

Post-Communist Transition as a Critical Juncture: Political Origins of Institutional and Cultural Bifurcation

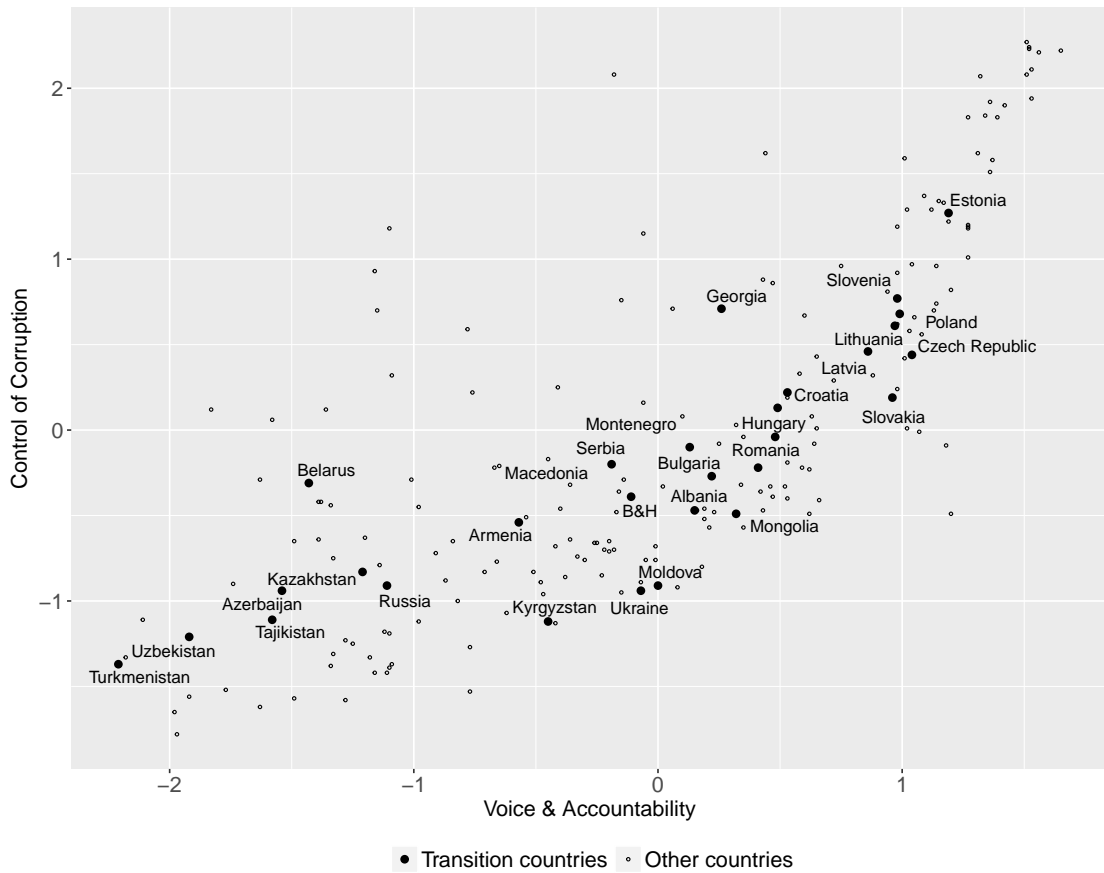
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Extended Abstract

1 Introduction

Post-communist countries, despite of similarities of their political and economic systems prior to the collapse of the Eastern Bloc, presently exhibit vastly different institutional regimes, ranging from robust market democracies to oppressive autocracies, with disparate social and economic outcomes (Figure 1). Cultural differences between these countries are similarly startling, especially in terms of modern vs. traditional views, autonomy vs. paternalism, and civic culture vs. survival values (Inglehart and Baker, 2000).

Figure 1: Institutional quality across transition region in a global perspective (2016)



Source: Worldwide Governance Indicators project

Vast literature on successes and failures of post-communist reform offers various explanations of such uneven outcomes, which conventionally invoke, *inter alia*, geography and long-term cultural heritages (“legacies”) (see e.g. Pop-Eleches and Tucker, 2017; Sachs, 2018). Alternately, and in the light of more recent institutional theories, such heterogeneity can be seen as divergence of institutional regimes past a “critical juncture,” when factors which appear to be temporary and not expected to have long-term consequences, in fact send economic and political institutions in different directions and trigger persistent institutional patterns of either inclusive or extractive type (Acemoglu and Robinson, 2012). Economically, inclusive institutions are public production inputs supporting private sector development; politically, they ensure representation of broad societal interests. Extractive institutions, on the contrary, protect economic and political interests of the elites (“oligarchies”) at the expense of the rest of society.

