1. PPP Estimates of Per Capita GDP (1990 Dollars)
Russia vs. the Visegrad Group



From Figure 1 we can draw a number of insights. First, Russia had the second highest per capita income in 1990, second only to the Czech Republic (and, though it is hard to tell from

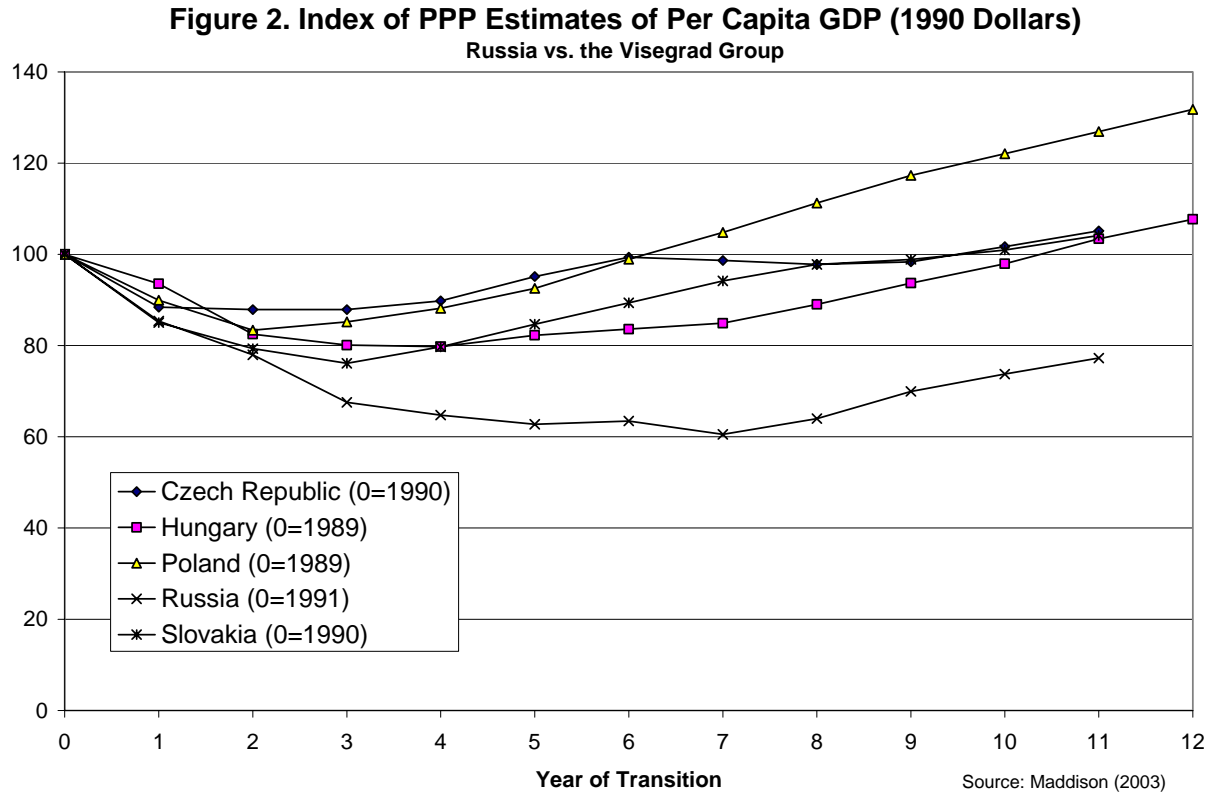
the graph, slightly ahead of Slovakia). Poland had by far the lowest, with a per capita GDP only two-thirds of Russia's. Yet by 2001, Russia's income was by far the lowest, with per capita GDP just a little more than two-thirds of Poland's. By any standard, this is a remarkable reversal of fortunes.

Second, Russia's contraction was much deeper and lasted far longer than the contractions experienced by the members of the Visegrad Group. At the deepest point of its contraction, Poland's per capita income had declined less than 12 percent. Russia lost just over 39 percent. Both Poland and the Czech Republic ended their contractions by 1991, but Russia's continued another seven years. Unlike the countries in the Visegrad Group, all of which have fully recovered from their contractions and surpassed their pre-1989/90 levels of income, Russia alone has not and remains well below its 1990 income level.

Note, too, that although the time period in Figure 1 begins in 1990 (data for earlier years for Russia, the Czech Republic, and Slovakia are not included in the Maddison dataset), most discussions of transition date the beginning of Russia's transition period as 1992, when price liberalization occurred. However, the contraction of the Russian economy started well before this time, during the *perestroika* period, when some early elements of transition were implemented.

Figure 2 controls for differences in initial income and transition start dates by illustrating the same information in the form of an index that uses the year just prior to transition as the base year. We follow Roland (2000) in dating transitions. Thus the base year for Hungary and Poland is 1989, for the Czech Republic and Slovakia is 1990, and for Russia is 1991. Russia comes in dead last—well below all the others. Again, one might reasonably argue that Russia's

transition began in 1989, in which case Russia's performance relative to the other countries is even worse than what is shown here.



Poland clearly had the most successful transition in terms of the shortness of its contraction, the speed with which the economy fully recovered, and the extent to which it has continued to grow. The Czech Republic had an even shallower contraction, but was stuck in a contracted state for a few years before it started to grow again and then fell back into a recession a few years later. Thus, according to these statistics, eleven years after launching its transition, the Czech Republic was only about five percent above its pre-transition level. Slovakia had a larger initial contraction but has had fairly consistent growth since, and so was also about five percent above its pre-transition level after eleven years. Hungary had a relatively long

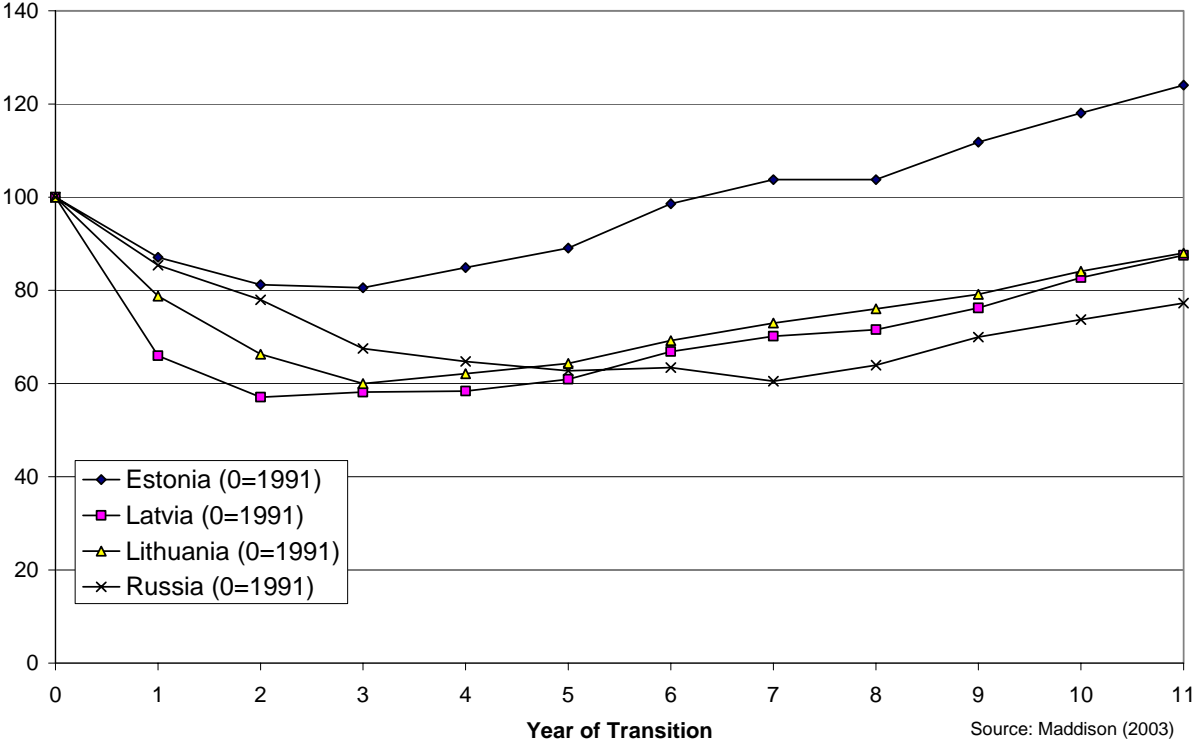
contraction of four years but has had steady growth since, and reached a level about three percent above its pre-transition level after eleven years, and almost eight percent after twelve years.

