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## **SOCIO-ECONOMIC CONSEQUENCES OF REFORMS IN POST-SOCIALIST COUNTRIES – PERSPECTIVES FROM THE POST-COVID WORLD**

**Abstract:** The paper deals with important issues of socio-economic consequences of economic and political reforms of post-socialist transition countries in the perspective of more than three decades of their transformation with variable success. The success of reforms can be viewed from this historical perspective in the context of their economic growth, but also of their social development. It answers the question of whether the economic transition from socialism (dominantly central-planned) to capitalism was an economic and social success. This is observed from the aspect of achieved economic growth, integration into the world economy, and especially into European integrations (such as the EU), as well as the growth of living standards and overall satisfaction of the citizens of these countries. The COVID-19 pandemic has exposed many of the otherwise present questions about the possible failure of the undertaken reforms. The post-pandemic world is facing geopolitical tensions, the basis of which is still a possible division

into two systems (both economic and political), which raises the question of whether the reforms were really successful. The two significant shocks that hit the global economy in the 21st century had significant negative economic consequences for post-socialist economies, as well. First it was the Great Recession (2007-09) and then the COVID-19 pandemic. Post-socialist countries have faced economic difficulties, but also the political rise of undemocratic forces. Some of these difficulties have been solved by promoting the concept of stabilocracy. Today, when we are witnessing the war in Ukraine, the question is open again whether the neoliberal project, which was the base of undertaken reforms, together with promoting concept of stabilocracy represent a solution or the cause of further divisions in Europe.

**KEY WORDS:** POST-SOCIALIST COUNTRIES, GEOPOLITICAL TENSIONS, ECONOMIC TRANSITION, STABLOCRACY

**JEL CLASSIFICATION:** P20, P16, P51

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## 1. INTRODUCTION

After more than three decades since the beginning of the process of economic transition and the building of a political democratic system in the former socialist countries that were behind the Iron Curtain for decades, it seems that the question of the extent to which the undertaken reforms were successful has never been more relevant. The shocks that hit the global economy in the previous period, as well as individual economies, certainly contributed to this, causing long-term economic and political consequences. The Great Recession (2007-09) and the COVID-19 pandemic stand out among the most important shocks that acted in the 21st century with global impacts. From February 2022, they were joined by the shock caused by the war conflict in Ukraine. The fact that today two former socialist countries, Russia and Ukraine, are in war-conflict, contributes to the need to reopen the question of the success of the undertaken economic and political reforms in the process of building capitalism and political democracy in a huge number of countries, mostly in Central and Eastern Europe, which at that time numbered as many as 400 million people.

Although in the post-Cold War history there were many significant events in the form of shocks that adversely affected the processes of economic and political transition in countries that began these processes in the years after the fall of the Berlin Wall, the Great Recession, which began in 2007, represented the greatest challenge. It had also a significant impact on developed economies (the USA or old EU members), and especially on transition economies. In many countries, its consequences were present in the decade after its end in the form of a double-dip recession or a decade of sluggish growth. During this period, the social consequences came to the fore in the form of growing dissatisfaction of the population resulting in the form of growing radicalization of right-wing political forces, xenophobia and restriction of democratic processes.

These tendencies were present, of course, in different forms and scope, both in the successful transition countries that joined the EU, and in the incompletely successful countries of Southeast Europe (Western Balkans), but also in the Eastern European and Asian countries of the former Soviet Union. In them there was a decades-long regressive movement, not towards socialism or communism, but towards some forms of original cruel liberal capitalism or even towards a semi-feudal system. Populist political forces offered a solution to the disappointed millions of inhabitants of these countries by insisting on strengthening the state – its role in the economic system, but also in the life of each individual. The failure was blamed on Western experts and their proposals for reforms that directly led to the impoverishment of

millions of people and the enrichment of a minority of others (old and new economic and political elites). In many former Soviet republics, led by the Russian Federation, this has led to a halt in the development of democratic political institutions and an even wider gap with Western democracies.

For the citizens of these countries, integration into the developed democratic world, led by Western countries, has become almost completely impossible, even unacceptable. That is why, despite the decades since the fall of the Berlin Wall and the disappearance of the one-party communist system and centrally-planned economies, relations have remained antagonistic, instead of cooperative. It no longer had an ideological content, but it did emphasize the differences in the political systems of democracy and growing autocracy in the countries of the post-Soviet republics. The lack of both economic and political perspectives for them had far-reaching consequences in the events that we have been witnessing since February 2022.

The global recession (2007-09) and the decade of stagnation had consequences for both political and economic developments in advanced economies. In the USA this was connected with the Trump era with his turn in economic measures – the rise of neo-mercantilist measures that undermined the neoliberal project, as well as in politics – the primary confrontation with China. At the same time, China continued to grow economically, becoming an increasingly important global economic player. Regional conflicts and wars brought back Russia, but also Turkey, to the global scene. The threat of terrorist attacks, the refugee crisis, but also the growing aggravation within Western societies due to dissatisfaction of non-integrated parts of the population, had negative impact on the EU countries.