A wealth of historical evidence suggests that a critical juncture could leave behind an extractive institutional regime if political power at the time when institutions are malleable is narrowly concentrated and devoid of checks and balances. In such case ruling elites form an oligarchy which crafts and thereafter protects extractive economic and political institutions. Vice versa, if political power at a critical juncture is distributed broadly and subjected to checks and balances, inclusive economic and political institutions obtain. In both cases institutions “harden” after a critical juncture and are sustained via resp. vicious or virtuous circles. Therefore, political plurality at a critical juncture (representation of diverse social forces and interests, and checks and balances) serves as a “sorting factor”, making the difference between inclusive or extractive institutions that ensue (Acemoglu and Robinson, 2012).

Although post-communist transition in the early 1990s bore all the hallmarks of a critical juncture (see e.g. Gelman, 2015; Gaber et al., 2018), such role of the transition has not yet been demonstrated empirically, and the present paper fills this gap. Nor was it shown in the literature that plurality in the early years of transition has had long-term consequences for institutional quality, perceptible through the present time, which is another task of the paper. We also demonstrate that plurality of transition, measured by the number of political veto players¹ (Tsebelis, 2002) in the early 1990s, explains cross-country variations of economic inequality in the post-Communist region over the ensuing quarter of century — this is in agreement with the role of transition’s plurality as a sorting factor for institutional quality, since high inequality is typical for extractive institutional regimes. Finally, we observe strong correlation between transition’s plurality and the attitudes to democracy and free market in post-communist nations – countries which had more checks and balances in the early 1990s exhibit stronger social support of the market democracy. We explain this finding by the “institutional learning” as a mechanism shaping views and attitudes in a society (Mishler and Rose, 2007), and provide direct evidence of such process at work by establishing mediating role of institutions in the link between transition plurality and attitudes in society.

¹Veto players are conventionally defined as independent political actors with the ability to block government decisions and policies.

2 Earlier literature

In the late 1980s-early 1990s there was a near consensus that successful transition required a strong executive autonomy insulated from societal control, and suspension of checks and balances in the interests of a resolute and radical reform (Haggard and Kaufman, 1995; Rodrik, 1996; Roland, 2000; Roland, 2002). This view was based on the premise that a transition from the command economy to the free market was fraught with a deep recession, individual and systemic risks, social and economic dislocations, and as such was unlikely to get broad support in the society. To overcome such political constraints *ex ante*, it was recommended to ease democratic accountability of government to society and implement “reform from above”, empowering winners and subduing losers, giving additional powers to the executive branch and insulating the reformers from societal control (Hellman, 1998), on the hope to obtain the necessary endorsement *ex post*, when reform benefits would fully transpire, winning support of the early skeptics.

Among a few dissenting voices at the time were Bresser Pereira et al. (1993) who argued that more inclusive, pluralistic and competitive reform politics would stand better chances to consolidate the new economic and political institutions. Hellman (1998) warned against the danger of capture of the new institutions by narrow interests when checks and balances are weakened and the society at large lacks proper political representation. In such case “early winners” are opposed to reform completion and have the incentive to maintain sources of “transitional rent” from a partially liberalized and non-transparently privatized economy. He observed a positive correlation between reform success and executive turnover in transition countries, arguing that political competition and democratic accountability were in fact conducive to successful transition.

Gelbach and Malesky (2010) took this argument a step further and put it on a more solid empirical footing by relating reform progress measures produced by EBRD and the incidences of reform reversals to the checks and balances proxied by the number of political veto players (Tsebelis, 2002). These authors either average veto players over the 1992-2004 period, or use the current numbers of veto players in panel estimations over the same period, and find a positive association between veto players and successful transition. However, the significance of contemporaneous veto players for further reform progress declines at more advanced stages of transition. This finding points out to greater importance of veto players early on in the post-communist transition, suggesting a critical juncture effect, which however was not directly tested and confirmed in the above paper.

