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This issue of the EBO brings two papers and the programme of the workshop of the new round of the GDN related project on South-east Europe held at WIIW:

The first paper by professor Ivo Bičanić from University of Zagreb is a speech he gave to the visiting EU students at the department of economics on May 6th 2005.

The second paper is by Vladimir Gligorov and is an

extended version of a paper presented at the Berlin conference on *Equity and Development* held in Berlin in September 2004.

We also publish the programme of the workshop held at WIIW in Vienna in July of 2005. The workshop launched the new round of research on Southeast Europe in the context of the GDN Global Research Project.

Vladimir Gligorov

Ivo Bičanić

45 Minute Talk on Croatian Transition

I will not be saying anything heretical or even extremely controversial by claiming that the transformation in Croatia has been a failure. Should I, however, go beyond the surface and into the implications of this claim I would be stepping on many toes and ruffling many feathers. Think about it for a moment. The 'failure thesis' goes to the very core of Croatia's transformation path, i.e. first to its independence and the way it was defended and second to the nature of its radical break with its socialist inheritance. But while the 'failure thesis' is widely shared by many, from the notorious 'man-on-the-street' to the specialist and politician, the implications I mentioned are not yet on the social agenda. Obviously one day they will have to be addressed seriously, in a sense my generation will have to explain itself to you, but the time this has not yet come. I do not want to open it here either but only mark it and continue as an economist. I made it only to point out that Croatia is not yet a stable society. After more than a decade and a half of transformation political economy is still more important than economics.

With regard to the economic aspects of the 'failure thesis' six features of the Croatian economy seem especially important (and, I think, provide ample support for the hypothesis). They also provide a good description of

the Croatian economy. The six are:

First, the possible benefits of favourable initial conditions were lost and not made use of.

Second, the transformation has generated crony capitalism.

Third, the transformation has not generated 'Modern economic growth' and convergence.

Fourth, the Croatian economy is currently a fundamentally unstable economy.

Fifth, Croatia's transformation followed the 'Southern tier' path.

Six, so far Croatia has not generated driving forces to change its development path.

That is not a description of a success story. Since four of the five pertain to the present and only one is historical I think they justify a little attention.

Only very briefly with regard to the squandered favourable initial conditions. Croatia started the transformation in 1989 (yes, like the rest of Yugoslavia before Poland which is usually credited as the first; from a theoretical point of view this is important and interesting since it implies that the transformation was internally generated and not 'imported') as a middle income economy with a relatively favourable economic structure, relatively developed markets, relatively high level of entrepreneurial know-how and a functioning public administration. Slovenia, another successor state of Yugoslavia, and arguably the most successful transformation economy, was not much different. Croatia looked like a likely success story but

instead of that things went horribly wrong. So where are we 16 years later?

The kind of capitalism generated by the Croatian transformation can probably best be described as crony capitalism, a term which is being increasingly used in the literature. This is a system in which capital markets have second place and capital allocation is being determined by other means. This is also a system in which large rents persist and in which quasi-rents are generated, but neither are distributed through markets or competed away. Instead they are distributed by rent seeking behaviour and state capture. Entrepreneurs see the state as the generator and protector of profits and rents and cronyism as a major way of achieving entrepreneurial goals. The state thus becomes important and large but weak. Corruption is widespread, the rule of law and contract security weak, and public administration and governance ineffective. While this kind of system may have generated fortunes for the few it has not generated growth. This brings me to the third feature of the Croatian economy.

Croatia is not catching up in any important way with the developed economies of the world. Indeed, it has lost rank as some former socialist economies have overtaken it and it is a transformation laggard. With at best a 4% rate of growth, convergence to the EU is slow and to make matters worse it is further falling behind the more dynamic middle income world economies. Furthermore, even the

growth we have is not generated by something economists call 'Modern economic growth' and thus is not on a sound basis. Actually it is a state led growth and largely debt financed and is involving major crowding out, hence it could not be called 'healthy'. With respect to sluggish growth another comment. It is related to impatience. Croatian living standards are still below those in initial conditions and there is a live memory of better times. This creates impatience and a consumption bias, neither favourable to high growth. Of course a major acceleration is possible and history teaches us that it is often unpredictable so the poor growth performance could still have a silver lining, possibly.