Russia, in contrast, clearly had a much less successful transition. Its contraction lasted seven full years (nine, if dated from 1989). By 1998, Russia had lost a little over 39 percent of its 1991 economy and after eleven years (2002) had still only recovered 77 percent of its pre-transition economy. Biases in the official numbers may overstate Russia's contraction and understate its recovery, but they do for the members of the Visegrad Group as well. Even if there is reason to question the specific level of contraction and level of (un)recovery in Russia described by the data, their relative levels compared to the contractions and recoveries of the other post-socialist countries depicted are valid and clearly show Russia lagging far behind the others, both in terms of the relative length and severity of its economic contraction, and in terms of its relative recovery. If the countries of the Visegrad Group represent successful real-world transitions and constitute a legitimate benchmark of normalcy, Russia is neither normal nor successful.

A look at electricity consumption, suggested by Shleifer and Treisman as a more accurate measure of true economic activity where underground activity is vibrant (as it is in post-socialist economies), delivers the same picture. In Russia, electricity consumption fell until 1998 to approximately 77 percent of its 1991 level (World Bank 2005a). By that time electricity consumption was already rising in the Visegrad countries and had been for some time. By 1998, Poland's electricity consumption was 89 percent of its pre-transition level, Hungary's was 90 percent, Slovakia's 95 percent, and the Czech Republic's 104 percent (World Bank 2005a). Once again, Russia's performance falls substantially short of the benchmark.

So far we have restricted our discussion to a comparison between Russia and the Visegrad Group. Perhaps these transition countries are the only ones outperforming Russia, which is then otherwise a normal transition economy. The evidence, however, suggests otherwise. Estonia, for example, a former republic of the Soviet Union, has been outperforming even the Visegrad Group. Figure 3 compares Russia with the three Baltic countries that are former Soviet republics: Estonia, Latvia, and Lithuania.

Figure 3. Index of PPP Estimates of Per Capita GDP (1990 Dollars)
Russia vs. the Baltics



Estonia has clearly outperformed its Baltic neighbors and Russia. Its initial contraction was relatively short and shallow, and it has enjoyed consistent growth ever since. By 2002, eleven years after launching its transition, its per capita GDP (in PPP terms) was 24 percent higher than it was just prior to transition. Both Latvia and Lithuania had lengthier and larger contractions. In fact, Latvia’s contraction was even greater than Russia’s. However, their

contractions were shorter than Russia's and their growth, once it began, was consistent and strong. After eleven years, both countries had recovered about 88 percent of their pre-transition economies, while Russia had recovered only about 77 percent.

Were the Baltic republics the only republics of the former Soviet Union to outperform Russia in transition? The answer is decidedly no. In fact, the majority of the former Soviet countries have outperformed Russia. Of all the former Soviet republics, eight have performed better (in terms of percent of the pre-transition economy recovered) and only six have done worse. Russia is in poor company. These six, in order of performance, are: Kyrgyzstan, Azerbaijan, Ukraine, Georgia, Moldova, and Tajikistan. If "normal" refers to the median experience of all former Soviet republics, Russia is below normal.

Even Russia's superior performance to several of the six countries it has outperformed has less to do with Russia's achievements than it has to do with these countries' severe economic constraints and problems with civil conflict. Georgia, for instance, which must import the bulk of its energy, has suffered the devastation of continuous civil war (CIA World Factbook 2005). Moldova is similarly constrained. In addition to importing nearly all of its energy from Russia, Moldova also suffers from stalled market reforms, which have not been undertaken because of political leaders' unwillingness to relinquish state control over large portions of the economy (CIA World Factbook 2005). The same is true for Tajikistan. Nearly 70 percent of Tajikistan's labor force is employed in agriculture—this despite the fact only 5-6 percent of Tajikistan's land is arable. Like Moldova, Tajikistan is also held back by stalled market reforms preventing further progress, and like Georgia, Tajikistan was also plagued by bloody civil war for nearly half a decade (1992-1997) following transition (CIA World Factbook 2005). Ukraine provides yet another example. In addition to relying heavily upon Russia for its energy needs, Ukraine

has confronted well-acknowledged, lasting political obstacles to both political and economic reforms, stifling its transition potential. The liberalization that did occur in Ukraine in the early 1990s was largely reversed by the considerable backsliding it experienced in the face of resistance to market reform by politically-vested interests a few years later. Making matters worse, Ukraine's political elite devoted much-needed energy and resources attempting to forcibly "Ukrainize" its citizenry, rather than on productive uses that might have contributed to Ukraine's ability to grow. Civil liberties in Ukraine, including measures that would make it democratic, remain tenuous as well.

Russia, in contrast, is arguably the most resource rich nation in the world, faced relatively less political resistance to reform than countries like Ukraine or Moldova, and with the exception of Chechnya, which covers only a tiny corner of Russian soil, has been fortunate enough to avoid widespread violent internal conflict that haunted countries like Georgia and Tajikistan since socialism's collapse. Russia has an abundance of a multitude of important natural resources including more than 20 percent of the world's timber, the world's second largest coal reserves, one of the world's largest diamond deposits, over a quarter of the world's iron and tin ores, 40 percent of the world's platinum group minerals, enormous fish reserves, and a plentiful supply of other metals (including large gold deposits) and minerals as well. It also boasts possibly the largest combined energy (oil and gas) reserve on the globe. Much of its growth comes from developing its oil and gas industries, a species of low-lying fruit not available to the other post-socialist countries, and not a sustainable source of growth for Russia in the long run.³ In fact, owing to the surge in oil and gas prices in recent years, oil and gas production accounted for an estimated 20 percent of Russia's GDP in 2000 and for nearly half of its growth rate in the first quarter of 2003 (World Bank 2005b). Russia's massive oil and gas reserves, in combination

with high oil and gas prices on the world market, have “artificially” inflated Russia’s economic performance over the last several years, while simultaneously lowering observed economic performance in post-socialist countries like Georgia, Moldova, and Ukraine, which are net-importers of gas and oil.

