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Parallel processes and divergent outcomes: the transformation of the economies of former Socialist countries

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Abstract

The paper deals with the problems of diverging developmental trajectories of former Socialist economies of the Central and South-Eastern European countries as well as of the former USSR republics. The purpose is exploring the developmental trends of three groups of economies – ECE, Balkans and some of the CIS – which started from seemingly same initial base, but later showed some specifics both regarding the socio-economic orders and the dynamics of internal developments. The paper argues that over the 30 years of post-Socialist development, these countries moved over certain periods of adaptation and mimicry (mostly importing or imitating institutions of the established market economies and democracies), the later stage of evaluating of the experience and developing of some hybrid socio-economic models, and the contemporary stage of what is called 'dependent', or 'periphery' capitalisms in ECE and Balkan countries vs. 'backslide transition' in Russia and some other CIS countries. Thus, the outcomes of the systemic transition are shown as problematic, fragile and different. The paper refers these divergences to a set of differing preconditions as well as institutional traps which occurred during the systemic change itself, and shows both commonalities as well as specifics of post-Socialist socio-economic development also within each of the three sub-groups of countries. The paper bases on the desk research of the relevant literature and own investigations.

JEL-Classification: P20, P21, P30, P51

Keywords: transition, post-Socialist economies, Central and Eastern Europe, systemic comparison

1 Introduction

The collapse of Socialism in several countries in the eastern part of Europe in the late 1980s and beginning of the 1990s raised many hopes and fostered the idea of a more or less uniform and easy transition toward the Western model of market and democracy. At that time, it seemed to be evident that this process would be based on a massive process of privatization and the introduction of private property; development of a private entrepreneurship was viewed as an inevitable condition of embedding of market, competition and innovativeness as the leading principles of the new economies to be established there. The voices of those researchers and experts who raised doubts that such hopes were realistic were rare and marginal.

However, already in the middle of the 1990s, it became clear that the development would be neither quick nor direct and uniform. The Central European and Baltic countries followed the general principles of the Washington Consensus (Williamson 1989), which, at that time, still played the role of a tuning fork of strategies of the capitalist transition of these countries in a more accurate way and achieved visible success. Meanwhile, South-East European countries and the remnants of the former USSR were less consistent and speedy. The main reasons of these differences at that time were connected with different models and the tempo of privatization and institution building, chosen by the governments of former Socialist countries, i.e. shock therapy vs. gradual reforms, under the influence of several internal circumstances (Heybey and Murrell, 1999; Kolodko, 2000; Denizer et al., 2001; Roland, 2000 etc.).

The countries which seemed to be more successful, could count on a quick European Union accession. Other, mostly SEE countries' accession became problematic because of serious institutional weaknesses that should be first corrected to receive this permission. It also became clear that the Commonwealth of Independent States (CIS) and some non-aligned former Soviet republics would never become part of the big Europe due to geopolitical reasons. Thus, the concept of a "transition" of the complete former Eastern bloc, toward a Western styled capitalism, lost its relevance.

After the EU accession of the first group of former Socialist countries in 2004, it seemed that their wider and deeper integration would be straightforward with the help of the cohesion program of the EU. The harmonization of the institutional frameworks and the integration of the new members' economies into the single European economic space were fulfilled. However, despite the substantial increase in the living standards of new members', the real convergence was rather slow. Also, prosperity had become increasingly dependent on the activity of multinational enterprises and EU transfers (Nölke and Vliegenhart (2009). The difference in the welfare between the new members and the longer standing members of the EU, immigration of the more dynamic people to the West, slow economic development and salary gaps – these and other circumstances contributed to a broad disillusionment of these countries' populations from the idea of quick prosperity after accession. As a consequence, populist regimes took power in two of the former best practice countries, Hungary and Poland.

After the crisis of 2008–2009, it became evident that, even in the new EU member states, different economic and political developments manifested. After the initial acceleration, the ECE economies slowed down, and exhibited growth rates analogous to the low rates prevailing in the "old" EU countries. The formulation of the new integration pattern produced a high structural unemployment and increasing inequality. These effects again reduced the popularity of market economic transition and European integration and fostered populist parties in several new EU member states.

Even more problematic trends occurred in some Balkan countries, where corruption and political entrepreneurship, as well as ethnic conflicts, raised serious crises and shaped the negative conditions for the establishment of a market economy (Falcetti et al., 2003). On the other hand, some former Soviet republics were either stuck in the very initial stage of reforms or in the establishment of mixed models of economy, with a strong role of the state and embedded nepotism (Jones Luong, 2002). Moreover, in the two biggest countries of the former Soviet Union, Russia and Ukraine, "crony capitalism" (Haber, 2002) flourished, known from the modern history of Asia and Latin America.

Thus, at least in the first decade of the 21st century, the applicability of the normative paradigm of a "systemic transition", based on the idea of import and adaptation of Western institutions has been questioned. Instead, alternative economic and social models have evolved, reflecting the intrinsic characteristics of the economies and societies. The search for alternative theories was complicated and is still not finished; there are several main approaches under debate in the academic literature and among experts.

2 State of literature on the reasons of different trajectories of Post-Socialist economic development in Central and Eastern Europe (CEE)

The literature on the diversity of Post-Socialist development in Europe is now, after ca. 30 years since the beginning of this process, quite voluminous. Mainly, it is discussing three related questions. First, whether the development of the Post-Socialist economies goes in the same or different directions? These sorts of considerations usually led toward a typology of Post-Socialist trajectories. Second, what are the reasons or main sets of factors behind the diversity of the groups of economies and societies? Third, what is the impact of these factors on economic and social development? How do they divert countries from the originally envisaged development path and what is the dynamics of these processes?