So far empirical analyses of critical junctures in institutional change did not involve the transition region, focusing instead on former colonies (Acemoglu et al., 2001) and other samples of nations, regions, historical events and potential sorting factors (Acemoglu and Robinson, 2012). Gelman (2015), using a weaker critical juncture concept, observes several of those in Russia’s post-communist history; however, all of them were milestones, rather than turning points, in the country’s institutional transformations. Gaber et al. (2018) show that suppres-

sion of democracy in Russia in the early 1990s for the sake of reform expediency has left behind an extractive institutional regime controlled by oligarchies (see also Polishchuk, 2013), and that such regime in its turn had a profound effect on views and attitudes in the society.

In this paper, we build on the above literature and present direct evidence of a critical juncture effect in the early years of the post-communist transition by showing that political plurality *in the early 1990s* has had a strong and lasting impact on the institutional quality until the present time.

3 Data

We use the number of veto players from the Database of Political Institutions (Beck et al., 2001) to measure the degree to which transition politics was pluralistic and subject to checks and balances. We are interested in these measures in the early 1990s, when a critical juncture is expected to have occurred. More exactly, we average the veto player numbers over 1991-1993 (for some countries, data exist for less than three years, in which case the available data is averaged).

Our main dependent variables of interest are measures of institutional quality from the Worldwide Governance Indicators project (<https://goo.gl/FHfDyi>), which include annual scores of national institutions and governance in the following broad categories: Voice and Accountability; Political Stability and Lack of Violence; Government Effectiveness; Regulatory Quality; Rule of Law, and Control of Corruption. We use these measures for the period from 1996 through 2016. Notice that this period does not overlap with the 1991-1993 interval for which our critical juncture’s sorting factor is estimated.

We also expect to find a long-term impact of the critical juncture on economic inequality, which is measured by the annual Gini indexes (World Bank). We use control variables which are conventionally included in comparative institutional studies in the transition region, such as log GDP per capita and natural resources (World Bank) and the log distance of a nation’s capital to Vienna or Berlin, whichever is closer (<https://goo.gl/Lg2VW6>).

To observe a long-term impact of the critical juncture on views and attitudes in the society, we use the EBRD’s Life in Transition survey data (<https://goo.gl/ULTNnM>), where our main variables of interest are preferences for democracy and market economy. Summary statistics is presented in Table 1.

4 Impact on institutions

Our baseline estimations are panel regressions for 27 transition countries over the 1996-2016 period with time fixed effects and standard controls. Dependent variables in these regressions are the above listed institutional quality measures and the Gini index, and the main independent variable — the average number of veto players in 1991-1993. Estimation results are presented in Table 2.

Table 1: Summary statistics

	Obs	Mean	Std Dev	Min	Max
Veto Players	27	2.568	1.399	1	5
GDP per capita PPP in const \$ (log)	30	8.921	0.644	7.294	9.881
Distance from West (log)	30	6.925	1.083	4.005	8.732
Natural Resources (% of GDP)	30	3.880	7.846	0	42.131
GINI Index	352	32.553	5.080	16.230	46.400
Voice & Accountability	539	-0.094	0.922	-2.260	1.280
Political Stability	533	-0.007	0.752	-2.140	1.310
Government Effectiveness	534	-0.105	0.694	-1.640	1.190
Regulatory Quality	534	0.029	0.848	-2.130	1.700
Rule of Law	539	-0.220	0.750	-1.650	1.370
Control of Corruption	539	-0.328	0.672	-1.540	1.300
Preference for Market Economy	87	0.407	0.103	0.162	0.710
Preference for Democracy	87	0.543	0.113	0.239	0.808