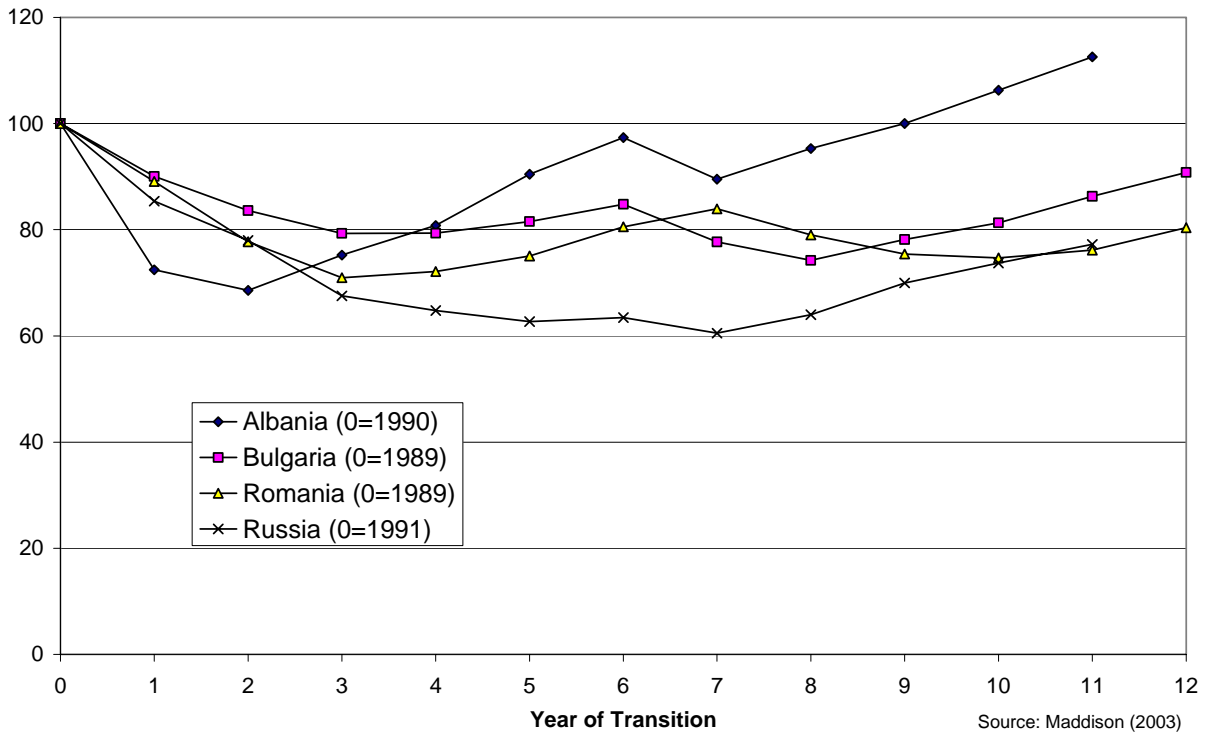
Russia had other important advantages as well. On the eve of transition, Russia benefited from a well educated population, with literacy rates clearly at first-world levels (99.3 percent of over fifteen year olds in 1991⁴). Its scientific and technical achievements have also been outstanding. The Soviet Union, for example, beat the U.S. to space, and the U.S. still relies on the Russians to support the International Space Station now that its Shuttle program is in shambles. In the 1980s the Soviet Union had ten to 30 percent more scientists and engineers than the U.S.⁵ And access to health care was better in Russia than in other socialist countries, including the top performers among the former Soviet states and the Visegrad Group. In 1991, the number of physicians per 1,000 members of population was 2.2 in Poland, 2.7 in the Czech Republic, 2.9 in Slovakia, 3.0 in Hungary, 3.5 in Estonia, 3.6 in Belarus, and 4.1 in Russia. The number of hospital beds per 1,000 members of the population was 5.7 in Poland, 7.6 in Slovakia, 10.0 in Hungary, 11.1 in the Czech Republic, 11.3 in Estonia, and 12.7 in Russia (World Bank 2005a).

In many respects then, Russia enjoyed and still enjoys significant advantages over nearly all of the other former members of the Soviet Union embarking on transition. This is no doubt a primary source of the serious disappointment onlookers have expressed about Russia’s performance since the mid-1990s, which unfortunately manifested itself in the form of overblown claims about cataclysm and Russian economic collapse. Russia’s privileged position gave it a substantial “head start” on these other countries at the beginning of transition, and continues

to buoy Russia’s performance today. Thus, the fact that Russia has outperformed a small number of former members of the Soviet Union (which is still a smaller number than it has underperformed) is more of an indictment of its transition experience than an indication that Russia has performed well. The economies of Georgia, Moldova, Ukraine, and Tajikistan, for instance, constitute a very low bar to pass indeed—especially after Russia’s substantial advantages have been accounted for.

Are there any European transition economies other than these that Russia has outperformed? The only remaining European countries in transition from planned socialism (as opposed to market socialism) to capitalism are Albania, Bulgaria, and Romania.⁶ Figure 4 compares Russia to these countries.

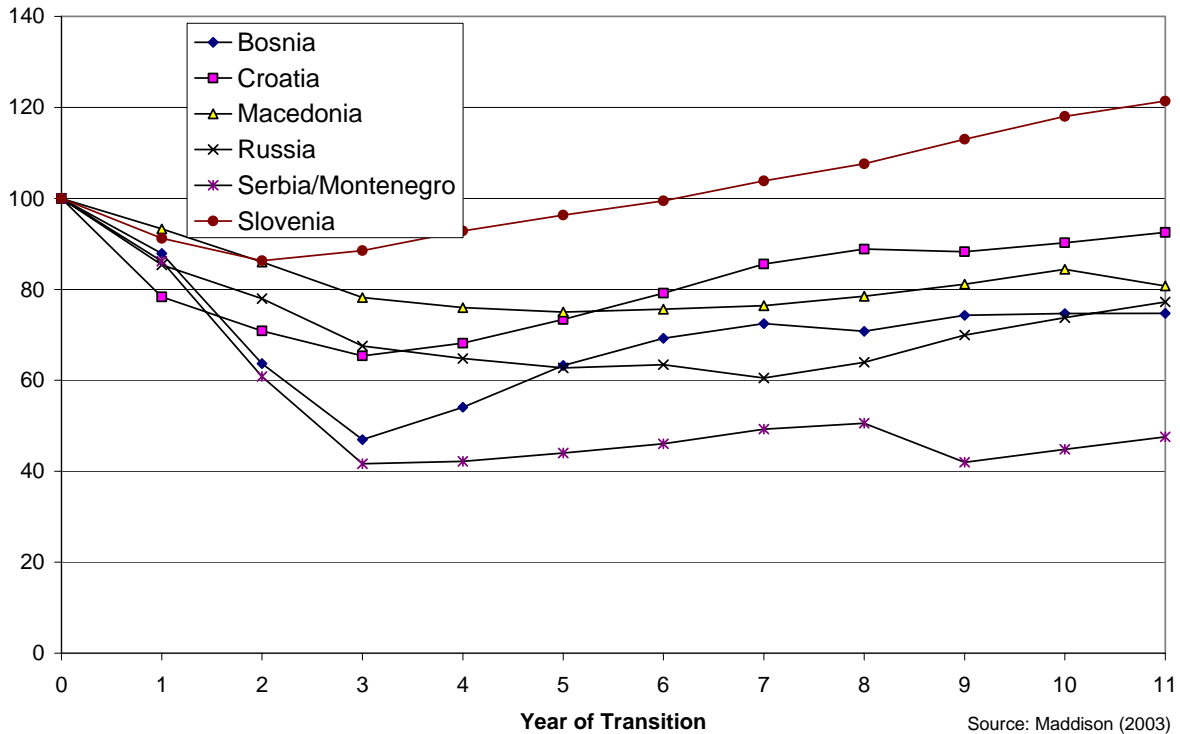
Figure 4. PPP Estimates of Per Capita GDP (1990 Dollars)
Russia vs. Albania, Bulgaria, and Romania



Romania has experienced what Roland (2000) refers to as an uncertain recovery. Although it appeared to be on track after its initial contraction, a few years later it faltered again and suffered several more years of contraction. Bulgaria was also experiencing an uncertain recovery, but has had consistent growth now for several years, so that after twelve years of transition, it had recovered almost 91 percent of its pre-transition economy. Albania had a very steep contraction initially, but with the exception of a sharp but short recession midway, has had very strong growth since, and exceeded its (very low) pre-transition level of per capita GDP by some twelve percent after eleven years. Then there is Russia—the worst performer within even this group. Russia again had the longest and most severe contraction, and nearly ties with Romania for last place in terms of the extent of its economic recovery since transition began.

Finally, Figure 5 compares Russia to the former republics of Yugoslavia. Yugoslavia was a market socialist economy, so the transitions of its former republics may be different in some ways from Russia or the other countries discussed above. Nevertheless, these countries have struggled with many of the same issues, such as privatization, as the other transitional economies. So it is interesting to see how Russia performs relative to them.

**Figure 5. Index of PPP Estimates of Per Capita GDP
Russia vs. the Former Yugoslavia**



According to Maddison’s estimates, the only one of these countries that Russia is outperforming is Serbia and Montenegro. It is about even with Macedonia and Bosnia. These are countries that are clearly experiencing failed transitions, no doubt in large part because of the horrific ethnic strife that has plagued the region since its breakup. On the other hand, Slovenia is clearly enjoying a successful transition. Its contraction lasted only two years and growth has been steady ever since. Eleven years after launching its transition, its per capita GDP was more than 20 percent higher than its pre-transition level. Today, the CIA Factbook’s PPP estimate of Slovenia’s per capita GDP is \$19,600—by far the highest of the transition economies, about two-thirds of Germany’s. Significantly, Slovenia has recently switched from borrower status to donor partner at the World Bank.