At the very beginning, the processes of systemic changes in these countries were viewed mostly as an import of Western institutions, based on the "Washington Consensus" and its SLIP model (stabilization – liberalization – institutions' building – privatization of state owned enterprises, SOEs) and "modernization through integration" with the EU, quite similar to the "modernization through internationalization" in some countries of Latin America (Przeworski, 1995; Jasiecki, 2018 etc.). It was expected that the developmental model would be the same and would follow the strategic concepts of a quick and radical systemic transition designed by international financial organizations. The main question was: how to move from the planned economy to market economies, should it be achieved quickly as a "big bang", or through gradualist reforms? (Podkaminer, p. 11). It was in line with the dominant view, to believe that every nation has the same potential, to build a Western-type market economy and democracy, and that there exists an inherent desire for freedom and Western values, just this desire had been suppressed by communist dictatorships. Any divergence from the common and uniform way of systemic transition was seen as temporary tension that can be surmounted.

In spite such a view was much too simplistic, its focus on the emergence of new economic institutions, which should adequately support the market economy and its actors during the process of systemic changes was a challenge, it helped to elaborate new theoretical interpretations of the systemic change, using concepts of the new institutionalism, public choice, evolutionary and behavioral economics (Kornai, 1990, 2000; Roland, 2000; Aslund, 2002; Lavigne, 1995; etc.). But, close to the end of the first decade of the "transition", it became evident that the outcomes of the market reforms differed very much by country and were far from the initial hopes of the quick establishment of a sustainable market economy and democratic political order everywhere; the concept of a "transition" began to lose its authority (Carothers, 2002).

At the beginning of the 2000s, it was already clear that the development trajectories of several Post-Socialist economies differ, therefore the variety of capitalism (VoC, see Hall and Soskice, 2001; Amable, 2003) approach replaced the "transition" paradigm and was used to explain the realms in the CEE (Mendelski, 201; Bluhm, 2010). The VoC theory initially was developed to explain the Western realms with its two main types of contemporary capitalism, the liberal market economy (LME) and the coordinated market economy (CME). Accordingly, the systemic changes in the CEE region were no longer considered, in terms of establishing any homogeneous "Eastern European capitalism" (Stark 1996), and the applications of the VoC theory to the CEE countries went soon beyond the LME vs. CME typology. In search of reasons of peculiarities of the economic development of these countries, several new concepts were proposed in the literature (King and Szelenyi, 2005; Lane and Myant, 2007; Nölke and Vliegenthart, 2009; Bohle and Greskovits, 2012; Schneider and Paunescu, 2012; Bluhm et al., 2014; Farkas, 2016). After the economic crisis of 2008–2009, the development of some Post-Socialist economies, including the CEE countries, became problematic from the point of view of traditional theories. Mainly, the explanations which appeared sought to derive the specific features of several post-Socialist economies and societies, from the analysis of different historical trajectories of the development. Path dependence concept from institutional economics (North, 1990), and the idea of the Polanyian pendulum (Polanyi, 1944; Nölke and May, 2019) featured this approach. The lack of substantial convergence during the process of transition and the causes and consequences of the subordinate place in the international division of labor was emphasized characterizing the CEE countries "dependent market economies" (DME) or "semi-periphery economies" (Nölke and Vliegenthart, 2009 etc.).

According to the "path dependence" approach, former Socialist economies' development was predetermined by the historic traditions of three former empires – the Austrian (ECE), the Ottoman (SEE) and the Russian (CIS and former Soviet republics except Baltic states). The DME concept or "semi-periphery economy" means that Post-Socialist economies were subordinated to the rules of neoliberal globalization, by the power of MNCs and the financial support coming from international donors. They became critically dependent on these external tools of economic development and less able to develop based on the intrinsic drivers and actors (small entrepreneurship, household behavior etc.). Szanyi (2019) argued that this kind of dependence from regional political and economic powers is observed throughout the modern history of CEE. Based on Ferenc Jánossy's "trend lines of economic development" concept Szanyi and Szabó (2020) stated that the historic path dependence fixed the potential growth trajectories for the various Post-Socialist countries. Changes in the slope of the trend lines (that is long-term adjustment of the development trajectory) happened rarely and only occasionally offering the catching up opportunities to a few countries.

However, all these concepts focused mainly on ECE and partly on Baltic States; they did not say much about the development outside of the region, in the CIS or Balkan States, where processes called "backslide transition" happened in an even more open way (Cianetti et al., 2018).

An empirically based approach, to disclose the specifics of some trends in CEE, but especially in the CIS, was elaborated by Baltowski, Kozarzewski and Mickiewicz (2020), who attempted to contribute to the conceptualization of "state capitalism". They fixed six basic features of state capitalism as follows: "1) politicization of SOEs: the government and political elite use the state-controlled enterprise sector as a source of rents; 2) politicization of SOEs à rebours: the state-controlled enterprise sector (their staff, executives and affiliated trade unions, among others) is the main rent-seeker itself; 3) cronyism: the main beneficiaries of SC are private agents from outside the public sector; 4) oligarchy (a consolidated form of cronyism): very powerful private agents have a very significant influence on economic policy; 5) economic populism (clientelism): a patronage system where the political elite transfers goods to clients in chosen social groups expecting their political support in return; 6) economic nationalism: the state exerts an impact on the economy the declared objective of which is to enhance, in the long run, the state's political capacity, military power or international importance. The state itself may be treated here as the major beneficiary" (Papko and Kozarzewski, 2020, p. 9–10).

State capitalism was used to explain developments in very different countries in larger emerging market economies (Kurlantzick, 2016; Nölke, 2014) and Post-Socialist countries (Szanyi, 2019b), starting with the EU members Hungary and Poland, up to dictatorships (like

Belarus or Turkmenia) and autocracies (like Russia, Azerbaijan or Kazakhstan). State capitalism is therefore a rather broad concept, not specific to the Post-Socialist space.

In parallel, Kornai (2016), provided a conceptual description of the varieties of transition in Post-Socialist countries making the basic distinction of socialist and capitalist economic systems based on three primary and six secondary characteristics. These captured the main features of property ownership and the mechanisms of economic coordination as well as some important consequences (ibidem, p. 553). The revision of the concept expanded the dichotomy and introduced a third "hybrid" paradigm: autocracy and patronage (ibidem, p. 565). However, autocracy was interpreted mainly as a variation of the political system, being an important but not exclusive element of the system. Therefore, the original primary and secondary characteristics of the two basic paradigms (capitalism and socialism) may remain applicable regardless of the political systems (democracy, autocracy and dictatorship).

