

# Macroeconomic indicators within economic transition in ECC countries

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## Abstract

The present article discusses some of crucial macroeconomic indicators within economic transition in Central and Eastern European countries (CEE), which started the process of transition in 1989, with the fall of the Berlin Wall. We compare five CEE countries (Slovenia, Slovakia, Czech Republic, Hungary and Poland), in order to analyse their economic transition's outcomes regarding seven crucial macroeconomic indicators: real gross domestic product (GDP), gross domestic product growth, gross domestic product per capita (GDP p.c.), foreign direct investments (FDI), unemployment rate, inflation rate and global competitiveness index (GCI). The aim of the article is to analyse (un)successfulness of economic transition, based on two contradictory approaches these countries have chosen to undergo, i.e. shock therapy and gradualism, while also its possible causal link with transition approach and transition outcomes.

**Key words:** transition, Slovenia, Slovakia, Poland, Czech Republic, Hungary, gradualism, shock therapy.

## 1 Introduction

After the fall of the communism, which is symbolically and *de facto* linked to the fall of the Berlin Wall on 9<sup>th</sup> November 1989, began the so-called transition process in countries of Central and Eastern Europe, which covered the entire spectrum of changes in society. All social subsystems (politics, economics and culture) were subject to changes and restructuring, since transition (ex-communist and ex-socialist) countries operated for decades under a repressive regime i.e. *communism*. Experts of the Eastern world are also familiar with a specific alternative to communism, namely *socialism*, which is considered as a softer version of communism<sup>1</sup>. Transition

was supposed to transform the authoritarian communist regime into democratic society, while also restructure centrally planned economy into a free

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and movements based on Marxist principles. Despite the fact that socialism should exist as a people-friendly and socially beneficial alternative to communism (Heywood, 2007), Huerta de Soto (2010) defines it as a system, of institutional aggression and coercion on the free exercise of human action or entrepreneurship by individuals, politicians and scientists. The result of aggression and coercion is manifested as limiting the free exercise of entrepreneurship and adaptation thereof to the person who carries out the coercion (Huerta de Soto 2010). Based on definitions of socialism and communism, as understood by Heywood (2007) and Huerta de Soto (2010), we understand communism as a more oppressive system, compared to socialism, in regard of political system and social order, where the state suppressed democratic principles and human rights. But despite these differences, we understand both as authoritarian regimes, due to the institutional aggression of which speaks Huerta de Soto (2010). Indeed, this definitions of socialism challenge the key idea of Western societies, which imply stratification system and social differentiation. We argue that communism and socialism are marked by extractive institutions, which are run by privileged individuals who possess economic resources, and thus the possibility for domination and power execution. Extractive institutions generate appropriate economy, where privileged people or groups of people (namely the elites) act under the rules they themselves set, and are often the result of their own interests and benefits.

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<sup>1</sup> The difference between defining and understanding communism and socialism are blurred, as authors of the west use only the term "*communism*" to designate the whole area of Eastern and Central Europe. Singer (2000) argues that communism represents the upgrade of the orthodox socialist orientation and a final state to which individuals aspire. Heywood (2007) defines communism as a principle of the common property, which is generally used for marking regimes

market economy. The crucial aim of transition process was modernization of these countries and reduction of major differences between Central and Eastern countries on one side and Western countries on the other.

After more than 25 years of transition, we can already see its effects and outcomes. Therefore, in this article we will compare five transition countries: Slovenia, Slovakia, the Czech Republic, Poland and Hungary, in which we analyze available data (from The World Bank and The Global Competitiveness report) for seven crucial macroeconomic indicators, which we consider as key indicators of countries' performance and development. These selected macroeconomic indicators comprise: real gross domestic product (GDP), gross domestic product growth, gross domestic product per capita (GDP p.c.), foreign direct investments (FDI), unemployment rate, inflation rate and global competitiveness index (GCI). The purpose of such a comparison is not just in identifying differences in numbers, but rather to compare the growth rate of the latter and thereby compare the progress of these countries.

We chose these countries due to its comparability as they are all located in Central and Eastern Europe, they had a similar political and economic system, they joined the European Union in May 2004. Nevertheless, there is a crucial difference between them in what approach did they choose to carry out transition, namely Slovakia, Poland and Czech Republic have chosen shock therapy, while Slovenia and Hungary have chosen the gradualist approach. The aim is to seek for an eventual causal link between the chosen approach and the outcomes of economic transition.

## 2 Transition in Central and Eastern European countries (CEE)

Transition is a form of modernization of countries of Eastern and Central Europe (CEE countries), which implies reorganization of social order, political regime and economic system. Deriving from cultural and historical heritage of Eastern countries (in comparison with Western ones), it is necessary to point at the fact that developed Western countries have great advantages for development and economic prosperity, compared to Eastern countries, which are characterized by socialist/communist regime.

The fall of communism and transition process denote transformations of countries' social organization, political organization (from communism/socialism to democracy, establishment of democratic institutions, division of powers, freedom of speech, etc.) and economic system (from centrally planned to market oriented economy, entrepreneurship initiatives, private property, free and deregulated markets, etc.) (Pezdir, 2008). But, for a successful transformation and restructuring, a set of socio-political norms, institutions and regulations, are needed. These should be located between the state and market, which generates a so-called *economic society* (Linz and Stepan, 1996), which would allow necessary prerequisites for democracy to be consolidated (Przeworski et al., 1996).

Transition includes all changes, which are a part of country's institutional framework, and it denotes transformations of a *collectivist society* into an *individualistic* one (for more on individualism see Makarovič, 2000; Makarovič and Golob, 2015), which is based on freedom of choice as a main characteristic of capitalism (Pezdir, 2008). Offe (1993) defines transition as a process involving a

change of political<sup>2</sup> (for more on political transition see Tomšič and Vehovar, 2012; Tomšič, 2012), economic and social system, which aims at transforming socialistic/communitistic social structure and at the creation of a Western type of society, which can be applied to the context of societal steering (Rončević and Makarovič 2010, 2011). In the context of economic transition, the latter should cover *privatization*, *macroeconomic stabilization*, *microeconomic restructuring*, and *a legal framework* for a new economic system, i.e. free market economy (Mencinger, 2013).

