

A World in Flux

*Towards a New
European Architecture*



Freedom and Prosperity in Eastern Europe

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It is one of the most important questions of all time: Do countries need freedom to achieve prosperity? Our essay explores this question by analyzing the evolution of a select group of Eastern European countries since the early 1990s.

The countries we studied shared many similarities in the early 1990s. Politically, they had all been under Communist rule until the late 1980s and several had not been independent countries until the dissolution of the Soviet Union and Yugoslavia. Economically, they were at a comparable development level at the time of the democratic revolutions that swept Eastern Europe in the late 80s and early 90s.

But by 2021 the group was no longer homogenous: they had different levels of freedom, and some had experienced robust prosperity while others had stagnated at a middle-income level. Using the scoring and ranking analysis of the Atlantic Council’s Freedom and Prosperity Indexes, described in the Analysis section below, and other measurements, we show that the countries that experienced more political, economic, and legal freedoms enjoy greater prosperity. Conversely, those which progressed less on the path of freedom are also less prosperous.

The Context

The question whether there is any correlation between freedom and prosperity is always worth

studying. But the war in Ukraine gives the debate over development models new timeliness.

Russia's invasion of Crimea in 2014 was preceded by an internal crisis in Ukraine. When President Viktor Yanukovich rejected a deal for greater integration with the European Union, Russia backed Yanukovich's violent attempt to put down protests by Ukrainian citizens who disagreed with his decision. Russia did not want Ukraine to become prosperous and democratic, and thus serve as a contrast with the economically moribund and politically oppressive authoritarian regimes in Russia and Belarus. The 2022 Russian invasion was an attempt to finish the job started in 2014. Putin is trying to keep Ukraine in the Russian sphere of influence, and have it resemble Russia politically and economically.

In its essence, the Ukraine war is about two visions for Eastern Europe. Will Russia succeed in using political subversion and military force to impose on Eastern Europe its authoritarian model in which democratic opponents are imprisoned and killed, and economic activity is rife with corruption and arbitrary interventions by the those in power? Or will the peoples of Eastern Europe be free to choose without interference the democratic and free market model represented by the European Union?

This is a pivotal moment of change for Eastern Europe, similar in significance to that of the collapse of the Soviet Union. Examining the progress made by several former communist countries over the past 30 years can provide useful lessons for the countries of the region and elsewhere.

The Analysis

We first selected from among Europe's formerly Communist countries a group with a comparable level of economic development in 1996, the first year with World Bank data for all post-Communist countries. In that year, the World Bank's lower-middle income group included countries with GNI per capita between \$3,115 and \$786.

Our select group thus became Albania, Belarus, Bulgaria, Estonia, Latvia, Lithuania, Montenegro, North Macedonia, Romania, Russia, Serbia, and Ukraine, all in Eastern Europe.

We excluded countries with a 1996 GNI per capita higher than \$3,115: Poland, Croatia, Czech Republic, Hungary, Slovak Republic, and Slovenia, all in Central Europe. We also excluded countries with a 1996 GNI per capita lower than \$786: Moldova and Bosnia & Herzegovina, both in Eastern Europe.

We then ranked these countries by their progress towards greater freedom by 2021 using the Atlantic Council's Freedom Index. This index assigns scores to 174 countries for their economic, political, and legal freedoms, the latter reflecting the strength of the rule of law in a country. Depending on their score, countries are then categorized as free, mostly free, mostly unfree, and unfree.

We then created two groups. Group 1 includes all countries in the select group that are in the "free" category of this index. Group 2 includes all the other countries in our select group.

Next, for countries in both groups, we compared their GDP per capita levels in 1996 and 2021, and calculated GDP growth multiples for each country and for both groups.

We also checked which countries had escaped the "middle income trap" by 2021. This term refers to the fact that, over the years, many developing countries succeeded in advancing from the World Bank's low income to the middle-income category but did not cross the threshold of the high-income category, which the World Bank defined in 2021 as a GNI per capita of \$13,205.

The final step in our analysis was to look at 2021 measurements of development other than economic growth. We used the Atlantic Council's Prosperity Index, which, while factoring in income as important to prosperity, also reflects measurements on health, the environment, happiness, and government treatment of minorities.