After the exit of Great Britain (Brexit, 2016), the European Union faced the need to reform itself institutionally, and the enlargement process was almost stopped. This further distanced some of the transitional European countries from economic and political reforms. We are talking about the countries of the Western Balkans, which, on the one hand, do not meet the conditions for admission to the EU, but on the other hand, there is no truthful wish on the part of the EU to be enlarged in the near future. All of this opens up space for undemocratic processes and the rise of authoritarian governing in the Europe.

The long-lasting pandemic certainly contributed to all of this. The COVID-19 pandemic was an unexpected and unusual shock that hit the global economy, resulting in economic decline in most economies, followed by large packages of state aid for the economy and the population. After the first waves of the pandemic in

2020, during which significant drops in economic activity were recorded due to epidemiological and social distancing measures (closure of economies and country borders), the beginning of 2021 brought the invention and production of vaccines against the Sars-Cov-2 virus. Despite the resistance to vaccination that has occurred worldwide, as well as the lack of adequate quantities of vaccines, epidemiological measures are being relaxed worldwide.

In most countries, with the exception of China, the approach to the fight against the virus was changing, and the economic motives for normal economic activity prevail over the motive of protecting the population from infection. This neoliberal approach gradually leads to a return to normal life. The emergence of a new strain of the virus in December 2021 with a lower mortality certainly contributed to the positive developments ("a Christmas gift to humanity"). This contributed to the economic recovery trend that started in 2021 and continuing in 2022. However, it was seriously questioned by a new shock – the war in Ukraine.

The growing inflation that in 2021 was caused by the expansionary measures of monetary and fiscal policy, but also by the relatively quick economic recovery after the first waves of the spread of the corona virus, as well as by the mismatch between supply and demand in many markets (energy, raw materials, metals, etc.), should to be overcome during 2022. Instead, due to a new shock (the war in Ukraine), it gained strength, reaching double-digit values in the fall of 2022, unrecorded levels in the past four decades in most advanced economies. The challenges of growing inflation and possible economic recession that contribute to the decline of people's living standards, increase in poverty, but also social tensions, especially in European countries, are the biggest challenges today<sup>1</sup>. These challenges could be named as the cost of living crisis that affects people across the globe. However, it could be assumed that these challenges will especially affect the European post-socialist countries, both politically and economically. That is why questions were reopened again whether the economic and political transition processes were successful or not, whether it could have been done differently and whether it would have prevented today's geopolitical tensions.

The paper is organized as follows. In the first part the specifics of the post-socialist economic and social development are presented. In the third part of the paper, the economic transition is discussed as a major institutional change. The conclusion is given in the fourth part of the paper.

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<sup>1</sup> Prašćević (2022), p. 43

## 2. SPECIFICS OF POST-SOCIALIST ECONOMIC AND SOCIAL DEVELOPMENT

One of the problems in the analysis of the process of economic and political transition is that it was realized in a significant number of countries with distinct mutual differences, which we called transition economies. What they had in common was the one-party system under the leadership of the Communist Party and the absence of a market system. However, this absence of a market is not easy to define because the countries of the former SFRY had a market of final products, but not of labor and capital, unlike the countries behind the Iron Curtain. Therefore, it is important to highlight the differences between countries that have undertaken economic and political transition. Although their history is often reduced to decades during which they developed the so-called socialism under the ideological responsibility of the Communist Party, as well as for several decades of transition, is actually about countries with significantly different historical and cultural origins. From the Baltics (Estonia, Lithuania, Latvia) and countries of Central Europe that before the development of central-plan socialism had a some tradition in developing capitalism (the countries of the Visegrad Group), through the countries of Southeast Europe with a significantly smaller tradition in the development of capitalism (Albania, Bulgaria, Romania), including the republics of the former Yugoslavia (with different historical conditions), to the countries of Eastern Europe that were created after the collapse of the Soviet Union, and which recorded the weakest results in the processes of economic and political transition.

Differences in the initial conditions were accompanied by differences in the implementation of the transition process<sup>2</sup>. Countries have opted for different privatization schemes, scope and structure of reforms (liberalization, institution building, etc.), realizing the transition at different speeds. The differences also related to the commitment to join the EU, which included both sides – the side of these transition economies and their desire to join the EU, but also the side of the EU that opened the possibility for accession and expansion of these countries. Not all countries had the same motives for joining, nor did they all have the support of the EU for joining. This primarily refers to the former Soviet republics, as well as the countries of the Western Balkans, especially the former Yugoslav republics. As for the former Yugoslav republics, their transition during the first decade of the transition was hampered by the war conflicts associated with the disintegration of the SFRY, which is why they were significantly behind the other Central European

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<sup>2</sup> Cerović (2012), p. 405

transition countries, even though they had more favorable conditions at the beginning of the transition. That delay is still present today. It was more problematic with the former Soviet republics. They did not have the perspective of joining the EU as an important motive for reforming the economic and political system. The place and role of Russia as the only nuclear power among them was not determined after the fall of the Iron Curtain, which was largely the reason for today's geopolitical tensions between Russia and the Western democracies that we are witnessing.