After the fall of Communism (in 1989), an "empty space" (Lijphart and Waisman, 1996) or an "institutional vacuum" (Ágh, 1994) emerged, which allowed political actors to shape new social order within their own interests. Therefore, CEE countries could chose to carry out transition on the basis of two<sup>3</sup> contradictory approaches, which were both supposed to restructure and modernize these societies:

1. The *gradualist type*, which implies gradual changes, therefore it is a more incremental approach, based on slow and progressive transformation of political order and economic system. It presupposes the involvement and active participation of the public masses (citizens) in public affairs. Gradualist approach strives for slow changes and a longer lasting state intervention in politics and especially

economic affairs, wherein economic programs (stabilization, liberalization and restructuring) are not implemented simultaneously but gradually (see Hall and Elliott, 1999; Balcerowicz 1995; Murrell 1993).

2. *Shock therapy (Big-Bang)* type, which implies quick changes of political and economic systems and strives for an immediate suspension of the socialist/communist regime and the influence of state institutions on the structure and actions of the latter. The main goal is a rapid change of political order (from socialist/communist into democracy) and economic system (from centrally planed economy into a free market economy), which implies a rapid macroeconomic stabilization, microeconomic liberalization, and institutional restructuring. Therefore, the crucial goal of the shock therapy approach is to implement liberal government structures and economic policies, a free market, effective and impartial institutions, etc. This idea is especially supported by the neo-liberal authors (e.g. Buchanan, Friedman, Hayek etc.), who believe that the absence of state and free market would generate economic growth (see Hall and Balcerowicz 1995; Elliott, 1999; Lipton and Sachs, 1990).

Transition in post-communist societies implies modernisation of structural and cultural components, which have to adapt to new and modern institutional and fundamental legal standards, typical for developed Western societies. These are dependent on socio-economic resources, human capital, civilizational competence, social capital, country's heritage and other abilities or competences of crucial actors, who are carriers of structural reforms. These elements represent a prerequisite of country's developmental potentials and vary among countries, which have thereof developed differently and are characterized by different levels of successfulness (Zver

<sup>2</sup> Elements of political transition are very important and affect the economic one. In this context it is crucial to add the development of e-democracy, which would contribute to development of a modern way of democratic life for citizens through various ICT technologies and methodologies, but which has to be implemented properly in order to generate positive effects (for more on the topic see Damij, 2007; Damij et al, 2008; Pinterič 2006; Pinterič 2010).

<sup>3</sup> According to Gomulka (2000) transition can be carried out in three ways: model of shock therapy, typical for the former East Germany, 2) gradualist model, typical of the countries of the former Soviet Union, and 3) model of rapid adaptation, typical of all Eastern European economies.

et al., 2005). Quantity, characteristics and institutionalization of these elements is a result of a complexity of developmental socio-cultural factors (see Prijon and Prijon, 2015; Rončević 2005), which generate the basis for two different types of capitalism to emerge in post communist countries. These represent an important developmental foundation for transition successfulness (hereinafter King 2002, pp. 4):

1. *Patrimonial capitalistic system*, characteristic for the Soviet Union and Eastern Europe, which is based on the export of raw materials. In this sense, capital does not accumulate, but drains out the country, which deepens the differences with the West.

2. *Modern rational capitalism* (liberal capitalism's subsystem), typical of Central and Eastern Europe and the Baltic States. It is also called the "*dependent capitalism*" as the accumulation of capital depends on its input and on the export of manufactured products. Such a system generates economic growth, but at the same time the economic system itself is vulnerable to external shocks and changes in the level of exchanges with external markets. Therefore, it is not necessary successful in bridging the gap with the West.

As CEE countries were under the socialist/communist regime until 1989/1990, we speak about the *post-socialist modernization*, which had a positive influence on countries' development, but did not take place evenly in all transition countries and is still not finished after more than 25 years. Besides, socialist interventions in societies and its subsystems (politics, culture and economy) have led to "*unorganic modernization dictated from above*" (Bozoki 1994), therefore modernization processes (i.e. transition) in socialist and communist societies can be also defined as "*alternative modernization*" (Árnason in

Adam et al. 2001). In spite of rigidity of the former regime, the latter was still at the level of extensive industrialization and urbanization, while also a relatively successful economic growth. Nevertheless, this type of Modernization proved to be deformed, which can not in any way "*compete*" with developed Western economics (Weber et al. in Adam et al., 2001).

Another "definition" of socialistic modernisation was given by Adam (1989), who defines it "*deformed modernization*" typical for (post and real) socialist systems, which is reflected in underdeveloped functional differentiation and can be explained by specific culture (patterns, values, customs, norms, traditions, etc.) typical for rigid systems. Therefore, it is also called "*cultural lag*" (Ogburn in Adam 1989), which serves to define and clarify unsynchronized development of subsystems in society. In this context, Tomšič (2002) speaks about the "*socialist modernization*", which aims at fostering and propagating egalitarianism, prevent functional differentiation of society, ideological pluralism and competition. All this has led to a lack of freedom in society and to the failure of achieving the level of development of other (capitalist) western societies.