A similar but more comprehensive concept was developed by Magyar and Madlovics (2020). They elaborated the taxonomy of differing regimes and trajectories of former Socialist societies, based on the assumption that the key difference between them consists in the level of separation of the three different spheres of social action – politics, economy and communal activities. "Proceeding from the West towards the East, it can be observed that this separation of the spheres of social action has either not been realized or only rudimentarily" (Magyar and Madlovics, 2020, p. 9). Thus, they are providing the three basic and three "intermediate types" of CEE socio-economic systems. The three basic types are the liberal democracy, communist dictatorship, and patronal autocracy, and the three intermediate types are the conservative autocracy, market-exploiting dictatorship and patronal democracy. This typology is also reflecting the CIS and other Post-Soviet countries, and China and Asian Socialist regimes as well. However, being a normative construct, it does not enable us to trace the economic dynamics and to discover the reasons of the different tempo of economic development across the Post-Socialist countries.

* * *

To conclude, during the thirty years of systemic changes in a big group of countries, the initial notion of a "transition to capitalism" was exchanged by more complex approaches ("variety of capitalism", "dependent market economy", "semi-periphery economy", or by the taxonomy of the hybrid types of regimes which occurred in these societies, etc.). These approaches took into consideration the context, i.e. institutional, historic and mental factors of each country's economic evolution. However, the typologies and approaches to explore the reasons for a diversity of institutional settings and intermediate outcomes of the process up to date show some constraints and are not yet applicable to the whole spectrum of Post-Socialism. Besides, there are some methodological questions which hamper the progress of comparative Post-Socialist economies' research.

First, the "path dependence" explanations look desperate because, when the trajectories of these countries are completely predetermined by the historic past, any activities of political entrepreneurs to establish new institutions, maintaining the norms and rules of a market economy, should be viewed as doomed forever.

Second, some streams of literature raise doubts whether capitalism is a prospective destination point of the developments at last in some former Socialist countries ("backslide transition" or some of the ideal types of Post-Socialist regimes), "we are trapped in the analytical language that gained dominance in the 1990s. Although the transition paradigm has been consensually rejected, we kept the terminological framework of Western-type polities and have continued to use the language of liberal democracy to describe post-communist systems" (Magyar and Madlovics, 2020, p. 3).

3 East-Central Europe (ECE) in 1990–2010s

The main question of the systemic change process in ECE now is: why has the envisaged development of liberal market economy stalled, and in some sense, rolled back, even in the most advanced Post-Socialist economies? The argument that the fundamental concept of the liberal market economy is in crisis after 2008–2009 can only partially explain the decline of liberal concept in ECE countries. It is necessary to take a closer look at the region and highlight some local circumstances that contributed to the demise of the liberal market economy principle there.

As Djankov and Hauck (2016), suggested, there is strong empirical evidence on the correlation of transition performance and imperial affiliation, as well as religion in this Post-Socialist region. The analysis will separate the two periods of pro-market economic policy in the ECE countries. In the West-Balkan countries (less in Slovenia), the division line is obviously the end of the Yugoslav wars. The separate discussion of the ECE countries and the Balkans (including Romania and Bulgaria) is also suggested because of the marked differences in the two regions' historic and cultural roots.

3.1 Phase one: ECE liberal transition

It is not a much emphasized fact that the demise of the planned economies was merely enforced by the rapid changes in the world's leading economic and political power, the USA. Additionally, quick technological change and the oil price shocks of the 1970s posed such adjustment challenges that the system of central planning could not meet. Thus, Hungary, Poland and Yugoslavia experimented with partial reforms, aimed at improving the incentives of firms and individuals, and introducing in controlled ways, some elements of the market economy. The reforms could not fundamentally alter the central planning system, mainly because the most important segments of the economy remained untouched.

After the economic and political collapse of the Soviet bloc, US-led international advisory institutions continued exporting the then-still-successful neoliberal agenda to the region in the form of the SLIP recommendations. The first phase of the systemic changes in ECE was designed according to the logic of this program. The transformation started with a serious economic decline in all transition economies (Kornai, 1994). The main reason for the crisis was the fundamental change in the environment. Public demand contracted to a small fragment of previous levels due to fiscal problems and the drop in demand for military equipment. Protected export markets of the Soviet bloc were liberalized and became competitive.

The serious structural problems of the centrally planned economies' companies thwarted their quick and successful adjustment to the changes in the demand. For one, state-owned enterprises' (SOEs) output met the relatively less sophisticated state demand, targeted mainly towards the production of heavy industry products. Consumer goods were always scarce and this shortage could not be eliminated overnight with re-programming the heavy industry. The reallocation of the production inputs had taken several years, if it was successful at all, also because companies lacked the necessary managerial knowledge and expertise of such large scale transformations of the activity. Even the redirection of existing production, to meet demand on the world market, proved to be too difficult a task. Innovation, product design and marketing were neglected functions in central planning. But most importantly, SOEs' managers did not feel responsible for taking large scale adjustment steps. Rather, they expected the state, as the owner, to manage their troubled situation. The heritage of soft budget constraints and state paternalism (Kornai, 1980), survived the first years of transition. Consequently, the GDP dropped, unemployment increased, and the state budget ran huge deficits.

The most urgent policy task was, therefore, the stabilization of the economy, mainly through austerity measures, followed by the stepwise introduction of the market economic institutions and competition through the liberalization of the markets, including imports. The market economic frameworks were prepared for private companies which were expected to stand international competition, SOEs were privatized. All these measures meant a huge workload for governments, but also for companies. Firms also had to make adjustment steps, establishing themselves almost from scratch.

Hardships of this process were rather obvious, thus, the ECE governments followed different tactics in their transition policies to keep the countries afloat. The Czech and Slovak governments, for example, depreciated the currency by 60%, in order to improve the price competitiveness of the economic agents and increase import prices. This should have provided SOEs with the necessary leeway to take adjustment measures, and manage privatization. The Polish government decided for shock therapy, a quick liberalization of the economy that reinforced companies' adjustment more effectively. Hungary followed a more gradualist policy introducing liberalization measures less quickly and concentrating efforts on foreign investors' attraction into the privatization process.