Russia was not presented with a clear possibility of integration into the democratic world of the market economy. Instead, largely unsuccessful economic reforms were implemented that pushed millions of Russian citizens into poverty. On the other hand, a rich oligarchy was created, mainly based on the exploitation of natural resources and state monopolies. This is how the conditions were created for the rise of a specific form of authoritarian political system whose stronghold is lying on the poor sections of the population dissatisfied with the market reforms brought by the Western democracies, but it is also based on the rich oligarchs who need political support of autocrats in order to preserve and increase their wealth. Under such conditions, the Western-style democratic system, as well as the free market (without state interference), was stigmatized and defamed by populist political forces in Russia. They are marked as key elements for the attempt to limit Russia's economic and political power and position, which it already has and aspires to. In the past more than two decades, we have witnessed these tendencies in Russia.

The aforementioned differences point to the problematic nature of calling the economy by one name, "post-socialist" or "post-communist". There is also an understanding that in this way an entire group of countries is marked and ghettoized. However, the latest economic and political developments in Europe, including the war conflict in Ukraine, justify continuing to speak of these countries as specific in relation to the "old" market economies and democracies. Despite the great differences between these countries, certain common characteristics are still present and therefore we still call them "post-socialist" economies.

We often discuss the specifics of post-socialist economies in order to answer the question whether the economic transition from socialism (dominantly central-planned) to capitalism was an economic and social success, or not? For that answer, it is necessary to first define the success of the reforms. The success of reforms can be viewed from historical perspective in the context of achieved economic growth, integration into the world economy, and especially into European integrations (such as the EU). However, the social development, as well as the growth of living

standards and overall satisfaction of the citizens of these countries, should also be included.

The social welfare could be defined as the quality of life and standard of living in a given country which is the result of economic, social, environmental, cultural and institutional factors that are consequences of historical heritage, geographical factors, natural recourses and choises made by the nations. The two significant shocks that hit the global economy in the 21st century had significant negative economic consequences for the global economy and post-socialist economies, as well. These shocks were the Great Recession (2007-09) and the COVID-19 pandemic. Today, the economy is faced with a new shock – the war conflict in Ukraine.

## 2.1 The Rise of Undemocratic Forces in Post-Socialist Coutries

Post-socialist countries have faced economic difficulties, but also the rise of undemocratic political forces. This can be found in both successful and unsuccessful countries. Of course, predominantly in unsuccessful transition and post-transition economies with high poverty, inequality and disappointed citizens. For those countries the question how economic difficulties and disaster capitalism encouraged the rise of authoritarian populism the and xenophobia became extremely important.

Some of economic and political difficulties have been solved by promoting the concept of stabilocracy resulting in demolishing democratic development and moving away from European integration. This is especially present in Western Balkan countries which have been late in economic and political reforms, as well as on the way to joining the EU. And while the reasons for the success of populist forces are clear in failed economies, they are not so clear in successful post-transition economies.

Therefore we can ask why countries that successfully finished transition process witness the decline of democracy and the turn to autocratization? The decline of democracy is acting through the processes of *De-Democratization*, *Autocratization* and *De-Europeanization*<sup>3</sup>. Examples of such processes are present in Poland and to an even greater extent in Hungary.

As it is known the EU insists that the rule of law is a fundamental condition for the protection of the other values on which the union is founded, such as freedom, democracy, equality, and respect for human rights. It is therefore clear that the rise of non-democratic political forces in post-socialist EU member states is not

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<sup>3</sup> Agh (2022), p. 73

approved by the EU and Brussels. Various procedures are being launched which should limit such processes. However, in this case, all the shortcomings of the institutional framework of EU functioning come to the fore, which are related to the discrepancy between economic integration on the one hand, and insufficient political integration on the other.

This puts the EU in need of institutional reform. However, there is no consensus on this within the EU. On the other hand, it further complicates the expansion of the EU to include new members (e.g. the countries of the Western Balkans). Postponing the accession of these countries to the EU further encourages undemocratic political forces and makes their economic position difficult.

Even more obvious, when we are witnessing today the war in Ukraine, the question is open again whether the neoliberal project, which was the base of undertaken reforms, together with concept of stabilocracy represent a solution or the cause of further divisions in Europe. These are important issues especially today after more than three decades of transition, when the world is facing the serious possibility of a new geopolitical division similar to the Iron Curtain.