Low growth and crony capitalism have, not unexpectedly, after a decade and a half led to a fundamentally unstable economy. While there is price stability (some would argue that at around 3% the inflation rate is too low, a straightjacket and itself part of the problem) and exchange rate stability (through managed floating around a Euro peg facing continues capital inflows leading to a overvalued currency in purchasing power parity terms) the real sector simply cannot stabilize. There is growth without new employment (not unusual for a former socialist economy) and high and stable unemployment rate, around 20%. The foreign trade deficit is unsustainable with sluggish exports, there is an unsustainable budget deficit with a prominent political cycle and unsustainable levels of

social entitlements. Large administrative redistributions remain and some major sectors (agriculture and shipbuilding) continue un-restructured. Solutions to all these structural problems remain postponed promising economic instability will extend into the future.

The fifth feature of the Croatian economy is that Croatia's transformation followed the 'Southern tier' path. This is a transformation path shared by Southeast European economies and it is different from the Northern tier (experienced by the EU Eastern expansion economies) and the CIS economies (whose primary problem is a development problem). In comparison to the Northern tier, in the Southern tier economies the post-transformation recession has been longer and deeper, economic instability larger and lasting and economic uncertainty higher. Each has experienced an economic meltdown or war. In terms of 'people', the costs in terms of lost relative welfare were larger, significant poverty has emerged and economic inequality is high. Perceived levels of economic inequality and subjective poverty levels are also high and making their contribution to instability. Furthermore, they all (except Croatia I must add) face a development problem. And while socialism has been irreversibly dismantled, modern mixed capitalist economy has not yet developed (in Croatia as argued it can best be called crony capitalism). On their path to economic maturity they face major social and institutional restructuring.

The sixth characteristic concerns an estimate of current non-real sector pressures for change. Barring a meltdown, which is possible but because of its fundamentally unexpected nature I will not consider it here, Croatia has no political will to change. None of the important economic issues are on the agenda, solutions to problems are reflexive (after the event) and based on the 'Haarlem technique' (the little boy who stuck his finger in the whole on the dyke) and not on some general coherent strategy. This is not the first time Croatia is missing an opportunity for change. Over the last decade it has experienced a couple of very favourable conjectures for change. In the mid-nineties (after the war), in the late nineties (after a tax revenue windfall), and the biggest opportunity of all came with the beginning of the century (with a political regime change). None of these opportunities were taken. Indeed the biggest one instead of change actually provided a cleaning and polishing. Crony capitalism's initial crudeness and rough edges were toned down and it became acceptable, even internationally acceptable. Thus at present I do not really see any internal driving force for change, in spite of increasing social tensions and a deteriorating economy.

If these six characteristics describe the current state of the Croatian economy, as I think they do, four questions appear specially interesting and important. The first is: What are the reasons, causes of this failure trajectory? With it is linked the counterfactual: Could it

have been avoided? The second question is a looking glass one: What are the prospects? With this we can link a similar question: What is needed for success? As you can see only the first is a 'real' question and the other three a speculative (one is a counterfactual 'what if' and two are 'looking glass'). I must immediately add that one can hope to give some confident answer only to the real one. The other three, although they are more interesting are by nature speculative and everyone can have an opinion and an answer.

Obviously I do not have enough time to address all these issues. I only have time to address one aspect which I think is central and in some way combines all four issues raised above. It concerns the driving force of change and relationship of internal and external causality.

I have spent a lot of time, both in research, writing and talking, proving that the dominant driving force of Croatia's economic transformation has been internal (to remind you that is why the date when it started is important). While this may seem obvious actually there is a tradition of looking elsewhere. The easy and more popular path is to find external, non-economic causes for economic change. In Croatia there is quite a rich menu too choose from, ranging from the Washington consensuses, Brussels conditionality, the Hague cooperation via Serb and Croatian nationalism, separately or mixed, to the Wars of the Yugoslav Succession. However much one may find the external cau-

sation useful, and there are many reasons for doing so (among them the 'excuse factor' is especially important: had it not been for 'them' imagine what we could have done and what a success story we would have been?), after careful scrutiny they do not end up convincing explanations of the facts.

Thus I remain convinced that nobody imposed Croatia's economic transformation path (and its failure) from outside; Croatia's economic transformation was internally generated and a result of internally made choices. This does not mean that external influences do not have a place as a building blocks of the explanation, but it does mean they are not part of the foundation. Without going into too much detail, in my research with a colleague we trace the seeds of crony capitalism, which is the main villain in the story (and should not be confused with capitalism *per se*) to the late eighties.