Variations in the speed and sequencing of the SLIP were the main feature of the "transitology" phase of research (see Roland, 2000). More lasting consequences were bound mainly to the privatization process. The Czech and Slovak privatization was started by the voucher privatization scheme, then "copied" by the Russian authorities, while distributing vouchers among the citizens for free, which would later be used for obtaining real corporate shares. To ensure the success of the program, the Czech government accommodated the market shocks of liberalization. In the end, most citizens sold their vouchers to state-owned investment funds and did not become proprietors. Instead, the state property was transferred to another type of state property that did not produce more effective owners' control and improvement in corporate activities (Mertlik, 1995). In Slovakia, much of the distributed ownership rights were collected in the hands of the cronies of the Meciar government, thus giving way to a form of insider privatization. The socio-economic results of the voucher privatization in Slovakia, as well as the institutional traps which occurred, were similar in Russia.

The Hungarian privatization preferred the sales method. Since domestic capital accumulation was very weak, the lion's share of the SOEs was sold to foreign investors. This led to another kind of institutional trap, namely, producing the dependent market economy model (Nölke and Vliegenhardt, 2009). In the case of Poland, a more balanced, transparent and slower privatization process was carried out, which allowed the transfer of state property to domestic owners in competitive ways.

As a consequence of all the SLIP measures, by the end of the 1990s, in the ECE countries, the systemic transformation was by and large finished. Their economies became dominantly privately owned and deeply integrated into the global economy. The integration through FDI also happened in countries that did not favour foreign firms in the privatization process. Essentially, they all became rather exposed to the global economy and could not develop their own global players in comparative measure (Szanyi, 2020). This "asymmetric interdependence" amplified critical voices of the transition process after the 2008–2009 crisis in the ECE countries.

3.2 Phase two: "illiberal counter-revolution"

The "illiberal counter-revolution" was led by the nationalistic political and economic elite that did not feel favoured in the liberal phase of the economic and political changes. Of course, global companies' dominance in the economy should not necessarily mean a problem for the mass. On the contrary, these firms usually offer better jobs, higher incomes, and they contribute to the budget revenues substantially, despite the fiscal incentives that they receive (Szanyi, 2017). It is mainly the less competitive local business elite that forms an alliance with populist political forces, which fuels the social rejection of the FDI-based development. The new populist political agenda is anti-globalist, anti-EU, and anti-democratic (authoritarian).

The rather abrupt change in the political orientation of many ECE countries towards populism (Douarin and Mickiewicz, 2017; Dumas, 2018; Rodrik, 2018), is thus mainly the result of the changing power relations within the national elites. The "comprador elite" (Drahokoupil, 2008), which was ruling during the first stage of the systemic changes, lost influence when the neoliberal agenda was shaken. Another important factor of the change was political: the ECE countries became members of the European Union in 2004, but the anchoring role of the EU gradually lost power after the accession. The third factor was be the dissatisfaction of the people with the slow convergence process to other EU member countries. It is very telling that the name of the governing Czech populist party recalls this dissatisfaction: ANO means the "Action of Dissatisfied Citizens".

The populist political parties in the ECE region are pragmatic and less radical when political action is considered. For example, the Hungarian government vehemently opposes the influence of global business on the ground, like their profit repatriation. Yet, selected MNCs continue to receive the same generous fiscal incentives that they used to, from the very beginning of the transition process (Szanyi, 2017). Thus, the macroeconomic performance is rather sound in the region.

Another hotly debated issue is the EU control over transfers from the structural funds. EU transfers contribute to 2–4 % of GDP, thus, without the transfers, the ECE economies' growth would stall. Yet, all countries, but especially Poland and Hungary, are frequently charged with fraud in the usage of the EU money becoming an additional source of the governing political elite's rent and thus, strengthening the populist regimes. Nevertheless, the political and economic stability of the ECE region did not change for the worse, under the populist governments, after the EU accession.

4 Balkans and beneath

Traditionally, the East Balkans consisted of Romania, Bulgaria and Greece, while the West Balkans – of Yugoslavia and Albania. From the viewpoint of the systemic change, the East and West Balkans should be separated, although they share a lot of common historic and cultural heritage. Their religion and imperial affiliation (Turkish Empire) was the same, except Croatia and Slovenia. Yet, another important feature, the multi-ethnic population, was also common. These countries were also rather slow with systemic changes. At least, many analysts state that, during the 1990s, no real change in political power occurred in the region, including Romania or Bulgaria led by ex-communist party or its leader (Appel and Orenstein, 2018). This delay in the political transformation, caused by the lack of an influential contra elite, was, perhaps, the most important reason for delays in economic transformation and the slow evolution of market economic institutions. Changes accelerated only after the ending of the Yugoslav war in 1999; the final defeat of the communist regime in 2000, and after the effective negotiations about the EU membership of Romania and Bulgaria in the early 2000s.

4.1 Phase one: civil wars and ethnic conflicts

At the time the ECE countries started changing their political and economic systems, at the beginning of the 1990s, the Balkan countries were involved in huge political and ethnic conflicts. The dissolution of former Yugoslavia occurred in a very bloody war among, principally, all nationalities of the multi-ethnic country. In the first phase, Slovenia and Croatia achieved independence, yet Croatia did not stop the armed conflict with the local Serbian minority until they were expelled from the country's territory in 1995. The status of other parts of former Yugoslavia was normalized even later. The war-endangered countries were left out from the kind of political and economic integration process with the European Union that the Visegrád countries enjoyed. The situation was much better, albeit not without troubles in the East Balkans. The survival of incumbent communist party leaders, at the highest levels of the administration, did not allow these countries deep rooted changes either. The half-hearted reforms did not produce effective institutions (Krastev, 2002). As a consequence, corruption and crime remained widespread and uncontrolled, which then also thwarted the membership negotiations with the EU (Appel and Orenstein, 2018). At the beginning of the 1990s, violent political and ethnic conflicts disturbed the institutional and economic development of both Romania and Bulgaria, too (Racovita, 2011).