The Results

Table 1: Former Communist lower-middle income countries in Eastern Europe

	Freedom Score 2021	Freedom category	GDP per capita 1996	GDP per capita 2021	GDP Growth Multiple	Escaped Middle Income Trap	Prosperity Score 2021
Estonia	87	Free	13,559	38,207	2.8	Y	66
Lithuania	82	Free	11,275	38,958	3.5	Y	64
Latvia	82	Free	9,961	31,689	3.2	Y	63
Romania	76	Free	12,627	30,855	2.4	Y	60
Group 1 Average	82		11,856	34,927	3.0		63
Bulgaria	71	Mostly Free	12,016	23,432	2.0	N	56
Montenegro	64	Mostly Free	12,579	20,567	1.6	N	55
Albania	64	Mostly Free	4,909	14,520	3.0	N	56
North Macedonia	63	Mostly Free	9,104	16,464	1.8	N	54
Serbia	62	Mostly Free	8,246	19,762	2.4	N	60
Ukraine	54	Mostly Free	7,180	12,944	1.8	N	48
Russia	41	Mostly Unfree	12,827	27,970	2.2	N	49
Belarus	39	Mostly Unfree	5,988	19,751	3.3	N	50
Group 2 Average	57		9,106	19,426	2.3		54

Scores and categories are from the Atlantic Council's Freedom Index and Prosperity Index.

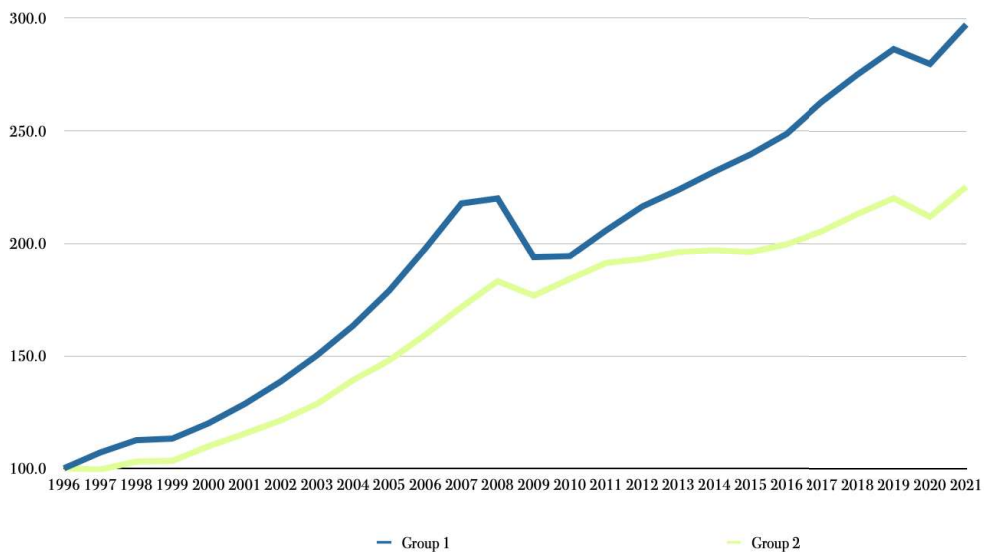
GDP per capita data are measured by Purchasing Power Parity (PPP), constant 2017 international dollars. GDP per capita data are from the World Bank. For Montenegro, the 1996 GDP value is for 1997, the earliest available.

The high-income threshold (middle-income trap limit) for 2021 was set by the World Bank at \$13,205 GNI per capita, Atlas method, current US dollars (Note: It is a different scale from the GDP per capita values in Table 1).

- » In 2021, the countries in Group 1 had a freedom score 40 percent higher than that of the countries in Group 2. The average freedom score of 82 for Group 1 countries compared favorably with the score of 85 for OECD countries. The freedom score average for Group 2 was only 57.
- » By 2021, the countries in Group 1 had grown faster than those in Group 2. Between 1996 and 2021, the GDP per capita of Group 1 countries increased 3.0 times while that of Group 2 countries just 2.3 times (Table 1 and Chart 1).

- » All countries in Group 1 escaped the middle-income trap. None of the countries of Group 2 did.
- » All countries in Group 1 also tend to rank better in the broader Prosperity Index than those in Group 2. Serbia is the only Group 2 country to achieve a Prosperity Score within three points of the Group 1 average. Although Serbia's GDP Growth Multiple is consistent with those of the other countries in Group 2, it outperforms them on the Environment, Minority Rights, and Happiness indicators in the Prosperity Index, thus raising its total Prosperity Score.

Chart 1: GDP per capita growth 1996 to 2021



Average GDP per capita, PPP, constant 2017 international \$, (1996=100)