Why do I stress this now? This is after all a EU inspired event and for Croatia the EU is a unavoidable and welcome future. Croatia will eventually start negotiations about EU membership (personally I find the postponements quite understandable and justified) and it will eventually become an EU member (rather later than locally expected, which also need not be bad).

The reason is that both the negotiations and then membership can be viewed as a regime switch from until now internally generated change to externally inspired change (notice: I refrain from using

the notions of conditionality or imposition). It is a regime change because, remember, I have already noted that I see no internal pressure for change. To become members of a large 'club' small prospective members do not have too much to say about their entry conditions. The crucial question then is what are the implications of this regime change to the four economic fundamental questions. More precisely will EU negotiations and membership bring an end to Crony capitalism and will they generate Modern economic growth. In other words will the EU initiated changes lead to a change of Croatia's economic fundamentals and transformation path. Added to this is the question will this change be through a point of discontinuity or by gradualism?

Now, I do not doubt that in all the new members similar topics were raised and discussed. Indeed they were on the social agenda on various levels of seriousness and dismissiveness even though they are valid questions which need series answers. Especially if one wants to make a coalition for membership. What is different in the case of Croatia, and I must add, the other countries in the Southeast expansion (which will take place in waves, or will it?). The difference is the Southern tier and crony capitalism and a fundamentally lower level of development (actually not for Croatia). This makes the whole South-eastern EU expansion fundamentally different from the ones the EU has experienced till now.

The regime switch can influence development in Croatia in two ways. The first is outright import of change. Here institutions are simply copied and capital flows into the economy. The second is that it acts as a catalyst for domestic change, it provides the right incentive structure for internally generate changes. Both are normative and looking glass issues and every country and economy are a special case. In spite of these disclaimers there are track records and experiences.

The track record of imported change, either institutional or financial is not good. For neither are the results encouraging. We have quite a few examples of importing intuitions (from geographically such varied areas as Latin America, Africa and Asia, the latter two primarily linked to decolonization). Generally they have not had more than medium term effects at best and modern economic growth has so far in all cases been home grown. FDI also seems to be more of a follower than path breaker. Once an economy has got its act together and is on a success track then FDI comes and can strengthen the process but, some special cases aside, it has nowhere been the engine of change.

So we return at best to the catalyst hypothesis. Negotiations will bring out the best and the brightest, empower those who support change at the expense of the others, and the negotiations and membership will in some way generate the conditions for internal change

So at the end of the day we end up with inter-

nally generated change and a political economy questions. If Croatia manages to internally generate the required incentives for change then matters can explode in a flurry of growth and modernization. Is such a change in the books? Personally I am rather sceptical. I can see crony capitalism losing its rough edges, but it is firmly entrenched. While this will not prevent membership and negotiations it will not be good for the economy

I am not making this argument as a EU sceptic-realist-anti-whatever but to point out that for economies such as Croatia EU membership is not the magic wand which will solve fundamental problems. The gap is too big. It can contribute and support but only if there is endogenously generated and supported reform agenda and entrepreneurial self-discovery – that is what is required and what may succeed. For one can imagine a crony capitalist Croatia being member of the EU. Look at Europe, there are quite a few examples of countries with it, even among the old 15 (Portugal, Italy and Greece spring to mind) and the new 10 have contributed to the list (some Baltic republics, Poland and Cyprus). Economies can be in such bad equilibriums and still be EU members.

Enough of Ricardian perspectives. EU membership negotiations will start and as elsewhere increase growth by about 1%, there is no major sport event this summer and tourists will flock generating income and an accelerator effect which, with a multiplier, will further increase growth, the

policy makers have matured to the importance of conditionality, the administration will stop being afraid of the big wide world. With growth and openness, quasi-rents will be competed away and corruption will fall. The Croatian economy will become a dynamic environment to do business and take off, it will also become an attractive place to live, retire and work. This will further raise growth and soon Croatia will catch up with Europe and turn into Europe's dolphin/seal.

Vladimir Gligorov

Justice and Transition

Introduction

Social conflicts are not particularly characteristic for transition economies. At least not the open ones, e.g., mass strikes, demonstrations, riots or massive economic disruptions. This observation¹ leads to the hypothesis that issues of allocation may dominate those of distribution in post-communist transitions. European integration, however, does present post-transitional economies with a dilemma when it comes to the institutionalization of the system of social justice. The issues of social justice and fairness will in time emerge as important for other reasons too.