Before the EU accession of Bulgaria, Romania and Croatia, in the second half of the 2000s, changes in these countries were rather slow. They maintained, wherever possible, big business in state ownership, in order to stabilize the economy during the dangerous times of the social and ethnic conflicts (Bitizenis, 2003). Surviving paternalism served as a continuous hotbed of corruption (Hellman et al. 2000, Innes, 2013). Small business development was the main engine of economic growth in agriculture and tourism (in the case of Croatia). Later, big business was either transferred to the possession of political cronies (mainly in Bulgaria) or privatized to foreign investors (Romania). In all countries, macroeconomic stabilization had been a primary issue since the wars; corruption and social tensions consumed a lot of state revenue, in the form of high subsidies and unsuccessful tax collection. The situation improved in the 2000s, when trust in the Balkan countries started to evolve after the troubled 1990s. Then, most countries successfully restored macroeconomic stability (Pop-Eleches, 2009). Nevertheless, austerity measures weakened the fragile position of governments (Simmelfenning and Sedelmeier, 2005), and the fairly generous aids and loans that helped the ECE countries' stabilization were not readily available for the Balkan countries. Also, later, the aid and loans were made conditional on institutional changes (fighting crime and corruption) and other political requirements (Bitzenis, 2003; Barlemann et al., 2002).

In the case of Serbia, the situation was even worse. This country was charged with the main responsibility for the Yugoslav wars, despite the fact that Croatia and Bosnia, as well as Kosovo, in a later phase, also contributed to the escalation of the ethnic conflicts. Yet, Slobodan Milosevic's regime in Serbia was overthrown by the massive NATO air raids that caused tremendous material damage to the otherwise also rather weak Serbian economy. In the case of Bosnia, the political situation was stabilized through massive international subsidies and the repatriated incomes of immigrant workers. The local economy was very weak and the shadow economy very substantial. The shadow economy's share is rather high in all Balkan countries (Williams and Bezeredi, 2020). This is a rather uniform feature of the region which causes the governments to be financially relatively weak.

4.2 Phase two: consolidation

The violent breakup of the former Yugoslavia and sluggish political transformation of Bulgaria and Romania thwarted institutional changes and economic modernization. EU membership of Romania and Bulgaria was made conditional on tackling corruption and crime (Wedel, 2001, Innes, 2013). The development was reinforced by international institutions and the European Union, yet the Romanian and Bulgarian governments tried to avoid, or water down, the impacts of the newly established market institutions (Simmelfenning and Sedelmeier, 2005; Racovita, 2011; Appel and Orenstein, 2018). The process is still monitored by EU institutions. The World Bank governance indicators show permanently low indices for Romania and Bulgaria.

Underdevelopment and institutional weaknesses continued to block the inflow of capital even after the EU accession. The EU transfers were slow to penetrate, due to the lack of competitive projects of the two Balkan countries. FDIs, the main vehicles of economic progress and modernisation in the ECE region, were also fairly weak. The Balkans missed investments during the 1990s and afterwards, when global value chains settled in nearby ECE regions. The Balkan countries could not provide such strong incentives that would have redirected already established investments. Generally, the market became saturated, FDI slowed down altogether in the ECE region during the 2000s. Few new investments were carried out in Romania and lately, also in Serbia, in manufacturing. Investments in retail trade and the financial sector, that is consumer market-bound activities, took the lion's share of FDI stock (UNCTAD, 2018).

Sluggish economic development caused massive emigration from the Balkan countries to Western Europe (Krastev, 2002). After the accession round was completed and also labour markets liberalized in core Europe, an avalanche of migration occurred, mainly from the Balkans and also from Poland and more recently, from Hungary. The migration is a clear indicator of the modest success of economic and political change: convergence to the EU average is slow. The contrast in living standards did not change much since the systemic change had started. The remittances of guest workers back to their home countries had become an important macroeconomic stabilizer in all Balkan countries (Krastev, 2002). Its importance is also growing in Hungary.

As a consequence of the systemic change, a new European division of labor seems to have evolved. Core Europe hosts the headquarters of global businesses conducting much of the upper and lower ends of the value chain. Product design, branding, sales promotion, production planning, resource allocation, etc. are those activities that usually provide rather high added value. The ECE region serves as a workbench of the same multinational companies. Their activity is concentrated mainly around the production process, with a comparatively lower level of value added. Analysts state that this kind of labor division is rather stable and the ECE countries entered the “low value capture trap” (Szalavetz, 2017). This means that a multinational firms’ local activity does not contribute to more sophisticated, better yielding activities. In the longer run, this could lead to a kind of middle income trap.

The Balkan countries’ status is different. Their integration in the European labor division system is even lower. They serve as a pool of unskilled labor, supplying core Europe’s service industry, construction and agriculture. The immigrants’ employment conditions are of course very flexible, their contributions are required only if there is sufficient demand. Thus, they also serve as a buffer of labor, taking up the shocks in core Europe’s economy. This unfavorable situation can only be changed if local capital accumulation accelerates and economic and political framework conditions improve.

5 Russia, Ukraine and Belarus

The experiences of Russia, Belarus and Ukraine are of specific interest. They started based on similar economic (close to seventy years of dominance of planned economy, absence of private entrepreneurship), political (communist party as the single actor of the electoral process) and mental (a bizarre mix of Orthodox and Marxist-Leninist norms and values) preconditions.

The nature and number of initial problems in these countries was far more substantial than in ECE (Dabrowski, 1995). They spent a much longer time under the Soviet regime of planned economy, had no experience with partial market reforms (contrary to Hungary in the 1960–1970s, or Poland in late 1980s), and no influential contra elites.

In spite of many commonalities, the three analyzed countries also experienced some differences. Contrary to Russia, Ukraine and Belarus never had experience of a national state and governance. Differently to Ukraine, and especially Belarus, Russia faced huge difficulties with the status of the regions (oblasts vs. national republic). In contrast to Ukraine (coal mines) and Belarus (potash fertilizers), Russia had much bigger amounts of natural resources (oil, gas etc.) to be sold on international markets. Lastly, because during the Soviet time, most ambitious researchers, experts and statesmen either moved to Russia by themselves or were recruited by communist party or federal authorities. The quality of national elites was different in Russia, on the one side, and Belarus and Ukraine, on the other.