It is not difficult to find numerous, far more successful examples of transition than Russia's, including all four of the Visegrad countries, Estonia, and Slovenia. Indeed, the majority of the former members of the Soviet Union, and the majority of all post-socialist transition countries taken together have outperformed Russia. That Russia's transition has been more successful than Serbia's or Tajikistan's—countries rife with civil war and few internal resources—is damning with faint praise.

3 Media Freedom

Although Russia's media is not the least free in the world, it is considerably less free than the media in those countries that define the relevant point of comparison—other post-socialist transition with similar histories, both economically and politically, to Russia's.

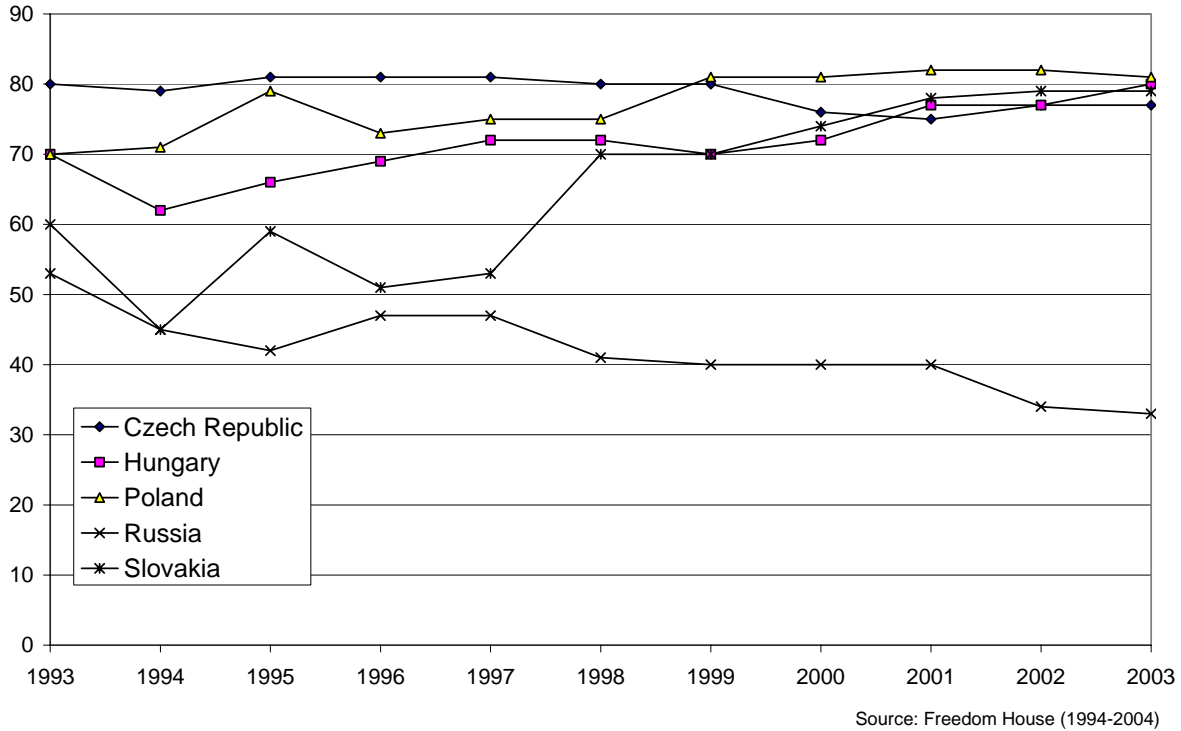
Shleifer and Treisman examine Russia's media freedom using a measure from the International Press Institute, which counted the number of cases of state censorship, suppression of journalists "by law," and imprisonment of journalists in 48 countries in 1999-2000, and weight incidences of these repressions by the number of daily newspapers in each country. While state censorship and journalist suppression/imprisonment are important factors contributing to media repression, they get at only a small portion of the total factors contributing to media freedom or suppression in a country. Freedom House's media freedom index provides a more comprehensive measure of media freedom that accounts for the factors examined by Shleifer and Treisman's measure in addition to a number of others.

Freedom House's media freedom index assigns points to countries on the basis of three equally-weighted categories related to media's independence from government to create a composite score of media freedom between zero and 100. These categories are legal

environment, which looks at laws, statutes, constitutional provisions and regulations that enable or restrict the media's ability to operate freely in a country; political environment, which evaluates the degree of political control over the content of news media in each country (such as editorial independence, official or unofficial censorship, harassment or attacks against journalists, etc.); and economic environment, which includes the structure of media ownership, media-related infrastructure, its concentration, the impact of corruption or bribery on news media content, and the selective withholding or bestowal of subsidies or other sources of financial revenue on some media outlets by the state. Media considered by this index include TV, radio, newspaper, and the Internet.

In Figure 6 we use Freedom House's data to compare Russia's media freedom between 1993 and 2003 with the experience of media freedom in our group of benchmark countries, the Visegrad Group. We have rescaled the index so that a score of zero means zero media freedom and a score of 100 means complete media freedom.

Figure 6. Press Freedom
Russia vs. the Visegrad Group



The difference between Russia’s press freedom and press freedom in the Visegrad Group is striking. The Czech Republic, Hungary, Poland, and Slovakia, have all converged on highly free media over the past decade, and now all stand at nearly the identical level of media freedom (a score of about 80 out of 100 where 100 is perfect media freedom).

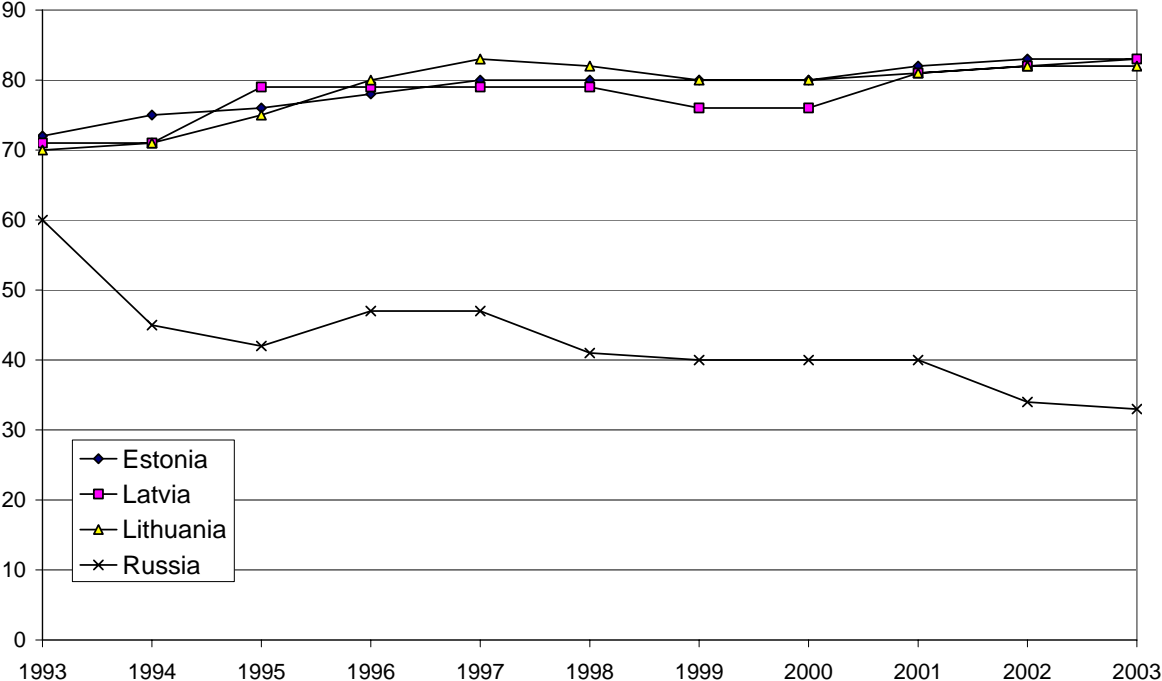
Slovakia’s experience is particularly interesting. Between 1993 and 1997, press freedom in Slovakia experienced a bumpy ride, falling from a score of 53 in 1993 to a low of 45 in 1994, and then fluctuating again for the next few years until 1998, after which media freedom has steadily increased until converging with the high level of press freedom of the other benchmark countries in 2003. Slovakia’s trend, depicted in the data, should strengthen our confidence in these numbers, since they consistently track the up and down reports about media suppression in

Slovakia in the early 90s, and then illustrate press freedom’s remarkable recovery and steady ascent widely acknowledged by outsiders since 1998.