Because of the latter, Zver et al. (2005) believe that in transition countries there are still some pre-modern cultural trends, which can hinder positive effects and outcomes of transition, since these reject, to some extent, democracy and free market economy. Therefore, it is crucial that transition countries establish effective institutions in order to facilitate transition and accelerate its successfulness and outcomes. But, we can only speak about efficiency of state institutions if these are procedurally and substantively legitimate (Leftwich, 2010). Effectiveness of institutions (see Tomšič and Prijon, 2009) have a significant impact on *corporate*

*governance*<sup>4</sup>, as a necessary basis for free market economy, as it provides means to institutionalize and regulate economic conflicts between investors and managers. At the same time corporate governance contribute to a stable and cost-effective foundation for successful functioning of public corporations. In addition to the economic system, political regime (and culture in general) is also among crucial elements, which contributes to creation, design and organization of well-functioning corporate system and efficient market economy, which ensures profitable investments in public corporations (Sullivan, 2002).

Institutional organization (and strategic policy decisions) is associated with environmental structure, which includes state's resources, external geopolitical context, formal and informal institutional organization and distribution of power, which institutions itself constitute (Leftwich, 2010). Institutional structure (organization) may relate to prevailing socio-economic and social structure in a given polity (Moore, 1965). It includes informal and formal institutions, which represent laws, rules and regulations, which govern economic, political and social life of citizens as well. Structural configurations that combine all of these elements differ among societies, while the components of structural contexts are subject to changes (fast or slow), which may represent barriers or opportunities for specific actors, for example individuals, groups, organizations and associations. If institutional structure is consistent with civilization competence, social capital, culture society's history and heritage, etc. it will be more likely for transition to be effective and successful. If institutional structure is not compatible with society's

heritage it will generate social and political conflicts, while also national economy will not reach the level of developed countries and will not prosper, which is a key objective of transition.

Considering institutions as key determinants of economic development (according to Fukuyama 2004; Acemoglu and Robinson 2012), these can be considered as one of key factors for generating relevant and stimulating (or hindering) factors for successful transformation of socialist/communist countries<sup>5</sup>. On this basis, Acemoglu and Robinson (2012) highlight two types of institutions, which characterize societies:

1. *Inclusive institutions*, which facilitate and encourage a wider participation of citizens in economic activities and ensure private property, impartial legal system, public services, equal competition, the entry of new businesses and activities on the market, etc. At the same time, the state "ensures" public order, prevents theft and frauds of contracts among private parties. Inclusive institutions also promote economic activity, growth of production and economic prosperity.

2. *Extractive institutions* are, in most cases, established by elites, who control the majority of power. Extractive institutions are established and maintained where there are few (or no) constraints on implementation of will and power of the privileged ones (elites). Extractive economic institutions depend on extractive political institutions and enable the enrichment of elites, as through their wealth and power a political dominance is consolidated (Acemoglu and Robinson, 2012). Environments dominated by

<sup>4</sup> A support structure to promote transparency and efficiency of economy, which should enable the equality of all shareholders, including minor and foreign ones (The Principles of Corporate Governance 1998, 2004).

<sup>5</sup> Fukuyama (2004) highlights four (4) institutions within the economic system, which are associated with nation building and are crucial for society's progress: 1) Organization form and management, which is linked to both, the private and public sector (public administration), 2) The form of political system, 3) Basis of legitimisation and 4) Cultural and structural factors.

extractive institutions are permeated with corruption, political uncertainties, high social inequality, high inflation and capital outflows (Rose, 1998).

In this regard it is extremely important which kind of cultural, social and political organisation exists in society (country) as the latter represents an important basis for one of these two types of institutions to form. Institutions have an important impact on the type of economy that will form and on its functioning. Deriving from King's (2002) assumptions about two types of capitalistic systems, institutions are even more important for ex-communist countries, as these will have a great impact on the establishment and functioning of (modern rational) capitalism, which is dependent on external shocks.

In the following part of the article we will analyse specific macroeconomic indicators, which comprise: real gross domestic product (GDP), gross domestic product growth, gross domestic product per capita (GDP p.c.), foreign direct investments (FDI), unemployment rate, inflation rate and global competitiveness index (GCI), within five CEE selected countries, i.e. Slovenia, Czech Republic, Slovakia, Poland and Hungary.

The aim is to analyse (un)successfulness of economic transition's outcomes in these countries, which carried out transition based on two different approaches, where single measures were differently accepted in each country<sup>6</sup>. In general, Slovenia and Hungary have opted for *gradualism*, while Slovakia, Czech Republic and Poland have chosen the *shock therapy*. In addition, we will analyse if there is a possible causal link between the type of transition and its outcomes.

<sup>6</sup> E.g. liberalization of prices in Poland was seen as a shock therapy, in Hungary on the other hand, was considered as a gradualist measure, while in Slovenia, liberalization of prices is considered as an initial condition of transition (Mencinger, 2000: 28).

### 3 Macroeconomic indicators within economic transition in selected CEE countries

Although there were many countries, which started the transition process in 1989/1990, we will focus only on some of them: Slovenia, Czech Republic, Hungary, Slovakia and Poland. The reason for choosing these countries lies in their geographical location (Central and Eastern Europe), a similar political (and economic) order<sup>7</sup>, while also their simultaneous joining the European Union in May 2004. But despite these similarities, these countries have had different starting position in the beginning of transition and thus much different developmental potentials, which derive from different levels of civilization competence, social and cultural capital, historical background, etc. Therefore, these countries have had much different opportunities and potentials to develop an effective free market economy and reach economic prosperity comparable with other developed (EU) countries.

Examined macroeconomic indicators comprise:

- real gross domestic product (GDP),
- gross domestic product growth,
- gross domestic product per capita (GDP p.c.),
- foreign direct investments (FDI),
- unemployment rate
- inflation rate<sup>8</sup> and
- Global Competitiveness Index (GCI)

We consider these indicators as crucial factors of country's developmental potentials, competitiveness and successfulness, which shape and define outcomes and (un)successfulness of economic transition. We present data of

<sup>7</sup> Although the Czech Republic, Slovakia, Poland and Hungary have had a much more rigid political regime, if compared to Slovenia, as they were a part of the Soviet Union.