## **2.2 Socio-economic Consequences of the Transition – Growth and Institutions**

From the very beginning of the economic transition, the measurement of the socio-economic consequences of this process has become relevant. It is possible to distinguish short-term consequences in the early years of transition from long-term consequences in both successful and unsuccessful transitional economies.

In the early years following communism, economic growth in transition economies received most of economists' attention, whereas the social consequences were neglected – neither poverty nor inequality was a big concern for policymakers, or even for the academics involved in the analysis and design of transition reforms. The same was true for institutions that were also neglected in the analysis of the economic transition during the first two decades of the transition. This will turn out to be very wrong, because the speed and success in building new economic and political institutions will prove to be an extremely important factor for the success of the economic transition and joining the EU. Countries that were not successful in building institutions were not successful in economic transition either.

In the beginning, the old institutions and practices had to be destroyed, contributing additionally to deep transitional recession with decline in household consumption



and growing poverty. New institutions, both economic and political, were needed. However much more attention was paid to the choice of reform strategy (gradualism or shock therapy) or to the certain elements of the transition process, such as the privatization program, than to the choice of institutions<sup>4</sup>.

After several decades since the beginning of the economic transition, it became obvious that some post-socialist countries opted for dysfunctional institutions that essentially hindered reforms and the transformation process. Because of this, the questions arose as to why dysfunctional institutions were chosen in certain transitional economies and was such choice connected with the preferences of political and economic elites or with their culture and tradition, even dominant religion? What is the role of the EU and the perspective of joining the EU in the choice of institutions and the consequent success or failure of transition processes, including the construction and development of democratic societies? These were the directions of further research into the economic transition in the decade that followed.

### 2.3 Two Perspectives on Transition

After more than three decades since the beginning of the economic transition, two key perspectives can be distinguished in relation to the transition. These are: “J-curve” perspective and “disaster capitalism” perspective<sup>5</sup>.

According to the J-curve perspective, which was the first approach in explaining economic transition, after the transition begins the transitory slowdown of economic activity with economic recession could be observed. Soon, however, economic conditions improved so that the transitional recession ended and significant economic growth and improvement of living conditions for the citizens of post-socialist countries were recorded. According to the neoliberal approach to the economic transition, the faster economic reforms are carried out, the faster return to growth we can expect. This is at the core of the "J-curve" perspective in explaining economic transition.

The “J-curve” perspective proved to be correct in the successful transition economies that quickly acceded to the EU. Examples of successful transition economies are following: Poland, Czech, Slovakia, Slovenia, Hungary, Lithuania, Latvia, Estonia.

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<sup>4</sup> Cerović (2012), p. 455.

<sup>5</sup> Ghodsee et al. (2021), p. 5, p. 8

However, unsuccessful transition economies experienced prolonged recession and only after two decades or more these countries achieved pre-transitional GDP. Instead of a path resembling the letter “J”, as in successful transitions, the path of their transition is closer to the letter “U”. Even today, some economies have not returned to the pre-transition level of GDP, for example Ukraine.

The prolonged and stronger transitional recession in these economies led to greater dissatisfaction among citizens due to the significant costs they had to bear. The initial enthusiasm for the won freedoms (economic and political) quickly disappeared, and the citizens fondly recalled some earlier times when the state provided basic amenities of modern life for all citizens (education, health care, social services etc.). Unsuccessful reforms and their slowdown only prolonged and magnified the pain brought by economic transition. However, among foreign transition experts, the dominant view was that dissatisfaction of many people could be caused by simply having too high expectations.

That's why they didn't attach more importance to this dissatisfaction, which would later prove to be wrong. Namely, during decades of prolonged and insufficiently successful transition, the conditions were created for the success and victory of populist political forces. That's why they didn't attach more importance to this dissatisfaction, which would later prove to be wrong. Namely, the decades-long and insufficiently successful transition created the conditions for the success and victory of populist political forces. At the same time, a new perspective was created in the analysis of economic transition, especially suitable for failed post-socialist economies. That perspective is known as “disaster capitalism” perspective, according to which the economic transition could be observed as a socioeconomic catastrophe of enormous proportions. Many of ex-Soviet states (excluding Baltics) exemplify such perspective.

The “disaster capitalism” in post-socialist countries characterized uncontrolled privatizations that created an oligarch class, on one side and dissatisfaction of many people, on the other side. Two worlds exist side by side in these countries: rich people with huge opportunities and poor people who struggle to afford the most basic amenities.