Where does Russia stand in this comparison? At the very bottom. In 1994, Slovakia and Russia were at the same (poor) level of media freedom. The former pulled itself out this state of affairs, while Russia, in contrast, has steadily declined in media freedom ever since. Russia’s media freedom now stands at 33—less than half as free as the media in all of the benchmark countries.

Comparing Russia’s level of media freedom over the same period with media freedom in the Baltic states delivers the same picture. Russia’s press freedom is less than 40 percent of press freedom in Estonia, Latvia, and Lithuania. Consider Figure 7.

Figure 7. Press Freedom
Russia vs. the Baltic States



Source: Freedom House (1994-2004)

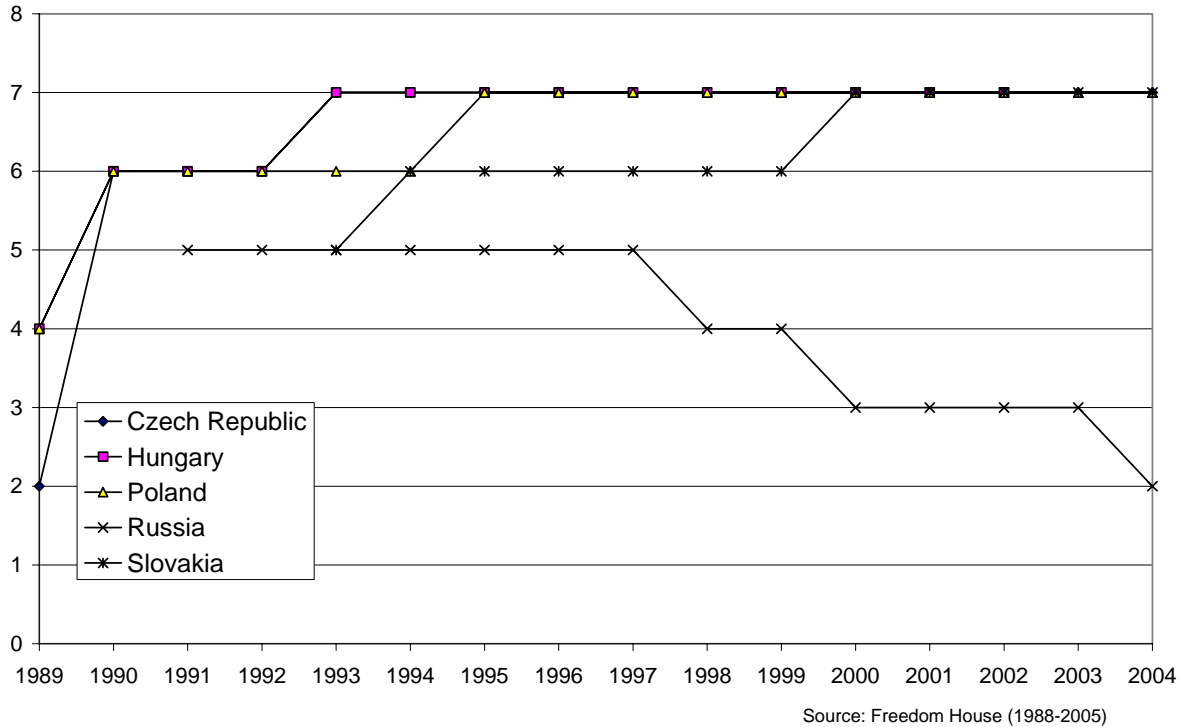
In 2003, average media freedom in the 15 former Soviet republics was 39—in Russia it was 33. Things are not dramatically different when we exclusively compare Russia’s media freedom to media freedom in only the non-Baltic former members of the Soviet Union. Among these, three have higher media freedom. In order from most to least free, these are: Georgia, Moldova, and Armenia. Eight have lower media freedom; these include the perpetual transition “losers.” In order of descending press freedom, they are: Ukraine, Azerbaijan, Kyrgyzstan, Kazakhstan, Belarus, Uzbekistan, and Turkmenistan.

However, when press freedom is indexed to its value in 1993 using the same data, Russia is nearly the lowest among even these countries. Nine outperform Russia. In order of performance these are: Tajikistan, Georgia, Uzbekistan, Azerbaijan, Armenia, Kazakhstan, Moldova, Ukraine, and Kyrgyzstan. Only two countries perform worse than Russia: Belarus, and in dead last, Turkmenistan. Once again, Russia’s experience is significantly below normal if our benchmark for normalcy refers to the other post-socialist transition countries.

4 Democracy

While Russia’s political defects may “resemble those found in many other middle income countries” (Shleifer and Treisman 2005), compared to our group of benchmark transition countries with similar political and economic histories, Russia is at the very bottom. To determine the relative political freedoms of Russia and these countries we draw again on Freedom House (1988-2005) data, which rates countries according to their level of political freedom on a scale of one to seven. We consider the years 1989-2004 and have rescaled this index so that one means the least political freedom and seven means the most. Consider Figure 8, which compares Russia to the Visegrad Group.

Figure 8. Democracy
Russia vs. the Visegrad Group



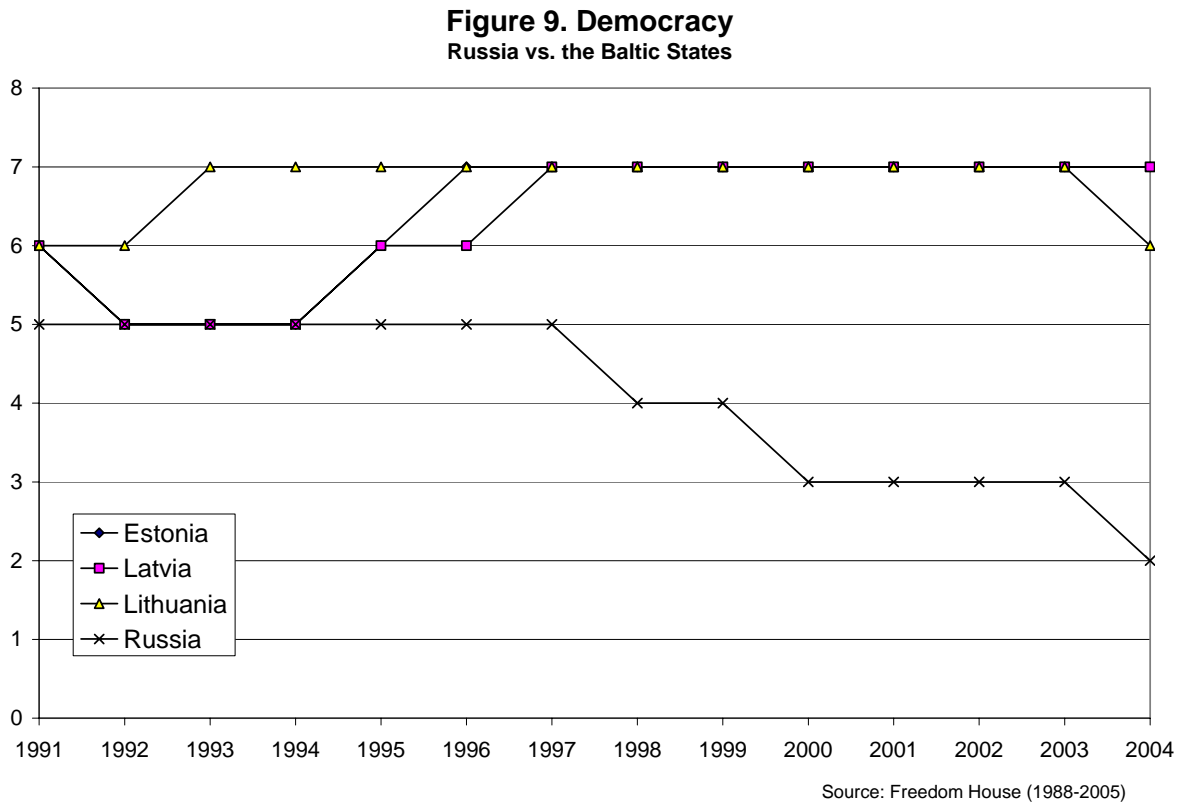
In 1989 the Czech Republic’s political freedom was at the bottom with a score of two. Hungary and Poland began somewhat better with scores of four. One year later, however, all three had risen in political freedom to a score of six, and were joined by Slovakia in 1994. By 1995, the Czech Republic, Hungary, and Poland had achieved maximum political freedom (a score of seven) where they have all remained since. Slovakia achieved maximum political freedom in 2000, and like the others has remained at this peak to the present. All of the benchmark countries made significant strides toward free political systems over the 14-year period, and the majority did so within only a year or so transitioning from socialism.