<sup>8</sup> Annual percentage change in the cost to the average consumer of acquiring a basket of goods and services (fixed or changed) (The World Bank, 2015).

these indicators in the following time ranges:

1. 1990 in order to establish countries' starting positions and to compare their contemporary performance<sup>9</sup>

2. 1995 in order to spot the main changes within a five year period among countries and due to the fact that some of data is missing for the time range between 1990 and 1994

3. 2000 in order to verify if there were any crucial changes among countries in a five year time range, as the years from 1995 and 2000 started to be prosperous for Slovenia

4. 2005 in order to verify the main changes that occurred in these countries as they all joined European union in 2004.

5. 2008 - 2014 in order to analyse crucial changes occurred from the beginning of the economic crisis and their actual and contemporary performance

When analysing and interpreting these macroeconomic indicators, we will take in consideration countries' sizes and population, therefore we will not analyse the actual numbers, but increased or reduced trends and gaps between the latter. Data for countries is presented in table 1 (below), followed by interpretation.

**TABLE 1: Transition's macroeconomic indicators by country**

	SLOVENIA (20,1 km <sup>2</sup> /2.mil)*	CZECH REPUBLIC (78,865 mil/10.5 mil)*	HUNGARY (93 km <sup>2</sup> /10.mil)*	FINLAND (312,6 km <sup>2</sup> /5,5 mil)*	SLOVAKIA (49 km <sup>2</sup> /5,5 mil)*
1990					
GDP	n.d.**	40,315,846,933.7	n.d.**	64,712,371,523.3	12,694,514,982.2
GDP growth	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
GDP p.c.	3,699	3,295	3,496	1,694	2,211
FDI	n.d.**	n.d.**	563,000,562	n.d.**	n.d.**
Unemployment	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
Inflation	n.d.**	n.d.**	29%	555.4%	n.d.**
GCI***	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
1995					
GDP	21,273,150,020.2	59,537,113,790.5	46,166,297,228.0	139,412,439,030.4	25,733,071,895.4
GDP growth	n.d.**	6.2%	1.6%	7.0%	5.8%
GDP p.c.	10,690.7	5,786.0	4,498.6	3,612.2	4,799.2
FDI	150,400,000	2,567,564,642	4,804,151,332	3,669,000,000	236,132,979
Unemployment	7.2%	4.0%	10.2%	13.3%	13.1%
Inflation	13.6%	9.2%	26.3%	28.1%	9.9%
GCI***	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
2000					
GDP	20,342,229,875.2	61,474,265,134.5	47,110,416,253.9	171,886,765,072.5	29,110,097,659.8
GDP growth	4.2%	4.3%	4.2%	4.3%	1.2%
GDP p.c.	10,227.8	5,994.5	4,613.7	4,492.8	5,402.0
FDI	135,000,000	4,567,629,429	2,770,479,254	3,343,000,000	2,862,408,863
Unemployment	6.5%	6.8%	6.4%	16.1%	16.4%
Inflation	8.5%	3.5%	3.0%	16.1%	12.8%
GCI***	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
2005					
GDP	36,346,971,769.7	135,990,215,966.7	111,890,070,522.2	304,411,705,932.0	62,676,532,769.6
GDP growth	4.0%	6.4%	4.3%	3.5%	6.5%
GDP p.c.	18,169.2	13,317.7	11,092.4	7,976.1	11,665.5
FDI	970,800,000	11,601,977,306	8,506,362,817	11,051,000,000	2,998,306,985
Unemployment	6.5%	7.9%	7.2%	17.7%	16.2%
Inflation	2.6%	1.8%	3.6%	2.1%	2.7%
GCI***	30 (out of 125)	29 (out of 125)	35 (out of 125)	43 (out of 125)	36 (out of 125)
2008					
GDP	55,589,863,716.2	235,204,812,643.1	156,578,897,628.6	330,185,123,692.5	99,832,576,334.3
GDP growth	3.3%	2.7%	0.9%	3.9%	5.4%
GDP p.c.	27,501.8	22,548.4	15,698.3	13,906.2	16,658.9
FDI	1,104,478,172	8,915,353,022	75,013,000,490	15,031,000,000	4,076,008,621
Unemployment	4.4%	4.4%	7.8%	7.1%	9.6%
Inflation	6.7%	6.4%	6.1%	4.3%	4.6%
GCI***	39 (out of 125)	33 (out of 134)	47 (out of 134)	51 (out of 134)	41 (out of 134)
2009					
GDP	50,244,790,219.5	205,729,750,694.0	129,359,841,849.5	436,476,394,987.3	88,634,203,945.5
GDP growth	-7.8%	-4.8%	-6.6%	2.6%	-5.3%
GDP p.c.	24,633.8	19,698.5	12,906.8	11,440.6	16,465.2
FDI	-381,466,362	5,271,613,702	-2,967,152,013	14,388,000,000	1,606,221,844
Unemployment	5.9%	6.7%	10.0%	8.2%	12.1%
Inflation	0.9%	1.0%	4.2%	3.2%	1.6%
Cont of govern- ment debt	n.d.**	26.6%	98.5%	n.d.**	37.6%
GCI***	37 (out of 139)	31 (out of 139)	58 (out of 139)	46 (out of 139)	47 (out of 139)
2010					
GDP	47,972,980,132.5	207,015,840,050.4	129,583,005,651.4	476,687,891,752.1	89,011,920,329.8
GDP growth	1.2%	2.3%	0.8%	3.7%	4.8%
GDP p.c.	23,417.6	19,764.0	12,968.3	12,530.3	16,508.9
FDI	304,617,626	10,167,834,375	-20,933,508,134	18,146,000,000	2,117,516,331
Unemployment	7.2%	7.3%	11.2%	9.6%	14.4%
Inflation	1.8%	1.4%	4.9%	2.7%	1.0%
GCI***	45 (out of 139)	36 (out of 139)	52 (out of 139)	39 (out of 139)	60 (out of 139)
2011					
GDP	51,248,818,459.8	227,307,455,399.3	139,439,620,999.2	524,362,764,952.1	97,523,437,864.9
GDP growth	0.6%	2.0%	2.4%	4.8%	2.7%
GDP p.c.	24,964.8	21,666.4	13,983.5	13,776.1	18,065.7
FDI	885,615,184	4,488,736,491	10,506,179,880	18,485,000,000	3,668,300,079
Unemployment	8.2%	6.7%	10.9%	9.6%	13.6%
Inflation	1.8%	1.5%	4.0%	4.3%	3.9%
GCI***	57 (out of 142)	49 (out of 142)	48 (out of 142)	44 (out of 142)	69 (out of 142)
2012					
GDP	46,262,747,033.6	206,751,372,749.3	126,824,840,349.8	496,205,742,361.4	92,747,389,762.6
GDP growth	-2.6%	-0.8%	1.3%	1.8%	1.6%
GDP p.c.	22,488.7	19,670.4	12,784.3	13,036.4	17,151.4
FDI	36,976,141	8,433,199,806	10,626,272,721	7,189,000,000	1,627,246,240
Unemployment	8.8%	7.0%	10.9%	10.1%	13.9%
Inflation	2.6%	3.3%	6.7%	3.6%	3.6%
GCI***	56 (out of 144)	39 (out of 144)	60 (out of 144)	44 (out of 144)	71 (out of 144)
2013					
GDP	47,989,855,094.6	208,796,024,645.8	133,423,898,611.9	526,064,038,473.7	97,712,677,178.7
GDP growth	-1.0%	-0.7%	3.6%	1.7%	1.4%
GDP p.c.	23,296.6	19,668.3	13,486.6	13,829.2	18,062.0
FDI	84,975,396	7,367,578,663	-4,112,268,953	12,000,000	2,146,607,066
Unemployment	10.2%	6.9%	10.2%	10.4%	14.2%
Inflation	1.8%	1.4%	1.7%	1.0%	1.4%
GCI***	62 (out of 148)	46 (out of 148)	83 (out of 148)	42 (out of 148)	79 (out of 148)
2014					
GDP	49,416,055,609.2	205,522,871,251.4	137,103,927,313.0	548,003,960,279.0	99,790,145,653.8
GDP growth	2.6%	2.0%	1.9%	3.4%	2.4%
GDP p.c.	23,962.6	19,663.9	13,902.7	14,422.8	18,416.5
FDI	1,503,188,329	4,870,792,838	8,626,274,962	n.d.**	896,173,421
Unemployment	n.d.**	n.d.**	n.d.**	n.d.**	n.d.**
Inflation	0.2%	0.3%	-0.2%	0.1%	-0.1%
GCI***	70 (out of 144)	37 (out of 144)	60 (out of 144)	43 (out of 144)	75 (out of 144)