All three countries passed through different stages of their systemic change. These stages did neither coincide by time nor by nature. To simplify, we divided their trajectories in two bigger periods: the first steps after the divorce of the USSR republics (ca. till the end of the 1990s), and the second stage of more and more diverging trajectories (since the beginning of the 2000s).

5.1 Shock reforms vs. pulling them back (the 1990s)

5.1.1 Russia: shock reforms and the political defeat of the reformers

The program of reforms, proposed by Prime Minister, Yegor Gaidar, was based on the SLIP ideas, however proceeded in a different sequence. The liberalization was started before the stabilization, and the privatization was launched in parallel with the establishment of new institutions. Moreover, under the pressure of the influential lobby of “red directors”, in 1992–

1993, the Government expanded the money supply and credits at explosive rates, but it soon led to very high inflation and to a deterioration in the exchange rate of the ruble and to the buildup of inter-enterprise arrears. To support continued production under these circumstances, the SOEs relied on loans from other enterprises or on barter deals.

In late 1992, deteriorating economic conditions and a sharp conflict with the parliament led President Yeltsin to dismiss Yegor Gaydar. The new government of Gaydar's successor Viktor Chernomyrdin considered macroeconomic stabilization as a primary goal; already in 1993, the annual inflation rate was around 1,000 percent, an improvement compared with more than 2500 per cent in 1992, but still very high.

In 1994, Chernomyrdin presented a set of moderate reforms to continue the macroeconomic stabilization. The key measure of the economic restructuring program, in the first half of the 1990s, was voucher privatization, similar to the Czech and Slovak model which started in late 1992. Voucher holders could become shareholders, or sell the vouchers, or invest them in private voucher funds. By the end of June 1994, the voucher privatization program's first phase was finished. Ownership of 70 percent of Russia's large and medium-sized SOE and of more than 90 percent of small enterprises were transferred to private hands.

The next phase of the privatization was started, aiming to sell state-held shares for cash, mostly by virtue of the loans-for-shares belonging to commercial banks affiliated with a few nouveau-riches. It provided the government with cash, based on the collateral of enterprise shares that banks presumably would be able to sell later. Due to the big public debt, the state was unable to pay back the credits, therefore most of the biggest state enterprises who took part in the loans-for-shares deal remained in the hands of a few industrial-financial groups, which formed the economic basis of the new Russian oligarchy (see Gaidar, 1996; Guriev and Megginson, 2007).

Under such circumstances, multiple institutional traps of transition (Polterovich, 2007) occurred, i.e. situations when reformers, while correctly denoting the goals, used means which might be perceived by the population as not legitimate. This led to a stepwise deviation of the vector of reforms from the initially proclaimed goals.

The first institutional trap was generated in the course of the privatization. Aimed to enable a fast development of the private economy, the voucher privatization in Russia led, de facto, to a transfer of most SOEs primarily to insiders ("red directors") and partly to newly established voucher funds. Therefore, privatization failed to open the access to the formerly state owned assets for bottom-up growing businesses, but rather has distorted the emerging business environment (Hellman and Schankerman, 2000; Guriev and Megginson, 2007), due to a fading of general competition (Glaeser et al., 2003, Sonin, 2003). While trying to foster the development of market actors and institutions, the reformers opened the door to a distortion of market mechanisms and the emergence of "bad institutions". Thus, the developmental trend in Russia turned toward "phony capitalism" (Yavlinsky, 1998). The dubious outcomes of the reforms in the 1990s, combined with the deep economic crisis in 1998, undermined the positions of the radical reformers and liberal ideas in Russia.

5.1.2 Ukraine: failed attempts to start reforming the economy

Ukraine gained independence in 1991. Due to the transformational recession (Kornai, 1994), the inflation had reached prohibitive levels; output was shrinking fast; little or no progress had been made on privatization; monetary and budgetary discipline were non-existent; and foreign debts were accumulating fast (Dabrowski, 1994; Havrylyshyn et al., 1994; Ishaq, 1997; Grigoriev et al., 2017). Only in 1995, a systemic attempt to start economic reforms was made, and the first Constitution of Ukraine was adopted in 1996. At the end of 1996, the new government submitted to parliament a new program of economic reforms, including further deregulation of economic activity, tax reduction for enterprises and cutting of tax allowances, in order to secure budget revenue, etc.

Economic reform, however, did not progress; the land and agricultural reform was blocked by the agrarian lobby in the Ukrainian Rada. The continued conflict between the different branches of the political system, mostly between the Rada and the President; various interests of very powerful oligarchs' groups made a more consistent and quick progress impossible (Ishaq, 1997).

There were some institutional traps which occurred during the first years of Post-Soviet existence of Ukraine and prevented a sustainable development of economic reforms there. First, the attempt to provide regions with more mandatory functions under a weak central government soon led to a formation of mighty regional groups of interests, consisting of political entrepreneurs, "red directors" and new businessmen, foremost in Kyiv, Dnipro and Donetsk, but also in Kharkov and Odessa, which soon transmitted their economic competition into a political rivalry, using third countries as external allies. The second institutional trap resulted from the desire to achieve economic independence; to do so, Ukraine, since the 1990s, steadily decreased trade with most former Soviet republics. But it created immense problems for the Ukrainian steel, mining and engineering enterprises, with outdated technologies and marketing strategies, which were unsustainable with international markets. Thus, a decision taken by non-economic considerations enforced the economic decline in the country.

In general, close to the end of the 1990s, Ukraine continued to fail in its attempts to start systemic changes in the economy.