Distribution vs. Allocation

Not all problems of development and institutional reform are the same. There are at least three ways to approach them.²

1. One is perhaps the typical problem of development. It can be seen

¹ I am not aware of a comprehensive study of social conflicts in countries in transition. But I have not done any thorough research of the literature so my observation is just that, an observation. Social conflicts should be distinguished from severe political ones, see Gligorov (1994). It may also be observed here that pre-transition, socialist or communist, economy and society were characterized by deep conflicts and pervasive repression that periodically incited mass expressions of dissent, though it is often assumed nowadays that those were rather harmonious albeit quite inefficient economies and societies. In other words, it seems to be believed still that they traded efficiency for social equality.

² Elementary clarification of concepts used in this paper can be found in appendix I.

as being characterized by *multiple equilibria*. There is an underdeveloped equilibrium and the growth equilibrium. Those may or may not be Pareto-ranked. The problem of moving from one to another is not essentially connected with the issue of social justice or with that of equity of the distribution of expected benefits. Typical problems with the take-off of an underdeveloped economy are often connected with the lack of institutions, with the low level of skills and with wrong policies, that is with the problems of allocation rather than with sharp and prevailing distributional conflicts.³

The ideal-type case is that of two equilibria, a stagnant and a growth equilibrium, which are Pareto-ranked, that is everybody is not worse off and some (perhaps most) are better off in the growth equilibrium than in the stagnant one, but the latter is an equilibrium, i.e., there are no internal reasons or mechanisms to move out of it and switch to the growth equilibrium. Theoretically, this kind of a developmental problem can exist due to some kind of coordination, institutional or policy failure even if growth equilibrium is not just more efficient but is also fairer, more just or more equitable.

Here perhaps it makes sense to comment on the difference between two widely used concepts of fairness, those of the distribution of opportunities and of capabilities. The problem of just distribution takes resources or outcomes to

³ For an overview see Hoff (2000). For poverty traps see Azariadis (2004).

be determined by the influence of nature (i.e., circumstances), society (i.e., institutions) and individual choice and effort.

If it is assumed that people or individuals

- have capabilities that can be fully revealed or articulated in proper or fair social institutions (e.g., in free institutions),

- can be compensated (procedurally or in kind) for natural differences in capabilities, and that

- there are reward mechanisms that connect efforts and outcomes justly,⁴

then policies that open up opportunities⁵ to everybody are all that is needed, the responsibility for the outcomes is the matter of individual choice.⁶ This is the approach of equality of opportunities and it fits well with the idea that the problem of development is that of solving coordination or other institutional and policy failures.

Equality of opportunity thesis: If opportunities are opened up to all, i.e., are freely available on equal terms, a society will move to the Pareto-superior or growth equilibrium.

If, however, it is assumed that these circumstances of fairness and equal opportunities exist, there will still exist the problem of the develop-

⁴ For instance in the Aristotelian sense that rewards are proportionate to efforts ("equals should be treated equally and those that are unequal should be treated unequally").

⁵ To call them equal in this context is almost tautological.

⁶ This implies compatibilism, i.e., that determinism and free will are compatible. More on that see Risse (2002).

ment of capabilities. Those are indeed, in the most fundamental sense, determined by nature, society and individual choice. Assuming that there are circumstances of equal opportunities in a society, that still may not be enough for the development of capabilities, which is the problem usually addressed by development and growth economics. There could be multiple equilibria, that is an equilibrium of equal opportunities at each level of development of capabilities.

Capabilities thesis: Opportunities do not necessarily develop capabilities.

The capability approach can be seen as not being concerned so much with such outcomes as welfare, utility or even equality. It may also not be concerned primarily with procedural justice, as is the case with the idea of equality of opportunity. It is mainly concerned with the ancient idea of having a life worth living that is based on a specific conception or anthropology of human beings. In that sense, it is a version of outcome justice: the outcome being the truly human being.

2. The other type of the problem of development is often to be found in some developing countries – i.e., in countries that are moving towards the growth equilibrium – and has been extensively studied in for instance the case of Latin America. On the development path there is a set of social alternatives which are neither equilibria nor are Pareto-ranked. This may be because every alternative is characterized with a certain level of social

injustice and thus produces or sustains social conflicts. In those circumstances, the issue of equity or social justice may be central to the whole process of development. In terms of opportunities and capabilities, it is the case where the lack of opportunities curtails the development or sheer use of capabilities.