Compare the experience of these countries with Russia’s. In 1991 Russia’s political freedom was a five. It has since declined precipitously, falling to four in 1998, three in 2000,

and two—near minimum political freedom—by 2004. This is the exact opposite of political freedom’s trend among the benchmark countries.

Comparing Russia’s experience to the Baltic countries delivers virtually the same picture.

Consider Figure 9.



Since 1992, political freedom in Estonia, Latvia, and Lithuania has risen considerably. In Lithuania political freedom declined from a perfect seven in 2003 to six in 2004, but so far, the fall has been minimal. In 1992, Estonia, Latvia and Russia all had political freedom scores of five. By 1998, political freedom in the former two had risen to seven (maximum political freedom) where it remains at present. In Russia, in contrast, it had declined to four and continued to fall until nearly reaching the bottom of scale in 2004.

Finally, we use the same data to construct an index of political freedom for Russia and the remaining 11 former Soviet states over the period between 1991, the base year, and 2004. Russia comes in tied for second to last place with Tajikistan, above only Belarus, which is dead last. The countries that outperform Russia are among the weakest performing transition countries overall. In order of performance, these are: Georgia, Moldova, Armenia, Ukraine, Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan.

The same pattern holds in the raw (non-indexed) data. In 2004, average political freedom in all former Soviet republics was 3.33. In the non-Baltic FSU it was 2.5. In Russia it was only two. Four non-Baltic FSU countries have higher political freedom than Russia. From most to least free, these are: Georgia, Moldova, Ukraine, and Armenia. Only three have lower political freedom: Belarus, Turkmenistan, and Uzbekistan. So, while Russia may have democratic problems similar to some middle income countries, compared to its cohort, it is below normal. Russia's problems with democracy are considerably more severe.

5 Corruption

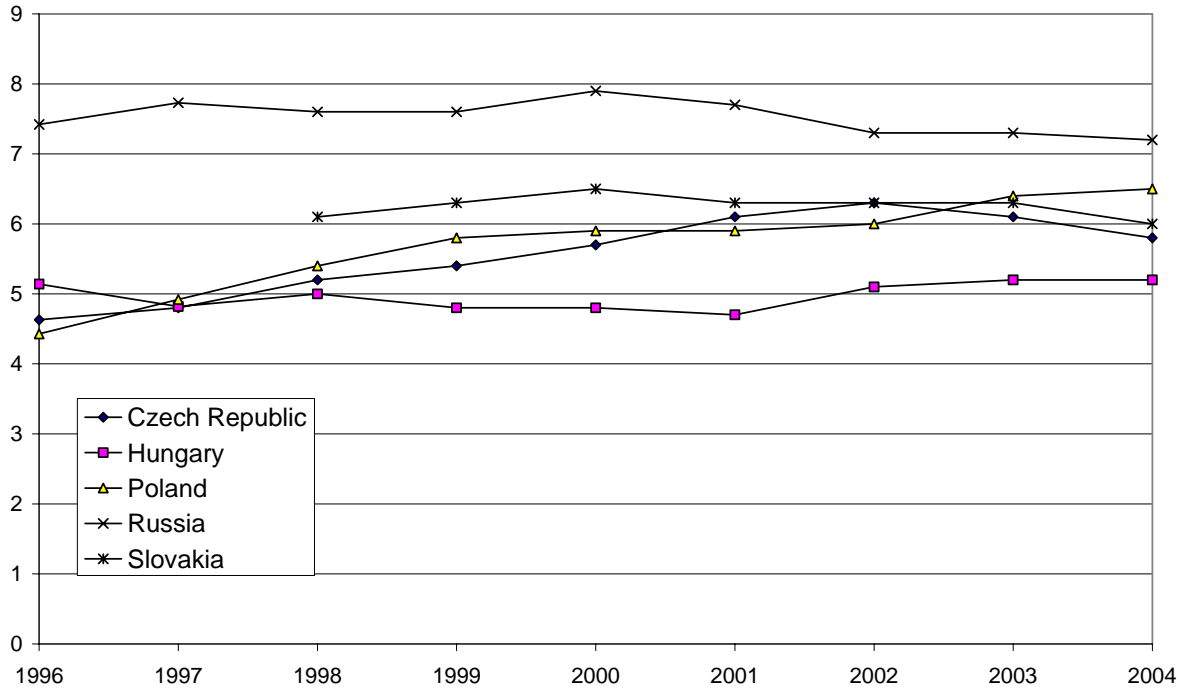
To compare the trajectory of corruption in Russia with the trajectory of corruption in the benchmark countries we rely on Transparency International's (1995-2005) data for the period between 1996 and 2004, since these are the only data that allow us to make a comparison over time. We also use the 1999 Business and Enterprise Performance Survey (BEEPS) of "insider" perceptions of corruption in the former-socialist world used by Shleifer and Treisman. Shleifer and Treisman (2005) suggest that TI's corruption ranking, which is based on outsiders' perceptions of corruption in various countries, may be flawed since it does not evaluate perceptions of corruption from the perspective of insiders. Two points are worth noting here.

First, there is no compelling reason to think that insiders' perceptions of corruption in Russia (or elsewhere for that matter) should be more objective than the evaluations of outsiders. Both outsider and insider perceptions of corruption are just that—perceptions. As such, they are subject to the subjective biases of evaluators.

Second, and importantly for navigating through these potential divergent biases in perceptions of corruption, we can get at the issue of corruption more objectively, albeit less directly, by considering flows of foreign direct investment (FDI). Because in the case of FDI there is a cost of holding “wrong” beliefs about the level of corruption in a country, we should expect that FDI levels will be more accurate indicators of corruption across countries. When it comes to FDI, individuals are compelled to “put their money where their mouth is.” So, by looking at the relative levels of FDI in Russia and the benchmark countries, we can, albeit very imperfectly, proxy the level of corruption in these countries as an alternative, and more objective, measure of corruption.

We start by comparing the perceived level of corruption in Russia with that of our benchmark countries using TI's survey data. Scores are rescaled from zero (least corrupt) to ten (most corrupt). Figure 10 compares perceived corruption in Russia vs. the Visegrad Group.