5.1.3 Belarus: on the way toward a "state capitalism"?

In Belarus, a contingent process of establishing a market economy never started (Havrylyshyn, 2007; Korosteleva, 2007; Rovdo, 2009; Papko and Kozarzewski, 2020). The government never fully liberalized prices or the exchange rate; privatization was slow and very selective, it did not include large enterprises which remained state owned, but some institutional changes did take place in the management of them in terms of corporatization. In 1994, under a deep economic recession, the first presidential elections were won by Aleksandr Lukashenko. He soon dismantled the separation of powers and consolidated control over the state in his hands. In 1996, Belarusian authorities took control of the biggest commercial banks and re-introduced tight price controls. Privatization was stopped in 1995, when Lukashenko's decree cancelled the results of the first voucher auction.

State authorities succeeded with the process of taking control over the economic system by the end of 1996, when the government adopted "Main directions of social and economic development for the years 1996–2000". It formulated some macro-economic targets, including the GDP growth rate, an increase in industrial and agricultural output, lowering the inflation rate, unemployment and the national currency exchange rate. Enterprises were obliged to meet targets concerning output growth, exports and wage growth. This program was based on the absence of hard budget constraints in the operation of SOEs and banks.

As the Belarusian authorities proclaimed the goal to establish a common state with Russia, such a policy guaranteed several favorable economic conditions from Russia, for many years, especially cheap oil and gas from Russia to Belarusian state enterprises.

Belarus tried to postpone the inevitable economic changes. One of the most important reasons was the absence of an own tradition of stateness, and the related weakness of the traditions of governance, especially regarding monetary policy. However, sustaining a semi-Socialist economy, Belarus was, from the very beginning, locked in several institutional traps. The most important of them were the “debt trap” (under soft financial constraints for SOEs, old debts are financed by the issuing of new ones), the “social burden trap” (the Belarusian state has, over three decades, spent much of its resources in social services, as a welfare state), and the “resource curse trap” (some key manufacturing branches of the Belarusian economy were based on preferential access to subsidized delivery of Russian oil and gas) (Rudy, 2020).

As regards the 1990s, the economic model of Belarus could be labelled as a “rent based state capitalism” (Baltowski et al., 2020; Papko and Kozarzewski, 2020).

5.2 Diverging paths: the end of the 1990s and the first decades of the 21st century

5.2.1 The Russian way from “phony capitalism” to patronal autocracy

In Russia, after the financial crisis of 1998, GDP growth soon averaged 6.7 per cent annually. Two factors pushed the economy forward in the first decade after the crisis: a depreciation of the ruble in September 1998, and rising oil prices since 1999.

This rapid GDP growth and tax revenues allowed the establishment of a Stabilization Fund to pay off government debts; inflation diminished to single-digit numbers in 2006.

Oil and gas, as well as other natural resources, became the most important items in the economy of Russia. But due to these circumstances, the institutional trap of the “rent curse” was revealed (Auty and Furlonge, 2019).

Additionally, due to the fast economic growth in 2000–2007, the public sector grew. Secure jobs, with a limited working day, stable, growing salary and several additional bonuses became more and more attractive for the population. As a consequence, the third institutional “trap of middle income” occurred. The incentives to launch one’s own business, or even to change from the state to the private sector diminished.

An increase in direct state interventions into the economy was manifested in 2003. It took two forms, the formation of state holding companies in some sectors, designated by the state as "strategically important", and the displacement of foreign capital from strategic enterprises. The increase in Russian state involvement in the economy was a sign of changing the ideology, from supporting the market economy to a modernization approach (Ferdinand, 2007).

During the crisis of 2008–2009, the state used its financial resources, not only to support the "fat cats", but also to drastically increase the general dominance of the state in the economy, primarily in the form of a public private partnership in huge strategic projects, increasing of procurement by state institutions, state and semi-state owned firms, etc. Thus, during 2010–2020, Russia turned to establishing the "administrative regime" (Sakwa, 2010), or "patronal autocracy" (Magyar and Madlovics, 2020).

5.2.2 Ukraine: from aborted reforms to a restart

Due to the weakness of presidential power, its steady conflicts with the Rada and corruption, the economic growth in Ukraine has been slow over the first two decades of its independence. The short-term economic rise, during 2003–2007, was based on the growth of exports to Russia and characterized by a sharp increase of external debt. However, after the 2008–2009 crisis, the economy did not recover.

Ukraine's model of economic development, over the 1990s – beginning of 2000s, was rather simple: the oligarchs received their rent from a few large industries and competed for power and control over regional and national budgets, while most households suffered, and many of them received their incomes from relatives, who worked in Russia or in the EU countries. Ukraine's economic fallacy was caused by massive deindustrialization, the share of added value of industrial production and the exports reduced. However, some large enterprises in the east of the country (especially in metallurgy), until recently, remained competitive.

Citizens were constantly frustrated with the economic situation and expressed their dissatisfaction frequently. The first serious sign of a direct intervention of ordinary people in the political clashes was the "Orange revolution" of 2004, but the restart of economic reforms was half-hearted and accompanied by rivalry among the reformist parties and leaders representing different regional clans of Ukrainian oligarchs. Later, it was interrupted by the victory of Victor Yanukovych, who became President in 2010.

The presidency of Yanukovych followed a period of global recession; corruption persisted during his tenure, as well as conflicts between different groups of oligarchs. The protracted slowdown and decline of the wellbeing of the Ukrainian population has resulted in open socio-political turmoil of Kiev's Maidan in 2014.

Recovering, under the conditions of an armed conflict in Donbass, and loss of the Crimea in 2014, would require from President Zelensky, progress in attracting private investment; demonopolizing key sectors of economy; privatizing SOE; tackling corruption; completing the reform of state-owned banks and reducing non-performing loans; maintaining macroeconomic stability to reduce inflation, interest rates, and public debt (World Bank, 2019).

5.2.3 Belarus: becoming a market-exploiting dictatorship?

In Belarus, during the past two decades, GDP growth was higher than the average in Ukraine and Russia (Adarov et al., 2016), but accompanied by high inflation, budget deficit, and currency crises. The core of the Belarusian economic model throughout this period was a combination of rents, extorted from Russia, in exchange for political concessions and soft budget constraints on the SOEs, complemented by an administrative control of the economy.