The success and wealth of most of the new rich in these economies was not due to their qualifications or entrepreneurial values, as was promised at the beginning of the transition. Instead, their success was most often the result of monopoly, closeness to the political establishment (old and new regime), but also criminal or semi-criminal activities on the edge of the law. None of this fit with the almost idealistic

approach to capitalism promoted at the beginning of the transition. According to this approach, capitalism was supposed to provide opportunities for everyone, and success would depend on their abilities, qualifications and skills. The new economic system was supposed to ensure prosperity for the majority, not the minority, of the citizens of post-socialist countries.

That is why economic suffering, political nihilism, social distrust and nostalgia for stability of the authoritarian past appeared in many post-socialist countries. Foreign experts, as well as the democratic system itself, were often blamed for the bad results of the economic transition. Support and rescue were expected from a powerful leader who would act "anti-systemically" and in favor of the majority of impoverished citizens. In practice, however, it happened that these populist forces actually benefit the richest sections of the population, even though their main political base is in the poorest. New populist leaders use to undermine democratic institutions and free market competition in these post-socialist countries. That was the case in many ex-Soviet states but in Western Balkans, also.

For understanding the disaster capitalism perspective it is important to keep in mind differences between opportunities from the transition processes and the shortcomings that are the result of the transition process, as well as some of the advantages of the former, communist system.

Communist societies, in addition to repression, were provided with the basic amenities of modern life for all citizens<sup>6</sup>:

- Health care and educational opportunities
- Social services
- Food and housing
- Electricity and transport
- High participation rates for women
- Small wage differentials and minimal wealth accumulation (even for Communist Party elite)
- No official poverty, or unemployment
- Cash transfers (pensions, unemployment benefits, etc.) and more egalitarian income distribution

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<sup>6</sup> Turley et al. (2011), p. 99

When transition process started new opportunities were provided to the citizens of post-socialist countries among which are following:

- Free speech and democratic rights (multiparty system, free elections, media freedom – proliferation of television stations)
- Human rights (including LGBTQ community)
- Disappearance of consumer shortages (increasing the range of products including imported ones)
- Free movement of people (migrations), including leaving the country – communist cruel travel restriction were ended
- Opportunities for studying abroad (getting foreign scholarships) for young people
- Possibility of increased earnings (top managers, professionals or experts)
- New employment opportunities (possibility of changing jobs and qualifications)
- EU and Western countries opened labor markets to immigrants from the new member states (and other post-communist countries).

In addition to the opportunities that the transition provided to the citizens of the former socialist countries, it also brought with it many disadvantages such as:

- Deteriorated health and educational system
- Social ills (suppressed before): crime and delinquency, homeless and hunger
- Market formation of real estate prices and the impossibility of buying them (impossibility of starting new families)
- Inability to pay electricity and transport bills for many households
- Increase in wage discrimination against women and their participation rates decreasing
- Depopulation: mortality rates soared, significant emigration from post-communist countries
- Increased poverty and high unemployment (lack of certain professions due to emigration)
- A significant reduction in transfers (primarily pensions) throwing a large part of citizens (the oldest and the weakest) into poverty with a dramatic change in income distribution in favor of the new rich (significant wealth accumulation).

These disadvantages are connected with rising average levels of inequality in the post-socialist countries and living conditions for majority of citizens recovered slowly. Therefore many of these countries have experienced depopulation crisis with many people left them and immigrate in advanced Western countries.

Disadvantages imposed during transition process helped opponents of the West and Western institutions to present the economic transition as socioeconomic catastrophe of massive proportion. It is especially true in failed economies. That is how the right-wing populists came into power in many of these countries.

### **3. ECONOMIC TRANSITION AS LARGE INSTITUTIONAL TRANSFORMATION**

The transition certainly represents a major political and economic transformation, but also a large-scale institutional transformation<sup>7</sup>. This fact was not taken into account from the beginning. Instead, it became apparent during the second decade of the transition. If we take the institutions chosen by the nation as the rule of the game, the question of why these institutions might be dysfunctional is related to people's motives regarding economic and political action. In periods of great change, such as economic transition, this choice is related to what people think and feel about large political and economic transformation.

That is how linkages between happiness of people, one subjective indicator and economic well-being gain importance. These linkages rely on extent to which political and economic institutions rely on public consent. People often prefer stability and security to economic growth. Therefore, the indicator of happiness (for example gross domestic happiness) could be more important than the GDP. That fact was not recognized from the beginning of the transition. That is how the populist political forces came into power in economies with failed economic transitions and “disaster capitalism” (in ex-Soviet states), or with open political and ethnic issues (“stabilocracy” in WB), but also in successful post-communist countries where the processes of economic transition have been completed, and they have become members of the EU (Poland or Hungary).

In “disaster capitalism” cases the social costs of economic transition were too high, and people believe that Western advisors and “new elite” cruelly subjected millions of them to economic and social pain in pursuit of an ideal that has never materialized (ex-Soviet states). In such a situation, it is easy to blame on foreign forces and especially neoliberal project that want to reduce the strength of the state and weakened the country. They are guilty for disastrous results in economic transition (e.g Putin's narrative in Russia).