\* Numbers of country's area and population are rounded to one decimal

\*\* No data

\*\*\* GCI

Source: The World Bank, 2015; The Global Competitiveness Report, 2000; 2005 – 2006, 2008 – 2009, 2009 – 2010,

<sup>9</sup> Due to the lack of data for some countries, we only considered this year in order to highlight countries' situation in the beginning of transition. In the interpretation we will only consider data from 1995 forward.

2010 – 2011, 2011 – 2012, 2012 – 2013, 2013 – 2014, 2014 – 2015

### 3.1 Real gross domestic product (GDP)

When comparing starting positions of real GDP in 1995, it can be observed that Hungary, Poland and the Czech Republic had significantly higher amounts of the latter compared to Slovenia, which it is not surprising due to countries' size and population. On the other hand, what is interesting is the reducing gap between real GDP of Slovenia and other countries in the time range between 1995 to 2014. Slovenian real GDP grew for 2.3 times from 1995 to 2014 (and for 2.6 times from 1995 to 2008, when Slovenian real DGP was the highest). Which shows that Slovenian real GDP increased less than in other transition countries. For example Czech's real GDP increased of 3.45 times from 1995 to 2014 (for 3.95 times from 1995 to 2008); Hungarian GDP increased for 2.97 times from 1995 to 2014 and for 3.39 times from 1995 to 2008; Polish GDP increased for 3.9 times from 1995 to 2014 (for 3.8 times from 1995 to 2008); and Slovakian GDP increased for 3.8 times from 1995 to 2014 (for 3.9 times from 1995 to 2008)<sup>10</sup>. Comparing the trend of real GDP from 2008 to 2014, we found that Slovenian real GDP decreased for 1.12 times, Czech and Hungarian for 1.14 times, Slovak's decrease was minimal, while Polish GDP grew for 1.03 times from 2008 to 2014.

Based on these analysis and comparisons, we can conclude that real GDP growth was the slowest in Slovenia, while also the difference between real GDP in 1995 and 2014 is the smallest. In other words, other countries (the Czech Republic, Slovakia, Hungary and Poland) were (are) developing faster in terms of these indicator, which is also evident in time period after 2000 as these countries are

developing faster than they use to in previous time periods. The latter is even more interesting and important due to starting positions of all these countries.