3. The third type is that which is perhaps characteristic of countries in transition. In the case of the post-communist transitions, the sensitivity to the issues of social justice or distributional equity are not all that pronounced because the starting point is one of inequity and is also not an equilibrium state of affairs. Thus, transition provides for the increase in efficiency and, in that sense, it is seen as a Pareto-improvement.

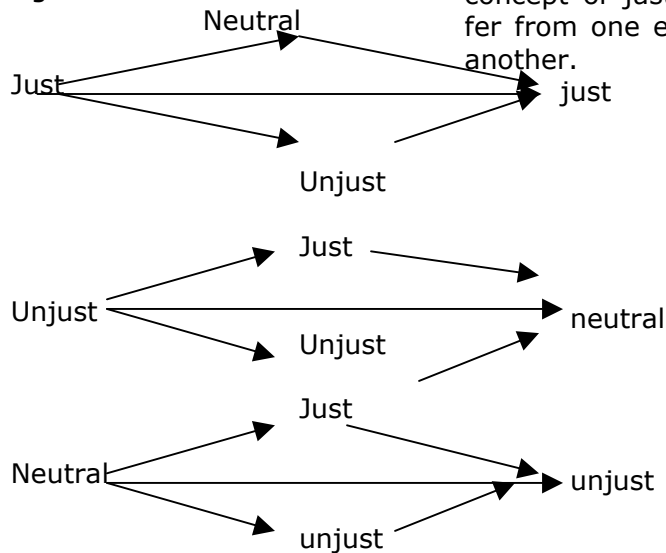
Thus, postcommunist transition is a move from a state of social injustice to a state of increased efficiency: the increase in efficiency (allocative justice) by itself may be seen as leading to an improvement in social justice.

In that sense, it may be the case that in post-communist transitions issues of allocation dominate those of distribution or, to put it differently, allocative justice solves some problems of distributional justice and does not, at least initially, open up the usual issues of distributional justice.

Justice and Conflict

The above typology assumes certain things about justice, fairness or equity. For instance, in the case of multiple equilibria, each of these equilibria may be just, though the concept of justice may differ from one equilibrium to another.

Figure 1.



Of course, there are winners and losers but their conflict of interest does not as a rule have the intensity of the social conflicts usually to be observed when the issue of equity in distribution is predominantly at stake.

For instance, traditional social system may not be based on any notion of social justice and especially not on that of equality of opportunity while the growth equilibrium may increase the importance of justice in distribution. The

possibility that ideas of what is equitable may differ leads to the existence of at least three types of social conflicts over social justice.⁷

1. One is between what could be called the communal idea of justice, both in terms of allocation and of distribution, and an emerging conception of social justice. This was the theme studied extensively in the early sociological literature, where custom was contrasted to contract as the source of just allocation and distribution, and has been revived in a certain sense with the reintroduction of the concept of social capital.⁸

2. The other is between the conception of equity or social justice that is accepted by the society and the performance of the actual institutions that determine the distribution in a society. In that sense, it can be argued that the institutions of that society may lack legitimacy. Clearly, communist states lacked legitimacy in that sense: the predominant conception of justice went against the principles on which the main institutions of the communist societies were based. Similarly, the social conflicts that characterize typical distributional problems in developing countries can be of this kind. There may exist a widespread conception of social justice that may not be embedded in the existing social institutions. Thus, social norms may conflict with the norms on which formal institutions

are based. As it is sometimes put, informal norms may conflict with the formal ones or, in other words, morals may conflict with institutions.

Here, there are several cases that may be of interest. One is that of social resentment due to the belief that institutions are not just. Here the Aristotelian idea that it is not necessary to know what is just to recognize injustice is important.⁹ The very removal of injustice, e.g., through liberalization or increase of freedom, may be seen, at least temporarily, as an increase in social justice. The other may in fact follow from the former one: the new state may be seen as unjust too, so that there is a move from one unjust to another unjust state of social affairs. Finally, there may exist a tyranny of social justice that may be seen as being inimical to individual freedom. In the latter case, the very increase in freedom or liberty may be seen as leading to the increase of social justice.

There are then the following possibilities:

- A take off from a state of no-social justice to socially just or unjust institutional set up.