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<sup>7</sup> Jakšić et al. (2011), p. 546

Instead of paying attention to eliminate the real cause of problems, which is the type of transition (the so-called “extractive economic transition”), the solution is found in the strengthening of the state, the reduction of democracy and the rise of new forms of authoritarian government, with a slight mitigation, but not the elimination of the causes (inequality, poverty and all other negative consequences of the transition). In that case the oligarchs and their wealth are not a problem as long as they work for the state.

### **3.1 The Extractive Economic Transition**

Given that the economic transition was a unique historical experiment of building institutions in all three elements: political institutions, economic institutions and political power, it can be viewed from the institutional aspect<sup>8</sup>. Drawing a parallel with the term "extractive state" which is related to the example of the behavior of colonialists in countries (centralized state apparatus, repressive of the local population in order to exploit resources), relying on the previously developed institutional framework, it is possible to define the so-called "extractive type of transition"<sup>9</sup>.

The “extractive transition” is related to disorganized government which is bureaucratized, corruptive and acts for the purpose of private interest. The elite does not actively encourage the reforms and construction of a market economy, but secures its own property rights and appropriates economic rents (rent-seeking activities) to ensure economic and political power in the post-transition society.

The choice of an extractive type of transition in post-socialist countries depended on their natural resources and the absence of a historical legacy of market economic institutions. That type induced the prolonged duration of the previous unreformed institutions, as well as the specificities of political institutions incompatible with modern market economies (absence of democratic consolidation) which results from the relationship of de jure and de facto political power. This is how a new political and economic elite is created in these countries. This elite becomes a brake on further and more significant reforms, which are therefore postponed. It is often about the "captive" of state institutions by the former political nomenclature and its transformation into a new elite.

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<sup>8</sup> Prašćević (2018), p. 19

<sup>9</sup> Prašćević (2018), p. 22

The dependence of the economy on the exploitation of natural resources allows the elite (old and new) to appropriate rents and due to its de facto political power and influence on de jure political power (political institutions), the elite has no motive to impose strong economic institutions of property rights protection applied to the entire society. There is a significant influence of well-organized interest groups on political decision-making, with a lack of a good institutional framework for the relationship between private and public interest.

The lack of democratic consolidation in these economies proves the claim that the authoritarian regime is connected to the management of the rich elite, and the democratic process does not occur due to great inequality in society because the process of democratization of society is connected to increased redistribution and greater equality in society, which the ruling elite does not allow. Therefore, in a situation where institutions are weak, the majority may choose to rest the economic system on significant state intervention<sup>10</sup>. This choice will only worsen and not improve economic results (including economic growth) because the state does not have the ability and capacity to make decisions in accordance with social and not private interests.

Transitional European economies that succeeded to join the EU have proven to be more successful in building institutions and economic growth than others (countries of the former Soviet Union or Balkan countries). This indicates the importance of the speed of EU accession for building institutions compatible with market economies. There is mutual influence, and the motives of both sides are important: EU members and countries that want to become one. However, even in the post-communist countries that have joined the EU, we can find a "reverse wave" causing a decline in democracy and a turn towards autocratization. An example of this can be found in Hungary.

Therefore, it is necessary to determine why "weak and chaotic democracy" could be easily transformed to "neoliberal" or modernized autocracy. That transformation is often known as third generation of autocratization and it is present in many post-socialist countries. Shocks that hit the post-communist economies, as Great Recession or COVID-19 pandemic helped entering to the "neoliberal autocracy". It is almost certain that the geopolitical tensions in post-COVID world will be additional challenge for post-socialist countries due to historical heritage in them, which is related to the unwilling inclusion in the Soviet bloc after the Second World War.

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<sup>10</sup> Jakšić et al. (2018), p. 48

### 3.2 Characteristics of Economic Transition in Post-Socialist EU Countries

As already mentioned, success in the economic transition depended on various factors (political, institutional and economic). In the following tables we can compare some of the most important features and characteristics of economic transition and results in selected countries that have joined the EU and in those that are not yet members. The different types of economic reforms undertaken in the successful post-socialist countries that joined the EU are shown in Table 1. An overview of the types of reforms in countries with mixed results, along with a list of countries unsuccessful in the transition process, is presented in Table 2.

The comparison of the countries in these two tables shows that post-socialist economies are the more successful if they were faster and more consistent in implementing reforms. The countries of the Western Balkans, however, have been delayed in these processes due to political reasons. This is exactly the case with the former Yugoslav republics, which, although initially in more favorable circumstances, recorded relatively bad results that have not been overcome even to this day. This delay in reform process was a consequence of severe disintegration of the former Yugoslavia, which included war conflicts.