### 3.2 Gross domestic product growth (GDP growth)

If we compare the GDP growth, after 2000, we find a diverse trend of shares in analysed countries. Thus, in 2000 only Slovakian share of GDP growth was lower (1.2%) than Slovenian and Hungarian (both 4.2%), while Czech and Polish GDP growth were only a bit higher (4.3%). In 2005, Slovenian GDP growth amounted of 4.0%, the lowest growth was detached in Poland (3.5%), while the highest in Slovakia (6.5%), followed by the Czech Republic (4.3%). In 2008 the highest trend of GDP growth was detached in Slovakia (5.4%), while the lowest in Hungary (0.9%), Slovenia (3.3%) could be positioned between Poland (3.9%) and the Czech Republic (2.7%). In 2009, 2012 and 2013 the highest decline in GDP growth was detached in Slovenia (-7.8%, -2.6%, -1.0%), while other countries (except Czech Republic) recorded a growth in GDP in 2012 and 2013, while in these periods the decline in GDP shares in the Czech Republic was still lower (-0.8% and -0.7%) than in Slovenia. In 2014, GDP growth was the highest in Poland (3.4%) and the lowest in Hungary (1.9%), followed by the Czech Republic (2.0%), Slovakia (2.4%) and Slovenia (2.6%).

Comparing GDP growth between 2000 and 2013<sup>11</sup> we found a reducing trend in all countries (in Slovenia and Czech Republic even a negative trend), which was to be expected due to the global economic crisis. But when analysing GDP growth, we cannot make a simple conclusion about countries' progress, as this trend is very diverse and therefore, we cannot highlight a common increasing or decreasing trend

<sup>10</sup> Nevertheless, it's real GDP was lower in 2008 than in 2014.

<sup>11</sup> We choose this time period, as there was a lack of data for Slovenia in 1995 and a lack of data for all countries in 2014.



of GDP growth in countries in comparison. Nevertheless, we can claim that especially Slovakia and Poland are progressing rather well, due to their starting position in the beginning of transition.

### 3.3 Gross domestic product per capita (GDP p.c.)

When comparing shares and trends of GDP p.c. among selected countries, we found that Slovenian GDP p.c. grew for 2.24 times from 1995 to 2014 and for 2.57 times from 1995 to 2008; Czech grew for 3.39 times from 1995 to 2014 and for 3.93 times from 1995 to 2008; Hungarian for 3.1 from 1995 to 2014 and for 3.87 times from 1995 to 2008; Polish for 3.99 times from 1995 to 2014 and for 3.85 from 1995 to 2008; and Slovakian for 3.84 times from 1995 to 2014 and for 3.87 from 1995 to 2008. Comparing GDP p.c.'s trend from 2008 to 2014 Slovenian GDP p.c. increased for 0.87 times, Czech for 0.86 times, Hungarian for 0.89 times, Polish for 1.04 times, while the Slovak GDP p.c.'s increase was again minimal.

In this context, it can be argued that Slovakia, Hungary, Czech Republic and Poland are progressing rather well or better, compared to Slovenia, due to increasing trend. Despite the fact, that Slovenian GDP p.c. is still greater, it is crucial thing that differences between Slovenia (which started transition in much better shape) and other countries are reducing as Slovakia, Czech Republic, Poland and Hungary are progressing more rapidly.

### 3.4. Foreign direct investments (FDI)

Foreign direct investments (FDI) are also one of the key indicators of transition's effectiveness, which can also be defined as a crucial factor of country's development and a necessary prerequisite for economic growth and stability. Considering a yet establishing free market economy and inclusive effective institutions in these

countries, FDIs are even more important as they stimulate developmental potentials and reduce gaps between developed countries and countries in development. But, not all countries in development have a necessary legal and economic basis for FDIs inflow. Some transition countries have created attractive and efficient conditions for FDIs (e.g. Poland), which facilitated transition outcomes and successfulness as these contributed to countries' development, to revitalization of economy and industry, modernized technological production, etc. (Lorber, 1999). The main prerequisite for FDIs are thus site-specific advantages (production costs, marketing factors, government policies, etc.) and internalization advantages, which vary among countries (Dunning 1993). In addition, the most important factor for FDIs is the access to new markets (Foley, 1996), therefore foreign direct investments are also a reflection of country's social and political situation, as investors prefer to invest in countries with a stable political, social and economic regime. Besides, investments can facilitate and contribute to economic growth and prosperity.

Starting with Slovenian FDIs, the latter were never been too high<sup>12</sup>, compared to other transition countries, especially between 1990 and 2005. Other countries had a significantly higher proportions of FDIs, especially Poland (with the highest trends in 2010 and 2011) and the Czech Republic. Nevertheless, it is crucial to point at Hungary's negative trend of FDIs in 2009, 2010, and 2013, which can be the result of its unstable political situation during those years. But until 2009 FDIs were much higher compared to Slovenia<sup>13</sup> (see Prijon, 2012a; 2012b; Prijon, 2012c).

<sup>12</sup> The highest share FDI's inflow are from Austria, while the outward in Croatia.

<sup>13</sup> Adaptation to market oriented conditions and the adoption of an appropriate legislation framework was uneven in transition countries. Hungary was the first country to adopt the appropriate legislation, therefore the share of FDIs was the highest.

The reason for lack of interest for FDIs inflow in Slovenia could be explained on the basis of reluctance to foreign investors, which are still considered with mistrust by Slovenian policy-makers and general overall opinion. Besides, Slovenian government adopted measures, which hindered foreign investors and resulted as prevention for investing in Slovenia (see Rojec and Kovač, 1999) therefore Slovenian environment is quite reluctant to foreign investments, acquisitions and sales<sup>14</sup>.

### 3.5 Unemployment rate

Transition countries have experienced for long time centrally planned economic system, which one of the main characteristics comprise an excess of labour demand over supply. *Full employment* was predominant and it was achieved at the cost of low wages of all employees. In these countries, we even speak about *widespread overstaffing* or *labour hoarding* in public sector, which led to distortions in allocation of labour in industry, while also contributed to low productivity (Nesporova, s.a.). Among the adopted reforms as a necessary part of economic transition, there has also been macroeconomic stabilization and restructuring, as a basis for establishment of a free market economy. Therefore, countries "were forced" to adopt more or less drastic measures, i.e. dismissal of employees, as a precondition for economic growth and reduction of cost.