Figure 10. Corruption
Russia vs. the Visegrad Group

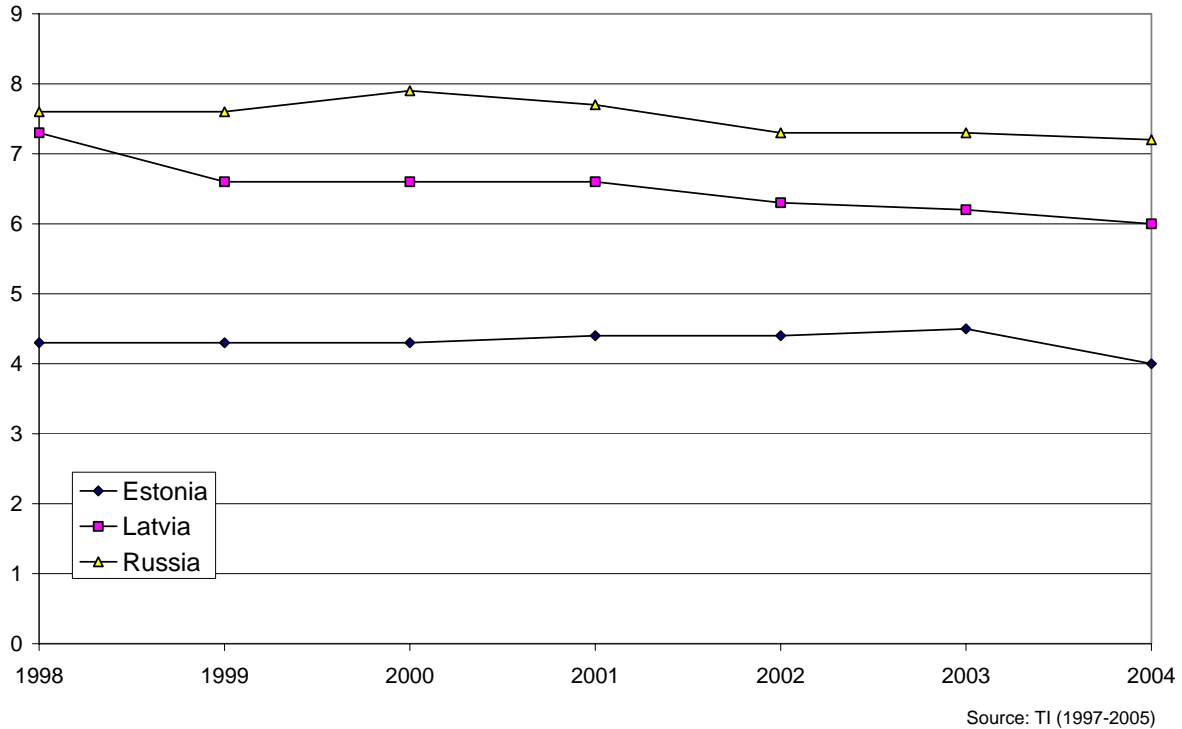


Source: TI (1995-2005)

Perceived corruption in Russia is well above its level in all of the benchmark countries and is consistently high (between seven and eight) over the entire period for which data are available (1996-2004). The members of the Visegrad Group display a wider variance in perceived corruption over time but no country, even its worse year, approaches Russia.

A comparison of perceived corruption in Russia and the former Soviet Baltic republics delivers the same picture.⁷ See Figure 11.

Figure 11. Corruption
Russia vs. the Baltic States



Data availability prevents a similar comparison between Russia and the remaining 11 former Soviet republics, though data are available for all 12 countries in 2004. Looking at this year alone may be misleading, but Russia actually fares the best here. Perceived corruption in nine of these former Soviet states, including Russia, is between seven and eight. In descending order of perceived corruption, these are: Georgia, Tajikistan, Turkmenistan, Kazakhstan, Kyrgyzstan, Ukraine, Moldova, Uzbekistan, and Russia. One country (Azerbaijan) has greater perceived corruption and two (Armenia and Belarus) have less. Thus, the bulk of these countries are clustered around a very high level of perceived corruption and this cluster includes Russia.

Looking at the insider survey used by Shleifer and Treisman delivers roughly the same picture. The BEEPS survey asked firms in each of 20 post-socialist countries questions about corruption in their respective nation.⁸ While it is true that, as Shleifer and Treisman point out,

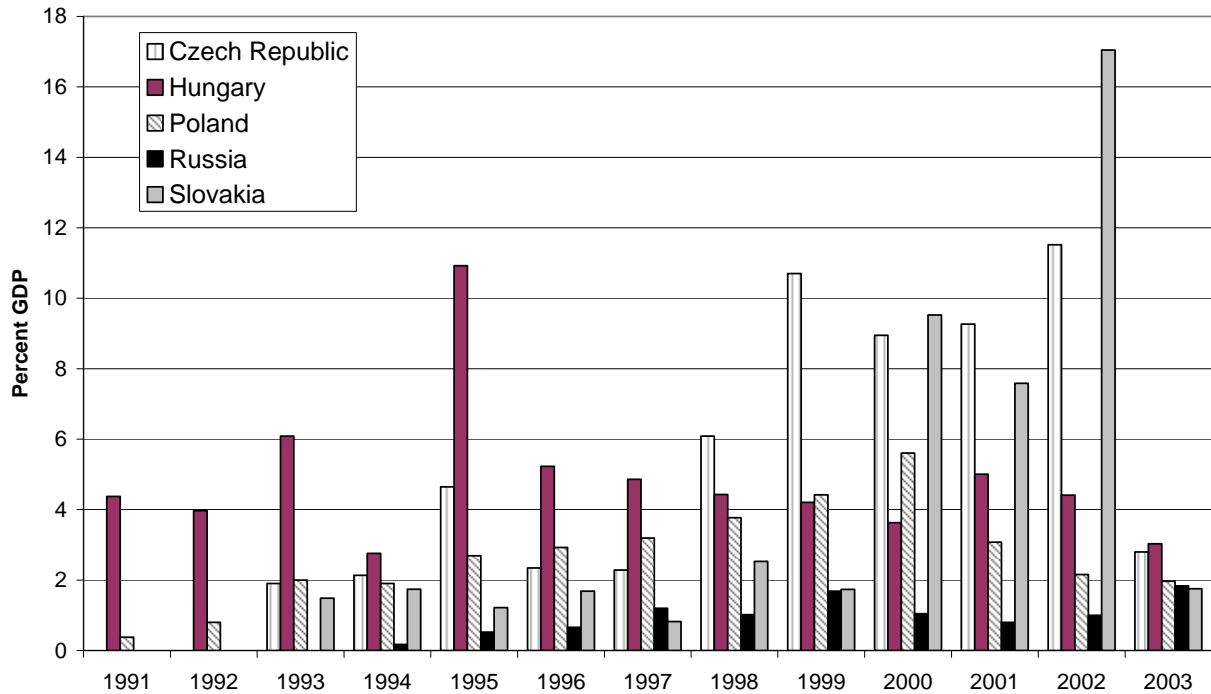
Russia falls in the middle of this pack in terms of the size of bribes and the frequency with which firms report paying them, Russia performs at the bottom of this group on several other dimensions of corruption measured by the BEEPS survey. On a question that asked respondents, “How frequently would you describe the legal system” in your country “as corrupt and dishonest?,” Russia ranked third from the bottom (out of 20). 85 percent of the firms surveyed in Russia describe Russia’s legal system as “corrupt and dishonest” “always,” “mostly” or “frequently” (Hellman et al 2000: 26). And on the “composite index of state capture” created by averaging respondent scores on all questions about corruption in their country related to the sale of political decisions, bribery to avoid taxes and regulations, etc., Russia came in at fourth from last place, with 16 other post-socialist countries having less overall insider perceived corruption (Hellman et al 2000: 24). The three countries with more overall insider perceived corruption than Russia are, from most perceived corruption to least: Azerbaijan, Moldova, and Ukraine. The 16 countries with less overall insider perceived corruption than Russia are, in descending order: Kyrgyzstan, Bulgaria, Croatia, Georgia, Slovakia, Romania, Kazakhstan, Poland, Lithuania, Czech Republic, Estonia, Belarus, Armenia, Hungary, Slovenia, and Uzbekistan.

A more objective indicator of corruption in transition countries is the willingness of outsiders to invest. All else equal, the lower corruption, the more outsiders will invest. Of course, foreign direct investment is also a function of the rules a country establishes that are more or less conducive to investment. Russia, for instance, did not permit foreigners to participate in the privatization of state-owned enterprises until 1997. Nevertheless, FDI provides an alternative, albeit still very imperfect way of trying to get at the issue of corruption in Russia vs. the benchmark countries.