Table 2: Institutional quality and economic inequality after critical juncture

	Voice & Account	Political Stability	Govern Effect	Regul Quality	Rule of Law	Corrupt Control	GINI Index
Veto	0.227*** (0.033)	0.125*** (0.030)	0.050** (0.023)	0.098*** (0.031)	0.162*** (0.027)	0.118*** (0.021)	-0.539** (0.240)
GDP	0.143** (0.056)	0.077 (0.070)	0.288*** (0.032)	0.284*** (0.051)	0.321*** (0.043)	0.263*** (0.043)	2.088*** (0.717)
Distance	-0.253*** (0.036)	-0.272*** (0.040)	-0.227*** (0.020)	-0.181*** (0.027)	-0.151*** (0.027)	-0.166*** (0.024)	2.312*** (0.364)
Resources	-0.034*** (0.002)	0.015*** (0.002)	-0.027*** (0.002)	-0.044*** (0.002)	-0.023*** (0.002)	-0.022*** (0.002)	-0.221 (0.162)
Constant	-0.047 (0.652)	0.827 (0.754)	-1.242*** (0.375)	-1.468** (0.578)	-2.476*** (0.489)	-1.823*** (0.488)	1.425 (8.013)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	485	479	480	480	485	485	322
Adj R^2	0.597	0.300	0.587	0.530	0.541	0.524	0.151

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Robust standard errors in parentheses.

We observe a strong impact of the checks and balances at the critical juncture on the institutional quality over the next quarter of a century period. For all six institutional quality measures, the number of veto players in the early 1990s has the expected (positive) sign and is statistically significant at the 1% level, with a single exception of government effectiveness, where the significance is at 5%. All controls have the expected signs and are also most of the time significant, but the critical juncture effect remains strong, both statistically and numerically, even after these other factors have been controlled for.

The estimation results are robust to alternative specifications of the above model. We should mention in particular the inclusion of regional fixed effects (for the following macro-regions: (i) former Soviet republics, with the exception of the Baltic states; (ii) other Asian post-communist nations; (iii) the Baltic states; (iv) other European post-communist nations). Estimation results with such fixed effects included become even sharper — veto players number in the early 1990s are now significant 1% for all six measures of institutional performance, and rise in magnitude by 25-75%.

In the last column of Table 2, we present estimation results for the Gini index as a dependent variable. Here, too, we observe lasting and statistically significant impact of the critical juncture, which should be expected, since extractive institutions (which fare poorly in the Worldwide Governance Indicators scores) go hand-in-hand with high economic inequality.

Finally, we check for possible decreasing returns to checks in balances at a critical juncture in terms of improved institutional quality. Such effect can be expected, since excessive veto players could be an obstacle to policy change (see e.g. Gelbach and Malesky, 2010). In a similar vein, Acemoglu and Robinson (2012) argue that, in addition to plurality and checks and balances, inclusive institutions require adequate political centralization as a prerequisite for state capacity to serve as an institutional provider and guardian. To see if such effect transpires in our data, we add to the above described panel the square of veto players number. The coefficient of this variable in such estimations is negative for all measures of institutional quality, which is consistent with decreasing returns to checks and balances, but is significant (at the 1% level) only for the voice and accountability and regulatory quality measures. The optimal number of veto players for these measures across our panel is slightly above three.

5 Institutional learning

Modern theories of cultural change emphasize the importance of institutional learning as a mechanism shaping views and attitudes in the society to particular institutions, including free market and democracy, through personal first-hand experience of living under such institutions (Mishler and Rose, 2007). The above analysis indicates that checks and balances at the critical juncture of post-communist transition have had a strong effect on institutional performance, which makes one to expect that, via institutional learning, the same sorting factor could be behind the observed variations in attitudes to market and democracy across the post-communist region.

This is indeed the case, as evidenced by panel regressions of support to free market and democracy, recorder by the 2006, 2010, and 2016 rounds of the Life in Transition surveys across 26 transition nations for which all required data is available. In both regressions, the number of veto players in the early 1990s has the expected sign and is significant at the 1% and 5% levels.

Table 3: Views and attitudes after critical juncture

	Market Econ	Democracy
Veto	0.031*** (0.010)	0.025** (0.010)
GDP	-0.102*** (0.023)	-0.069** (0.029)
Distance	0.017 (0.012)	0.027* (0.014)
Resources	0.008* (0.004)	-0.004 (0.005)
Constant	1.133*** (0.247)	0.961*** (0.308)
Time FE	Yes	Yes
N	78	78
Adj R^2	0.333	0.151

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Robust standard errors in parentheses.