- A removal of the cause or causes of social injustice.

- A move from one socially unjust distribution to another socially unjust distribution.

- A change from socially unjust to socially just set of institutions.

The canonical case is the increase of social justice by the simple rejection of social injustice. The classical case of sociology of modernization is that of traditional communities with no sense of social justice transiting to societies with or without just institutions. The case of one unjust state of affairs following another one is perhaps characteristic of states in prolonged social crisis. The last is the case that corresponds to the Whig theory of history as persistent growth of liberty.

3. A different type of a social conflict over just distribution is when the ideas of what is just or equitable differ or change during the process of development. For instance, the concept of equity based on the equality of resources may conflict with the conception that stresses the equality of opportunity.¹⁰ The latter may be interpreted as a version of negative freedom while the prevailing conception may be that of positive freedom. In other words, along the path of development and indeed along the path of social progress in general, a choice between different conceptions of equity or social justice may have to be made.

Thus, there are at least three types of social conflicts centred around the issues of equity. One is

⁷ On conflicts over justice see Hampshire (2000).

⁸ More on this concept in appendix II.

⁹ Aristotle could be credited with the idea, that may not be explicit in his writings, that everybody knows what injustice is even if nobody knows what justice is. Rawls argued that there is no moral value to differences in ability that are the product of the natural lottery.

¹⁰ The notion of equality of opportunity has to be made very precise if it is not to remind of the famous line in Orwell's *Animal Farm* that "everybody is equal, only some are more equal than the others." Whether that is at all possible is an open question.

between communal and social justice. The other is between the prevailing social idea of equity with the performance of the existing social institutions; this is the conflict over legitimacy. The third is between the existing and the emerging conceptions of social justice; this is the conflict over the appropriate institutionalization of one or the other conceptions of social justice.

In the case of post-communist countries, the initial conflict was the one over the legitimacy of communist institutions. The new, emerging conflict may be, for instance, between the meritocratic conception of justice and the one based on social equality.¹¹ The former may be that of equality of opportunity and it may conflict with the belief in the inherent worth of equality of resources. In general, the idea that equality of opportunity is the proper conception of social justice, even if it can be defined unambiguously, can always be contested because it does not or cannot adequately take into account the two other factors that can influence the justness of a distribution.

The first is that of luck or other external influences. The other is that of the very possibility to reward efforts justly in such a way that the rewards are proportionate to the individual effort, i.e., there is a question whether individual contributions can be measured properly. The former is the problem of the influence of nature that makes for equal treatment of those who are unequal.

¹¹ On that see Alesina and Angeletos (2004a and b).

That can be seen as unjust. The latter is the issue of how the product of a common effort can be divided according to individual contributions. In general, that is not really possible. These two problems may explain the fact that equality, in the sense of equality of resources or income, has such an important role in most every conception of equity or fairness.

Transitional Justice

The lack of significant social conflicts in transition is that much more remarkable because of the steep initial decline of production, sharp rise of unemployment, significant increase in inequality, the restructuring of public obligations, and a comprehensive redistribution of resources. The initial decline of overall welfare and the increase of poverty are also well documented though there has been some debate about the figures due to the reliability and inadequacy of the official statistics. In any case, there is no doubt that a very significant redistribution has taken place during transition.¹²

As argued above, one reason for the lack of significant social conflicts is that of allocative justice. After the initial contraction, the industrial production and the GDP have been growing in many transitional economies at a relatively high level. Also, wages and other incomes have grown steadily. Social security payments have

¹² For some evidence on the rise in inequality see Milanovic (1998). For evidence on employment and unemployment across countries and social groups see appendix IV.

also remained significant and the overall public sector has remained quite large especially if compared with other countries on a similar level of development.¹³

In addition, political and social changes have increased the overall freedom and have had three important consequences from the point of view of social justice:

Political equality has increased. This may not be so important in authoritarian or dictatorial regimes, but in a communist regime economic inequality is dependent on political inequality. Therefore, the introduction of political freedoms and of democratic rules bring significant increases in equality.

Increase in individual freedom. Again, in the case of communist states, the system was designed to work against the rule of law. Therefore, the increase in individual freedom and in the possibility of social association together with the commitment to rule of law have increased the feeling of social justice.

Increase in political power of the citizens. Finally, as can be seen from the frequent changes in government, the power of the citizens has increased, which again has an effect of the increase in social justice.