Figure 12 summarizes foreign direct investment in Russia and the Visegrad Group from 1991 to 2003. It reveals some interesting differences between these five countries. Hungary was clearly the first to attract large amounts of foreign investment, which peaked in 1995 at about eleven percent of GDP and then fell back to a fairly consistent level of three to five percent each year since. The Czech Republic slowly attracted foreign investment until by 1999 FDI was around nine to eleven percent of GDP, and then fell back to three percent in 2003. Slovakia had very low levels of foreign investment until 2000 when it reached over nine percent, and by 2002 was up to 17 percent of GDP. Poland has had the least FDI of all the Visegrad countries, building up slowly to a peak of a little over five percent of GDP in 2000 and then falling off to about two percent in 2003.

As poor as Poland's performance has been in terms of attracting foreign investment, it has been wildly successful compared to Russia's. Russia had no significant investment until 1994. From 1994 to 1998, FDI remained under one percent of GDP. In 1999, it was a little higher, but still well under two percent when it fell off again until 2003, at which point it peaked at a little under two percent.

**Figure 12. Foreign Direct Investment
Russia Vs. the Visegrad Group**



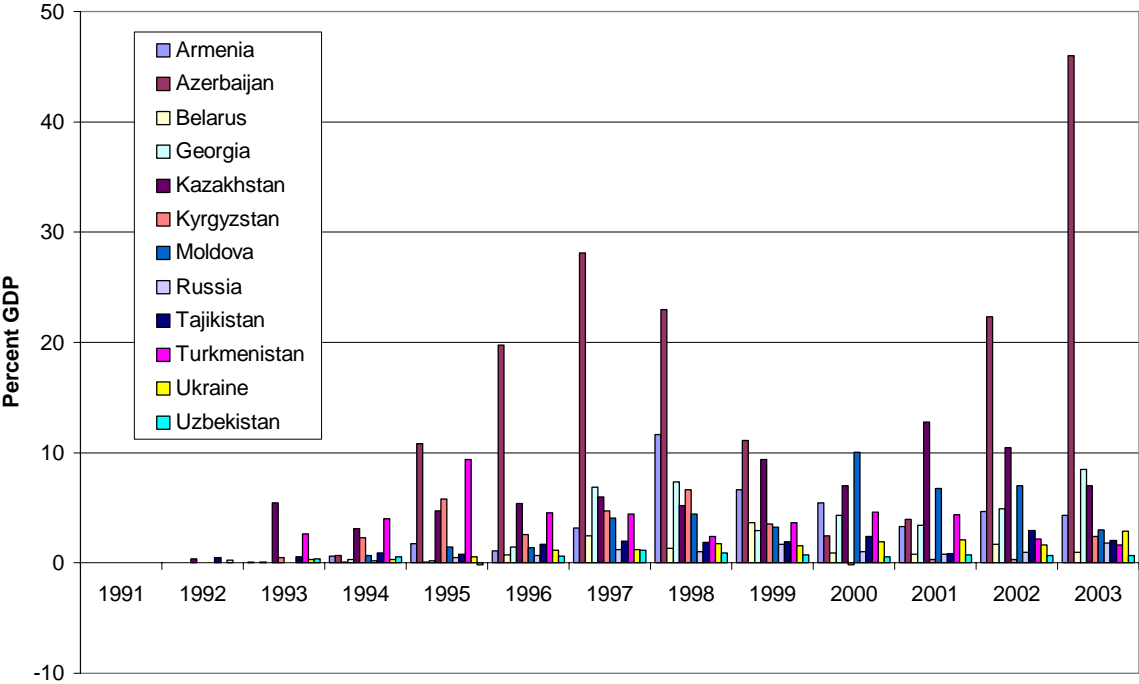
Source: World Bank (2005a)

Again, we do not present these data as definitive evidence and they need to be interpreted with caution. But what insight can be gleaned from looking at FDI flows suggests that, consistent with the other evidence considered, Russia is at the bottom. It has attracted an abnormally low level of FDI and likely suffers from abnormally high corruption compared to the benchmark countries. Furthermore, returning to the topic of economic collapse and recovery, the failure (or unwillingness) to attract FDI bodes ill for the sustainability of economic growth in Russia.

In Figure 13, we perform the same comparison for Russia and the non-Baltic former members of the Soviet Union (FSU). The results are the same. Before 1994, none of non-Baltic FSU members attracted significant FDI. In 1994 this situation improved in most of these countries. It did not, however, in Russia. In 1996, 1997, and 1998, Russia was second from the

bottom among this group in terms of FDI. In 1994, 1999, and 2002, it was third from the bottom. And in 1995, 2000, 2001, and 2003 Russia was fourth from the bottom among the non-Baltic FSU countries in terms of FDI. Even at its peak of relative performance, Russia is well below the median among its cohort in every year.

**Figure 13. Foreign Direct Investment
Russia vs. Non-Baltic FSU**



Source: World Bank (2005a)

When we compute average FDI received by each country (as a percentage of GDP) over the 12 year-period, Russia is second from the bottom. Ten of the non-Baltic FSU countries outperform Russia. From largest to smallest average FDI/GDP these are: Azerbaijan, Kazakhstan, Turkmenistan, Armenia, Moldova, Georgia, Kyrgyzstan, Tajikistan, Ukraine, and Belarus. Only one country, Uzbekistan, does worse than Russia over the period.

The same pattern is evident comparing Russia to the non-Baltic FSU as a whole. Between 1991 and 2003, average FDI as a percentage of GDP among the dozen non-Baltic

former members of the Soviet Union was 3.2. Over the same period, in Russia it was 0.77. Once again, Russia is well below “normal” compared to its cohort.

6 Conclusion

Is Russia a “normal” country? If the benchmark of normalcy is Russia’s post-socialist transition cohort, the answer is decidedly no. After communism’s collapse, Russia experienced a significantly longer and more intense economic contraction than its peers. Its recovery was not as full and continues to languish—this despite its superior natural resource position, which “artificially” boosted its economic performance. Russia’s media is significantly less free than in many other post-socialist transition countries, and below average compared to the Visegrad Group and the former members of the Soviet Union. Its democracy is substantially weaker, FDI is significantly lower, and perceived corruption considerably greater as well. Considering Russia side-by-side with the Visegrad Group and the other transition economies reveals just how poorly Russia has performed compared to the other post-socialist nations and its potential.

Shleifer and Treisman are surely right that conventional wisdom about Russia’s “disaster” is overstated. But so too is the claim that Russia is “normal,” as is the suggestion that its transition experience has been more or less successful. While the truly disastrous experiences of a few transition countries demonstrate that Russia could have done worse, by the same token, the far larger number of considerably more successful transition countries demonstrate that Russia could have done much better.

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Notes

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¹ China, of course, did not experience economic contraction, but it was hardly an industrialized economy when it launched its transition in the late 1970s.

² The World Bank's (2005a) World Development Indicators also has PPP measures of per capita GDP. We use the Maddison data set because the WDI data set is incomplete for the Czech Republic. Both sets of data use similar methods to calculate PPP GDP. In particular, they both use the Geary-Khamis formula to estimate a set of world prices.

³ According to the CIA World Factbook (2005), oil, natural gas, metals, and timber account for more than 80 percent of Russia's exports, "leaving the country vulnerable to swings in world prices," which only worsens Russia's long-run ability to come up to normal compared to the other post-socialist countries.

⁴ WDI (2005a).

⁵ Dezhina and Graham (1999).

⁶ The former Democratic Republic of Germany has been totally absorbed by the Federal Republic of Germany, which, of course, is not considered a transition country, so it is a special case. The republics of the former Yugoslavia are in transition from a very different system, market socialism. We address the former market socialist economies below.

⁷ No data are available for Lithuania.

⁸ These countries included: Armenia, Azerbaijan, Belarus, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Slovenia, Ukraine, and Uzbekistan.