However, some new tendencies appeared, especially after the economic crisis in 2015: the successive reduction of subsidies to SOEs and deregulation; the growing role of private enterprises, especially in the new sectors (IT etc.); the growing concentration of the new private sector, due to the top-down corporatization of SOEs and establishing of large private firms (Papko and Kozarzewski, 2020). However, the annual economic growth in the country, after 2015, remains on the level of a bit more than 1%.

Besides, according to Rudy (2020), there are several institutional traps, limiting the sustainability of the Belarusian economic model; in addition to the "debt trap", the "social burden trap", and the "resource curse trap", which occurred already in the 1990s, there were the "middle-income trap" (rising salaries as part of the social contract no longer led to country-fast development, as measured by GDP per capita); the "conflict neighbors trap" (as tensions between Ukraine and Russia were steadily growing); and the "forceful pressure trap" (occurring when control agencies cannot stop the pressure by themselves and slowdown the economic activity of the enterprises).

The established Belarusian economic model cannot be explained on the basis of the VoC theory (Nuti, 2005; Korosteleva, 2007), nor understood as “state capitalism”. Rather, this hybrid model can be defined as a “dictatorship using market economy” (Kornai, 2016).

* * *

The three post-Soviet republics showed over thirty years (1990–2020) different developmental trajectories. Russia, first attempting a shock therapy, became confined in institutional traps and over the stage of a “phony” capitalism terminated in a “patronal autocracy”. Ukraine was many years trapped by oligarch rivalry and the weakness of the state, and after 2014, having lost almost twenty five years, is making another attempt to restart reforms. Belarus tried to postpone market reforms and to grow, based on a mixed economic model, but now it is earning the results of the contradictions between the elements of market economy and the political dictatorship.

Thus, the path dependence theory is not enough to explore the divergence of trajectories of socio-economic development of some Post-Socialist countries. Consequently, the reasons for it should be found, foremost, in the contextual framings of the economic processes, which occurred and manifested during the post-Soviet period, including institutional traps, which resulted from inappropriate approaches to systemic changes, or false expectations of their political elites.

6 General conclusion

Both the similarities and differences among the former Socialist economies across Europe during the last thirty years were determined by such factors and conditions as (a) a comparative duration of the Socialist period (the shorter the more favorable to inherit the traditions of entrepreneurship and citizenship spirit at the level of families); (b) availability of experience of their own stateness; (c) access to the legal, political and economic infrastructure of the EU; (d) societal–cultural characteristics of the related societies, based on historical experience and former belonging to one of the vastly different, big empires in Europe (Austrian, Ottoman, Russian); (e) availability, at the inception stage, of strong and influential new elites; (f) the way of establishing of institutions, supporting or distorting (in case of establishing of institutional traps) the systemic changes.

Thus, it seems that the analysis of these economies still often suffers from two failures: using the logic and vocabulary imported from the discourse on the liberal democracies and free market economies, and the attempt to group all of them under one umbrella ("post-transition economies", "emerging market economies" etc.).

The ECE, Baltic, SEE and CIS countries showed very different ways to adopt these factors and conditions; therefore, after thirty years of Post-Socialism, they show different performance and outcomes, going far behind the "variety of capitalism" and other similar concepts, because the perception of some of them as "capitalist" (even with some additional etiquettes) seems to be doubtful. There is a broad bundle of socio-economic models, from dictatorships using market institutions till liberal economies, which appeared in these countries.

The experience of the Post-Socialist countries' development has been mixed until now (from the liberal success story of Estonia, to the revival of dictatorship and state control in Belarus). Therefore, the right research question today is not how the countries fit into some established analytical framework. It is the question of the reasons for diverging paths and still-remaining huge gaps, even between the new and old EU member states in social, economic and cultural terms.

This is not purely a scientific question, because policy decision making normally relies on the theoretical findings of science. However, governments and advising organizations often base their activities on the theoretical background of doubtful concepts. Frequent failures of "transition" policy decisions had a very deep and lasting impact on the affected societies and economies. Some misinterpretations still deliver serious tensions. The unexpected u-turn of political development in many ECE countries, and their attempts to impede the functioning of some EU institutions, clearly reflect this controversy.

The ECE region has always shuttled between East and West. In certain periods, liberal institutions could work there more effectively than today. SEE countries started their systemic change from a much worse position. Their social, economic and cultural heritage differed from core Europe even more than ECE. In many cases, SEE countries did not seriously attempt the introduction of properly working political and market institutions. They relied more on traditional rent seeking. This, in turn, thwarted the region's economic development. However, the rent-seeking economic model proved to be rather stable and deeply embedded, socially.

The situation of CIS countries is even more complicated. In Russia, but also in Ukraine, natural resources contribute to the economic fundamentals, producing several additional traps for conventional economic development. Most important is the resource curse, which distorts economic development and creates a fertile hotbed for rent seeking and corruption.

Some possible explanations of this growing diversity in a globalized economy were termed in this chapter: historical preconditions and the institutional traps, which occurred during the post-Socialist period itself. Some other hypotheses seem to be worth mentioning. For instance, the specific stage of the world economy in the 1990–2020s, when the systemic change in the CEE occurred. There were already some explanations in the literature, that when the systemic change would happen earlier, in the 1970s, it could proceed faster and with more evident socio-economic outcomes, at least in the ECE (Podkaminer, 2013). It seems that the idea of the unfavorable role of the declining general trend of the current long wave of economic development, in the systemic change of post-Socialist economies, needs to be proven, especially based on the Kondratieff theory of long cycles of economic development (Rennstich, 2002; Grinin and Korotayev, 2015).

Another, not yet fully realized, approach is the role of the differing socio-cultural and societal matrix, which pre-existed in all these countries (Inglehart, 2006) and contributed to differences in norms and institutions, which manifested under the Socialist stage (Democracy and Political Culture…, 2006) and influenced the performance and outcomes of the initial steps during the CEE transformation, especially due to the quality and structure of national elites (Szelényi and Szelényi, 1995).

Thus, the divergent developmental trajectories of former Socialist CEE countries are a fact; some theoretical explanations of it, which already exist in the literature, need deeper investigation, while considering relevant concepts and paradigms, existing, not only in the contemporary economic theory, but also beyond it.

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