When we analyse the unemployment rate (measured by ILO) in selected CEE countries, we can observe that this trend is again very diverse. In 1995 the lowest unemployment rate was detached in Czech

Republic<sup>15</sup> (4.0%), while the highest in Poland and Slovenia (both 7.2%). In 2000, the lowest unemployment rate was spotted in Hungary (6.4%), followed by Slovenia (6.9%), with and increased unemployment in Slovakia (18.8%). In 2005, the unemployment rate was the highest in Poland (17.7%), while the lowest in Slovenia (6.5%). In 2008 Slovenia and Czech Republic have had the lowest rate of unemployment (4.4%), while the highest was recorded in Slovakia (9.6%). In 2009 and 2010 unemployment rate was the lowest in Slovenia (5.9% and 7.2%), while the highest again in Slovakia (12.1%, 14.4%). Between 2011 and 2013 the lowest unemployment rate was spotted in Czech Republic (6.7%, 7.0%, 6.9%), while the highest again in Slovakia (13.5%, 13.9%, 14.2%). These countries have faced massive unemployment in industry (due to GDP decline) on one hand, and an increase of employment in the service and tertiary sector. Despite the rapid recovery of GDP in following periods, job creation in CEE countries was very slow (except in the service sector). In addition, countries were faced with long-term unemployment, unemployment of young people, which was much higher than in other EU countries, many jobs required low level of competence and knowledge (Pezdir, 2008), etc.

Comparing unemployment between 1995 and 2013, the latter grew the most in Slovenia (for 3%) and in Czech Republic (20,9%), while it decreased in Poland (for 2,9%). On the other hand, taking in consideration the period between 2008 and 2013, unemployment increased the most again in Slovenia (for 5,8%), followed by Slovakia (for 4,6%) and Poland (for 3,3%). On the other hand, unemployment increased the less in Hungary (for 2,4%) and in Czech Republic (for 2,5%).

<sup>14</sup> Which may be explained in the context of the national interest. However, in recent years an increasing trend of sales and acquisitions by foreigners started in Slovenia, reflecting on one hand that it is slowly opening to foreign capital, but on the other that Slovenia cannot "afford" the national interest after the global crisis in 2008 which substantially weaken the Slovenian economy.

<sup>15</sup> Unemployment trend was even lower than in some other European economies and the United States (Gitter and Scheuer, 1998).

According to analysed data it can be concluded that overall unemployment rate was the highest in Slovakia, while the lowest in Slovenia and in Czech Republic, but deriving from Gitter and Scheuer's (1998) study about the background of low unemployment rate in Czech Republic compared to other transition countries, we can claim that extremely low rates of unemployment reflect negative consequences of economic reforms and measures, which were adopted in order to maintain low unemployment rates on employees' experiences. In fact, Gitter and Scheuer (1998) observe that Czech's low unemployment is only apparent or as they call it "a mirage", which resulted from measures that Czech government adopted (eg. low minimum-wage rates, less generous unemployment insurance benefits, tripartite wage setting, etc.). A similar explanation can be used for Slovenian case, adding also Ignjatović's (2012) claims that, even though Slovenian unemployment is still under the EU average, the problem lies in its fast rising trend compared to other EU countries.

### 3.6 Inflation rate

After 1995 several transition countries changed fixed exchange rates with flexible exchange rates arrangements due to price liberalization and exchange rate devaluation in order to achieve stabilization of price level. Notwithstanding, inflation declined significantly, it was not able to prevent a large real appreciation, which brought problems of balance-of-payment and forced these countries to abolish fixed exchange rates. In order to solve the problem of inflation, countries introduced the so-called managed *floating exchange rate system*, but only Slovenia kept this arrangements for a longer period of time, as Czech Republic, Slovakia and Poland introduced *managed float*, while Hungary (in May 2001) introduced *an exchange*

*rate band* (Jonas and Mishkin, 2004; Kim and Korhonen, 2002; Lavrač, 1999).

When analysing data regarding inflation rates in selected countries, we found that Slovenia and Poland had the lowest rates of inflation in all years of transition. In first years of transition the latter was very high especially in Hungary and Poland, but after 1995 it sharply declined and is now maintained at a moderate level. In fact, inflation rates in some CEE countries diminished and converge too much lower inflation rates than in some developed parts of EU (Mencinger, 2013).

In this respect, we can claim that introduced measures and reforms have a positive output in regulating inflation rates.

### 3.7 Global Competitiveness Index (GCI)

Global competitiveness index (GCI) measures microeconomic and macroeconomic basis of country's competitiveness. GCI's are presented in *The Global Competitiveness Report*, released every year by the World Economic Forum. Global competitiveness index consists of set of institutions, policies, and factors which determine the level of productivity, which in turn, sets the level of prosperity of an economy. Competitiveness (which involves static and dynamic components) comprises that a more competitive economy is which is likely to sustain growth.

We analyzed GCI only between 2000 and 2014, due to the lack of data before 2000, wherein we find that in overall analysis Czech Republic was best placed in the scale of Global Competitiveness Report (World Economic Forum, 2000; 2005 – 2006, 2008 – 2009, 2009 – 2010, 2010 – 2011, 2011 – 2012, 2012 – 2013, 2013 – 2014, 2014 – 2015). More specifically, in 2005, 2008-2012 and 2014 Czech Republic had the highest GCI index among all selected countries, while the lowest GCI

index could be spotted in Slovakia after 2010. In years 2005, 2008 and 2009 Slovenia was positioned after Czech Republic, but after 2009 Slovenia began to lose its competitiveness' advantages, with Poland and Hungary topping it.