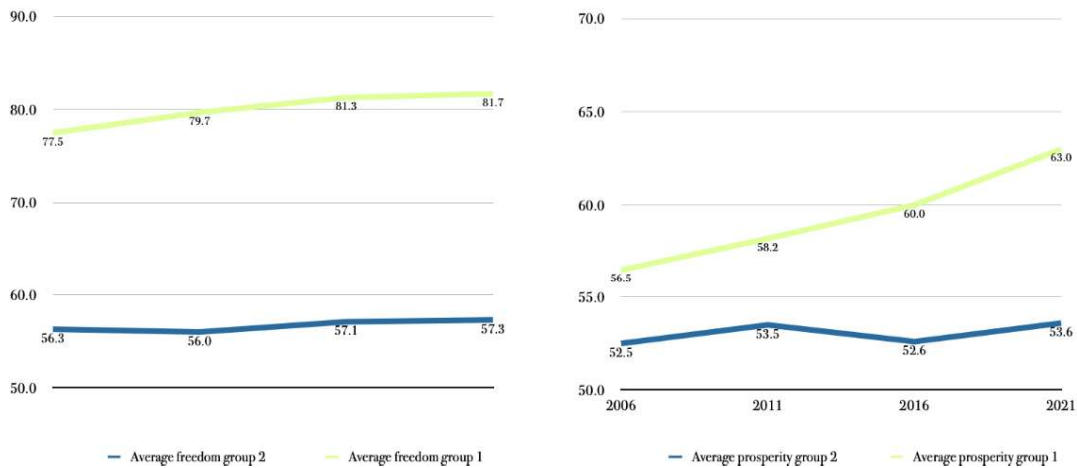
Data are from the World Bank.

Another way to explore the performance of the two groups of countries is to use the scores in the Freedom Index and the Prosperity Index for the past 15 years – please see Chart 2.

Between 2006 and 2021, the Group 1 countries improved their scores on these two indexes by 5% and 11%, respectively. The corresponding number for Group 2 was 2%.

High and improving freedom scores indicate countries with positive conditions for greater prosperity. Such situations create cycles of reinforcement in which more freedoms build a prosperous middle-class citizenry that demands yet more freedoms that in turn perpetuate more human flourishing.

Chart 2: Average freedom and prosperity scores between 2006 and 2021



Source: Scores from the Atlantic Council's Freedom and Prosperity Indexes

Policy Implications

Our data suggest that countries that want more prosperity should increase their economic, political, and legal freedoms, with the latter being defined as an impartial rule of law; transparent, corruption-free, and effective political institutions; and good governance.

Our analysis also points to a positive role for the European Union (EU). All the countries in Group 1 are members of the EU. And so is Bulgaria, the Group 2 country with the highest freedom score and second highest prosperity score. All the other countries in Group 2 are candidates to EU membership, with two notable exceptions: Russia and Belarus. These two countries have the worst freedom scores and the second and third worst prosperity scores in our select group.

The source of the appeal for EU membership is clear. In 2021, the average freedom score of EU member countries was 82, which compared with 62 for our group of EU candidate countries, or 33% higher. The respective prosperity scores were 75 and 55, or 37% higher. Using a narrower measure of prosperity, the respective average 2021 GDP per capita numbers were \$44,024 and \$16,851, or 161% higher.

Former Soviet Bloc countries that joined the EU left behind their Communist history of political repression, inefficient centrally planned economies, and corrupt judicial processes. Instead, they entered a world of political and economic freedom, respect for the rule of law, and prosperity. The EU offers these countries a free trade area for their companies pursuing business growth and freedom of movement for their citizens seeking educational and work opportunities.

During the long years of preparation for EU accession, candidate countries had to implement many profound reforms and show perseverance in their progress away from their Communist past. Corruption, in particular, was a pervasive problem. The current EU membership candidates will need leaders of intense political will, who are prepared to push meaningful reforms – especially in their national judiciary and law enforcement systems.

Some analysts and public commentators complain that the EU's leadership is unelected and unaccountable to voters, that the EU is overly bureaucratic and growing more so, and that it is often insensitive to important cultural traditions of member countries. To a majority of the Brexit referendum voters in the UK, a developed country with a long democratic tradition, these and other perceived disadvantages of EU membership outweighed the advantages. But for Eastern Europe's former Communist countries, the EU's rules and standards catalyzed national consensus for reforms to make a clean break with their former malefic and malfunctioning Communist political and economic system. Today, EU support for reform in candidate member states, culminating in their EU membership, is a propellant for freedom and prosperity in these countries.

Which leads us to Ukraine, whose strong desire to join the EU and the free world in general was one of the main reasons for the Russian aggression against it, both in 2014 and in 2022. The Ukrainian people have heroically proven their determination to be forever free from domination by the Russian state, which to this day preserves many

of the Soviet Union's pathologies in its political and economic structure. In 2022, Ukraine asked for accelerated consideration of its EU membership, and the EU granted it candidate status. But Ukraine has a long way to go to meet EU standards. Its standing in the Atlantic Council's indexes is telling: In 2021, before the Russian invasion, Ukraine had the third lowest freedom score among Group 2 countries and the lowest prosperity score.

Conclusion

In time the war will end, and Ukraine will rebuild. Ukraine will need profound societal reforms as part of its rebuilding process, especially regarding corruption. Its people will have to show in this task the same courage and determination as it is showing in the war. But they are clear about their choice. They believe that greater economic, political, and legal freedoms are the surest path towards prosperity. And that the EU has a key role to play in helping them along the way. Other former Communist countries in Eastern Europe that aspire to join the European Union need to also stay the course regarding their own path of reform.