*Table 1: Successful economic transition in post-socialist EU countries*

Successfull transition (Central Europe)	Type of reforms and date of accession to the EU	Successfull transition (ex-Soviet republics)	Type of reforms and date of accession to the EU
Poland	<i>Radical approach &amp; joined EU in 2004</i>	Latvia	<i>Radical approach &amp; joined EU in 2004</i>
Czech Republic	<i>Less radical approach &amp; joined EU in 2004</i>	Estonia	<i>Radical approach &amp; joined EU in 2004</i>
Slovakia	<i>Evolutionary approach &amp; joined EU in 2004</i>	Lithuania	<i>Radical approach &amp; joined EU in 2004</i>
Hungary	<i>Evolutionary approach &amp; joined EU in 2004</i>		
Slovenia	<i>Evolutionary approach &amp; joined EU in 2004</i>		
Croatia	<i>Evolutionary approach &amp; joined EU in 2013</i>		



**Table 2: Economic transition with mixed results and unsuccessful transition**

<b>Mixed results &amp; postponed transition (Balkan countries)</b>		<b>Unsuccessful transition (ex-Soviet republics)</b>
Romania	<i>Evolutionary approach &amp; joined EU in 2007</i>	Azerbaijan
Bulgaria	<i>Radical approach in the beginning/ Evolutionary approach &amp; joined EU in 2007</i>	Armenia
Serbia	Postponed transition/ Evolutionary approach	Georgia
Montenegro	Postponed transition/ Evolutionary approach	Moldova
Bosnia and Herzegovina	Late start due to war/ Evolutionary approach & post-war reconstruction	Belarus
North Macedonia	Evolutionary approach	Ukraine
Albania	Postponed transition/ Evolutionary approach	Russia

An analysis of the key elements and results of the economic transition in the countries of the Visegrad group, which were successful in those reforms, is presented in Table 3.

**Table 3:** Key characteristics of the economic transition and political obstacles of the Visegrad group of countries

<b>Successful transition (in economic sense)</b>	<b>Elements and factors of economic transition</b>	<b>Obstacles in the political domain</b>
<b>Poland</b>	Visegrad group countries, neoliberal reforms brought a deep transitional recession (bottomed out in 1992/93). Countries achieved their 1989 per capita GDP by 1998-2000. During 2000s they grew strongly, success from an economic point of view. Intensive reindustrialization and success in catching up to Western Europe (GDP per capita, labour productivity, living standard).	About the preservation of the rule of law in Poland have been voiced by the EU at least since 2015. Eurosceptic governments of Poland and Hungary have been fighting increasingly with the EU over migration, human rights, environmental affairs and democratic values.
<b>Czech Republic</b>		
<b>Slovakia</b>		
<b>Hungary</b>		

On the territory of the former Yugoslavia, only two republics - Slovenia and Croatia - entered the EU. Slovenia was among the first transition economies, while Croatia was the last to become a member of the EU. Regardless of the initial similarities of the economic structure of these two countries, differences in political factors were of decisive importance for the process of economic transition. These factors have caused significant differences in the transition processes between these countries. The most important elements of the transition in these countries are presented in Table 4.

**Table 4:** Key characteristics of initial conditions and economic transition of Slovenia and Croatia

Country	Initial Conditions	
<b>Slovenia</b>	Ex-Yugoslav republic with different historical heritage of self-management economic system and good starting position (per capita GDP more than twice as high than any country from Visegrad group), different economic model during economic transition – successful gradual model of transition.	First ex-Yugoslav republic to join the EU, the first emerging European country to join the eurozone. Excellent human development indicators (no mass emigration), inequality is very low (low Gini coefficient), Slovenians are less satisfied with their lives than the OECD average Starting with cooperative political culture - the former communist elite was well-educated, Western looking and pragmatic, and quickly found consensus with politicians from the emerging new parties, whom they found to be similar in attitude. The global financial crisis hit the Slovenian economy more than other countries in the region with long-term negative consequences.
<b>Croatia</b>	Ex-Yugoslav republic with some similarities with Slovenian case, however with political turbulences and war.	In the first years Croatia experienced significant drop in GDP, and significant inflation. Successful stabilization program was implemented. Privatization process was not rapid. Croatia joined the EU in 2013, and eurozone in 2022.

The Baltic countries were the only former Soviet republics to successfully complete transitional reforms and join the EU among the first post-socialist countries. Although initially with poor economic and political conditions, the fact that their motives for joining the Western countries were distinct, as well as the desire of the EU to help them in this, significantly shaped their reforms. There are significant similarities but also differences between these countries (presented in Table 5). Even today, when the war rages in Ukraine, they are in the center of interest. Due to significant ties with Russia and other countries of the former Soviet Union, they are most affected by negative economic trends. Therefore, they record the highest inflation rates in the euro zone (more than 20%). Estonia currently has the highest inflation rate in the euro zone at 25.2%, followed by Lithuania (21.1%) and Latvia (20.8%)<sup>11</sup>.