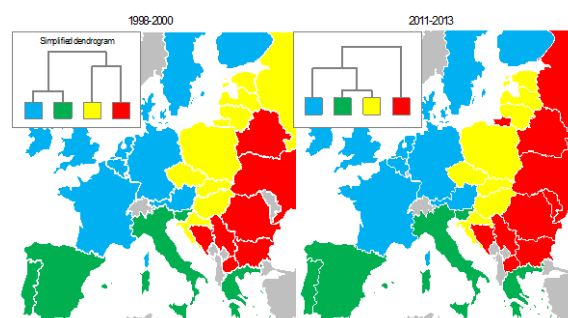
Cumulatively speaking, since 2000 to 2014 the GCI most fell in Slovakia (for 36 places), followed by Hungary (for 34 places), Poland (for 8 places) and the Czech Republic (for 5 places). Between 2000 and 2008, only Czech Republic advanced for one place, other countries have lost their competitiveness. Most of all Hungary (for 21 places), followed by Poland (for 16 places), while Slovakia fell was the lowest (only 2 places). From 2008 to 2014, only Poland advanced for 8 places, GCI of other analysed countries dropped, among which the highest fall was spotted in Slovakia (for 34 places), followed by Slovenia (for 31 places), Hungary (for 13 places), and the least in the Czech Republic (for 4 places).

Based on these data it can be stated that Slovenia was performing rather well and had good developmental potentials, compared to other countries until 2008/2009. The latter was to be expected due to its starting position. But after the global crisis it seems Slovenia started losing its advantages and potentials, as Poland and Hungary began to top it. The situation is even worse nowadays (in 2014) as Slovenia is positioned in 70. place (i.e. penultimate among selected countries) and is topped by the Czech Republic (37. place) and Poland (43. place), which started transition in much worse conditions. Even Hungary, which GCI is much worse than other countries is positioned on the 60. place, while Slovakia lags behind Slovenia only 5 places, which is interesting as Slovakia started its transition in "catastrophic" conditions.

#### 4. Concluding remarks and arguments

Overall, we can claim that analysed CEE transition countries progressed rather well, as their macroeconomic indicators are in some degree comparable with developed Western countries. The latter can be supported by argument offered in the study done by Roaf et al. (2014), who analysed transition countries' performance<sup>16</sup> in the context of "cluster analysis". Cluster analysis revises the relative status of transition countries within Europe and its eventual changes over time, while also seeks similarities and differences within and between clusters, across a range of indicators<sup>17</sup>.

**Picture 1: Clusters of European countries: 1998 – 2000 vs. 2011 - 2013**



Source: Roaf et al., 2014, pp. 55

In the first period (1998 – 2000), there were two clusters (Western vs. transition countries), further divided into two subgroups: Scandinavian countries, GB, AU, DE and IT, ESP, PT, GR, CY (Western groups of countries) vs. CEE, Baltic states and CIS, SEE EU, SEE xEU (transition countries). In ten years time period this dendrogram changed dramatically, as Western model has now two subgroups of clusters (comprising also

<sup>16</sup> Their study comprises transition countries divided into four groups; Baltics states, Central European countries (CEE), Commonwealth of Independent States (CIS), Southeast Europe EU members (SEE EU), Non-EU Southeast Europe or Western Balkans (SEE xEU).

<sup>17</sup> Normalized series for GDP p.c. at purchasing power parity (PPP), life expectancy, energy use per unit of GDP, the share of agriculture in GDP and CPI.

CEE and Baltic states transition countries), while CIS, SEE Eu and SEE xEU still form a single subgroup. The latter shows that disparities between the so-called Western and CEE transition countries were reduced, as a result these countries have more in common with the EU-15 countries than CIS, SEE Eu and SEE xEU countries.

Thus, on the basis of clusters, we can claim that generally speaking transition in (analysed) CEE countries was successful and prosperous, as the gap between developing eastern countries and developed Western countries is reducing (reduced). In this regard, we can confirm the first part of the research question regarding positive outcomes and successfulness of transition, since its main objective was achieved - reducing the gap and differences between Eastern and Western countries. On the other hand, solely on the basis of this argument, we can not answer the second part of the research question regarding the potential causal link between the type of transition (*gradualism* or *shock therapy*) and its positive outcomes. Even on the basis of analysed macroeconomic indicators we can not clearly give an affirmative answer to it, as trends in analysed countries are very different.

If we precede from the fact that only Hungary and Slovenia decided for the gradualist approach, while considering the values of indicators - we can not argue that shock therapy is (was) better because indicators of the Czech Republic, Slovakia and Poland are different (some better, some worse than Hungarian and Slovenian ones). What is interesting is the fact that Hungarian indicators in certain respects are even better than Slovenian. Similarly, can be stated for Poland, the Czech Republic and Slovakia, which performed transition on the basis of the shock therapy. On this respect, the only thing we can claim is that Slovenia is developing more slowly compared to other countries, as it often

reflects negative trends in measured indicators. These arguments can be supported also with those of other experts who deal with Slovenian transition and who still, even after 25 years, question its successfulness and outcomes, while also argue that Slovenian transformation was not as successful as it could be. In fact, in its initial phases, two "poles" emerged consisting of the so-called *big-bangers* and *gradualists*, who defend their own views on the matter. Most of disagreements were linked with privatization issues, which resulted in a delayed adoption of the Law of Ownership Transformation (1992) as a compromise between the two groups (Mencinger, 2000).

Slovenia began its transition with the best starting position (conditions), but its progress is slowly stopping or else, the progress in other countries is faster and bigger. Notably, when comparing Czech Republic, Poland, Slovakia and even Hungary with Slovenia, we note reduced differences between these, when comparing data from 1995 to 2008, 1995 to 2014 and also from 2008 to 2014. At this point, a new question rises: *Does the model of transition have an impact on (un)successfulness of the latter, or is the socio-economic profile of a country the main basis, which determines transition's outcomes and (un)successfulness?* Namely, Slovenia began its transition in much better conditions than other countries, but it develops slower, therefore a conclusion that follows is that Slovenian developmental basis and potentials of successful transition are poor, as in spite of its initial advantages failed to reach the EU (15) average.

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