To obtain direct evidence that institutional quality mediates, in the sense of Baron and Kenny (1986), the impact of critical juncture on views and attitudes, we include in the regressions reported in Table 3 values of various institutional quality indexes used in our analysis for the observation year, and then add lagged values of those indexes for an increasing number of preceding years (up to 10 years back). If the conjectured mediation is indeed at work, such inclusion should gradually reduce, statistically and/or numerically, the impact of veto players in 1991-1993 on views and attitudes. Indeed, we observe the expected decline of direct significance of checks and balances at the critical juncture for some combinations of views and attitudes, on the one hand, and institutional measures, on the other, whereas for other combinations such mediation effect is weaker or absent.

Table 4 reveals particular aspects of the institutional environment that are shaping views and attitudes to institutions in the course of institutional learning. Control of corruption stands out as the most salient of all such aspects both for attitudes to market and democracy (interestingly, the Voice and Accountability measure plays no role in the institutional learning affecting support of democracy in a society).

Table 4: Mediation effect of institutions on views and attitudes

	Voice & Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Market Economy	Absent	Weak	Weak	Absent	Weak	Strong
Democracy	Absent	Weak	Medium	Strong	Medium	Strong

Table 5: Mediation of preference for market economy by corruption prevention

	Preference for Market Economy								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Veto	0.031*** (0.010)	0.031*** (0.010)	0.031*** (0.010)	0.029*** (0.010)	0.029*** (0.010)	0.025** (0.010)	0.025** (0.011)	0.021* (0.011)	0.020 (0.012)
GDP	-0.102*** (0.023)	-0.103*** (0.023)	-0.107*** (0.023)	-0.102*** (0.023)	-0.104*** (0.023)	-0.105*** (0.023)	-0.103*** (0.023)	-0.106*** (0.023)	-0.106*** (0.023)
Distance	0.017 (0.012)	0.018 (0.012)	0.018 (0.012)	0.018 (0.011)	0.017 (0.011)	0.016 (0.012)	0.018 (0.012)	0.014 (0.013)	0.013 (0.014)
Resources	0.008* (0.004)	0.008* (0.005)	0.008* (0.005)	0.008* (0.005)	0.008* (0.005)	0.008* (0.004)	0.008* (0.004)	0.008* (0.004)	0.007 (0.005)
Corrupt		0.002 (0.019)	-0.158 (0.109)	-0.126 (0.118)	-0.115 (0.127)	-0.126 (0.135)	-0.144 (0.138)	-0.126 (0.134)	-0.133 (0.137)
$L^1(\text{Corrupt})$			0.162 (0.103)	-0.007 (0.176)	-0.016 (0.182)	0.068 (0.183)	0.073 (0.184)	0.059 (0.172)	0.088 (0.187)
$L^2(\text{Corrupt})$				0.141 (0.106)	0.103 (0.150)	0.093 (0.147)	0.116 (0.153)	0.120 (0.152)	0.107 (0.152)
$L^3(\text{Corrupt})$					0.038 (0.098)	-0.190 (0.181)	-0.207 (0.189)	-0.206 (0.192)	-0.248 (0.244)
$L^4(\text{Corrupt})$						0.169 (0.106)	0.131 (0.114)	0.145 (0.119)	0.179 (0.166)
$L^6(\text{Corrupt})$							0.046 (0.058)	-0.040 (0.099)	-0.056 (0.110)
$L^8(\text{Corrupt})$								0.067 (0.055)	0.075 (0.079)
$L^{10}(\text{Corrupt})$									0.005 (0.075)
Constant	1.133*** (0.247)	1.136*** (0.247)	1.175*** (0.244)	1.142*** (0.243)	1.159*** (0.247)	1.211*** (0.246)	1.180*** (0.247)	1.247*** (0.252)	1.264*** (0.257)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	78	78	78	78	78	78	78	78	77
Adj R^2	0.333	0.323	0.330	0.335	0.327	0.340	0.335	0.340	0.323

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Robust standard errors in parentheses.

Tables 5 and 6 vividly illustrate such role of corruption prevention — the direct (non-mediated) impact of the number of veto players steadily declines in magnitude and significance, when the lag (learning period) depth increases, and loses significance altogether for the learning period of four years in the case of democracy and ten years in the case of market economy. In other words, the impact of critical juncture on views and attitudes is fully mediated by corruption and prevention thereof.