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<sup>11</sup> EUROSTAT

**Table 5:** Key characteristics and similarities of economic transition in Baltic countries

Country	Similarities	Country characteristics
<b>Latvia</b>	Baltic Republics (form a closely integrated economic area) separated from Soviet Union in 1991. Radical approach in reforms share common developments and slightly differ in their economic development and size, shared a common goal of the EU accession (accession to the European Union in 2004) and joining the monetary union.	Was the most severely affected by the Great Recession and required specific assistance regarding its external imbalances Join the eurozone in 2014. High Gini coefficient of inequality.
<b>Estonia</b>	Similar starting positions although with different historical background before Soviet occupation (Lithuania had longer period of independence, Latvia and Estonia had more ethnic Russians and had more ties with Protestant Nordic countries, whereas Lithuania is more connected to Catholic Poland). All three Baltics were severely affected by the process of depopulation (a high intensity of emigration) due to high levels of inequality during the transition process All three Baltics were severely affected by the Great Recession (2007-09) and by the war in Ukraine today.	Stands out as the most advanced of the three Baltic countries. First Baltic country to join the eurozone (2011). Most exposed to international fluctuations. The lowest Gini coefficient of inequality of the three Baltic countries.
<b>Lithuania</b>		The most populated of the three countries (2,9 million inhabitants). Notably influenced by the economic developments in the other two countries. Join the eurozone in 2015. High Gini coefficient of inequality.

Finally, it is interesting to consider the experiences in the realization of the transition in two Balkan economies that started the transition with significantly bad conditions, but were again encouraged to join the EU for political reasons. We are talking about Romania and Bulgaria, which even today record deficiencies in the democratic and economic system pointed out by the EU (shown in Table 6).

**Table 6:** Key characteristics of economic transition in Balkan EU post-socialist countries (Romania and Bulgaria)

Country	Key characteristics	Key challenges
<b>Romania</b>	<p>In December 1989 the Romanian revolution determined the fall of communism (opportunity to perform the transition to a democratic society and market economy).</p> <p>The gradual transformation process instead of applying an effective shock therapy considered an intermediate reformer,</p> <p>Mass privatization was delayed, with negative consequences on other components of reform</p> <p>The pace of liberalization and privatization was poorly synchronized with the development of the institutions needed for a well-functioning market economy</p> <p>High levels of poverty and inequality have provoked disappointment with market reforms and further weakened the authority of government to establish effective institutions.</p> <p>In the year 2000 the Romanian economy took an encouraging upward trend.</p>	<p>Important challenges still exist - the battle against corruption, the implementation of various of the EU laws, the strengthening of the new institutions.</p> <p>Severely affected by the Great Recession which broadened pre-existing domestic problems.</p>
<b>Bulgaria</b>	<p>Shock therapy with significant fall in output and significant political instability (ten governments and five parliaments in 12 years), large masses of the population were disappointed with the initial stages of transition and in a crucial vote in 1994 the public gave a mandate to the socialist party to slow down the process of reform.</p> <p>1997-98 – transition crisis (drop in GDP by 18%, and outbreak of hyperinflation at the beginning of 1997)</p> <p>The bottom of economic collapse in 1997, Bulgarian GDP fell to 63% of its 1989 level.</p> <p>In July 1997 Bulgaria launched a comprehensive stabilization program (with currency board), program also includes acceleration of privatization, recovery of the banking sector, a comprehensive tax reform, and several other macroeconomic measures.</p> <p>Institutional restructuring was delayed.</p>	

## 4. CONCLUSION

It is obvious that the shock of the COVID-19 pandemic and post COVID-19 trends have reopened the question of whether the economic and political transition processes were successful or not. The war in Ukraine is proving to be particularly important today. Considering that it is a conflict between two ex-Soviet republics, we cannot escape the impression that this conflict can also be viewed from the aspect of success or failure of the economic transition and the construction of a democratic political system. In the future, this will require even more attention to be paid to the economic transition.

The paper indicates that there have been different paths of transition, and two perspectives in explaining economic transition. The first perspective is “J-curve” perspective which is the official narrative on transition (close relation to early theories of transition with focus on success in economic sense). The second perspective is “Disaster capitalism” perspective which focus on the social impact of transition (poverty, inequality, depopulation). Due to these negative effects many people are keen to abandon economic reforms and go back to the previous system. That situation is often used by anti-Western elites to steer their countries in a different directions toward non-democratic / authoritarian system and limited free-market system. The disaster capitalism perspective is important for understanding developments in countries with unsuccessful economic transition and with the dismantled democratic system with a return to authoritarian regimes. The paper also explains the significance of institutional building approach for understanding long-run consequences of economic and political transition (both in successful and unsuccessful transition economies).

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