Table 6: Mediation of preference for democracy by corruption prevention

	Preference for Democracy								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Veto	0.025** (0.010)	0.023** (0.010)	0.022** (0.010)	0.022** (0.010)	0.021** (0.010)	0.018 (0.011)	0.017 (0.011)	0.014 (0.012)	0.016 (0.013)
GDP	-0.069** (0.029)	-0.077*** (0.027)	-0.084*** (0.027)	-0.083*** (0.027)	-0.087*** (0.027)	-0.088*** (0.027)	-0.086*** (0.027)	-0.088*** (0.027)	-0.087*** (0.028)
Distance	0.027* (0.014)	0.032** (0.014)	0.032** (0.013)	0.032** (0.013)	0.032** (0.014)	0.030** (0.015)	0.033** (0.015)	0.029* (0.017)	0.032* (0.018)
Resources	-0.004 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)	-0.002 (0.005)
Corrupt		0.030 (0.022)	-0.232 (0.146)	-0.226 (0.149)	-0.201 (0.153)	-0.211 (0.151)	-0.228 (0.163)	-0.215 (0.164)	-0.196 (0.169)
$L^1(\text{Corrupt})$			0.265* (0.138)	0.230 (0.208)	0.210 (0.210)	0.286 (0.214)	0.291 (0.213)	0.281 (0.206)	0.210 (0.236)
$L^2(\text{Corrupt})$				0.029 (0.134)	-0.060 (0.190)	-0.069 (0.191)	-0.047 (0.202)	-0.045 (0.202)	-0.016 (0.205)
$L^3(\text{Corrupt})$					0.089 (0.112)	-0.120 (0.235)	-0.137 (0.231)	-0.136 (0.229)	-0.036 (0.288)
$L^4(\text{Corrupt})$						0.155 (0.151)	0.118 (0.183)	0.128 (0.186)	0.044 (0.229)
$L^6(\text{Corrupt})$							0.044 (0.082)	-0.017 (0.116)	0.020 (0.128)
$L^8(\text{Corrupt})$								0.048 (0.072)	0.011 (0.113)
$L^{10}(\text{Corrupt})$									0.010 (0.090)
Constant	0.961*** (0.308)	1.006*** (0.299)	1.070*** (0.292)	1.063*** (0.291)	1.101*** (0.296)	1.149*** (0.306)	1.120*** (0.311)	1.167*** (0.328)	1.122*** (0.334)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	78	78	78	78	78	78	78	78	77
Adj R^2	0.151	0.154	0.179	0.168	0.162	0.166	0.157	0.150	0.109

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Robust standard errors in parentheses.

6 Tackling endogeneity

Institutional development past a critical juncture is shifted by contingent events which could be a source of exogenous variations (Acemoglu and Robinson, 2012). In our case such variations are reflected by the number of political veto players in the early years of post-communist transformations, which makes such numbers a potential instrument for institutions to deal with the endogeneity problem in empirical analyses linking institutions to various social, economic, and political outcomes. We have tested such new instrument in a 2SLS estimation of the impact of institutions for economic inequality across the transition region. Second stage fitted institutional variables are significant at the 1% level, whereas the F-statistics at the first stage is safely above the “rule of thumb” threshold of 10, indicating that the instrument is not weak.

In addition, the proposed instrument was successfully used in (Natkhov and Polishchuk, 2018) to establish the impact of institutions in transition countries on the allocation of talent, measured by the choice of fields of study by university students.

7 Concluding comments

Quarter of a century after market reforms, countries of the former Eastern Bloc exhibit vastly different economic and political institutions — from successful market democracies to autocracies with oligarchy-dominated economies. We trace these differences to the political environments at the time of reforms, when restriction, if not suppression, of democracy was considered instrumental to expediting unpopular transformations and protecting the reforms from populist backlash. However, the representation vacuum at the critical juncture of post-communist transition was filled by narrow interests, which established extractive institutions serving the elites, instead of inclusive institutions which are in broad societal interests. Choices made at critical junctures were pivotal for subsequent institutional trajectories, and extractive and inclusive regimes sustained themselves over long periods of time. We use the number of “veto players” in the early 1990s as a measure of political ‘plurality’ of post-communist transition, and show that it is a consistently strong predictor of institutional quality over the next twenty-five years period. Therefore public “ownership” of post-communist institutions was essential for their expected performance. We also demonstrate that the same transition plurality measure explains cross-country differences in economic inequality across the post-communist world, and uneven social support of market and democracy, indicating ongoing “institutional learning”.

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