Here a more general point may be in order. It is increasingly being argued that democracy is less important than the rule of law for growth and development. More specifically, political equality is less important than the protec-

¹³ On some discussion of these issues see Gligorov (2000).

tion of private property. This is not true for post-communist transitions in Europe. Communist states lacked both political equality and rule of law (in fact were inimical to them both). Therefore, authoritarian implementation of the rule of law, in the restricted sense of the protection of private property, lacked any legitimacy. Democratization has proved to be the necessary condition for the introduction and strengthening of the rule of law and for the legitimization of the redistribution of resources and of the increase in inequality.

In other words, the increase of political liberty was a substitute for social conflicts over just distribution of resources. In cases in which this did not happen, violent political conflicts as well as significant social conflicts could be observed.

Democracy is not without distributional consequences, however. Two stylized facts could be of some interest here.

One is that the public sector is quite large in most European economies in transition and the structure of public expenditures indicates that the issues of equity are relevant in transition. In general, public expenditures as a percentage of GDP are higher than in other countries on the similar level of development. Also, transfers and subsidies are significant. Finally, public employment is also quite high.

The other is that changes in the government are frequent, which perhaps indicates that social dissatisfaction is channelled politically rather than through social conflicts

such as strikes or demonstrations. Indeed, in a number of cases, an increase in unemployment has given rise to the change in government. Thus, issues of social justice are important.

In early discussions about post-communist transition it was assumed that issues of social justice will be important in transition because of the high level of social equality and because of the increased awareness of the problems with distribution that the process of privatization will bring. Also, and perhaps most importantly, it was feared that the liberalization of the labour markets and the increase of unemployment will threaten the whole process of transition. These assumptions turned out to be mostly wrong. Though privatization produced as many scandals as it was expected it would do, the whole process proved sustainable and indeed had proceeded with remarkable speed. The issues of justice in privatization have played some role, but not as much as was expected.¹⁴ Also, increased unemployment was an important political issue, as already stated, but did not lead to sharp social conflicts, in any case such that would put at risk the newly emerging political and economic institutions.

The reasons for these developments are perhaps to be found also in the lack of institutions for social conflict and in the fact that communist institutions were not believed to be fair too. There is a difference between equality

and fairness in this respect. Social equality may be desirable but the actual institutions that deliver it may not be deemed to be fair. For instance, if prices are repressed and there are shortages then the increased equality that rationing may bring may not be seen as fair because of the way queues are administered and because of the incentives for corruption that they bring in. Liberalizing prices in that case may increase the inequality, but the resulting distribution may be considered to be fairer.

Liberalization of prices in general may have the same effect. Even in the case of the labor market, liberalization may be seen as leading to a fairer distribution of jobs though the rate of unemployment may increase significantly. To see how this may work a simple conceptual analysis may be helpful. Let us assume that there is no unemployment in a communist economy, but significant amount of employment is involuntary. Let us also assume that in a transition economy there is in addition involuntary unemployment. The prevailing judgment of the relative fairness of the labor situation before and after transition will not depend just on the rate of unemployment and not even just on the rate of involuntary unemployment but on the relative rate of voluntary vs. involuntary employment and the share of those who were involuntary employed becoming involuntarily unemployed (and of whether they prefer one over the other). In case the distribution of jobs was not very voluntary in a particular

¹⁴ For an early assessment see Gligorov (1992).

communist economy and the number of formerly involuntarily employed people becoming involuntarily unemployed in the transition economy being smaller, then the increased unemployment and the increased income inequality may not be seen as less fair but in fact as an increase in social fairness.

Fairness is not necessarily social justice, though. If the unemployment is structural, the perception may change in time, because the point of reference will change too. Similarly, the perception of increased social inequality being fair may change in the absence of other reasons to justify them. It will then become important what conception of social justice a society may come to accept.

Merit and Luck

It has been argued by a number of authors, most recently by Alesina and Angeletos, that the conception of social justice in Europe is different from the one to be found in the USA. In the former, social justice is needed to correct for the influence of luck, nepotism and corruption, while in the latter it is believed that the institutions screen people fairly and award them on their merits. That may explain the fact that welfare state is much larger in Europe than in the USA.

In the case of the countries in transition the meritocratic conception of justice may be initially prevalent, but it may eventually change in line with the dominant conception of justice in the European Union. As a consequence, social conflicts may become

more important with the integration of the countries in transition into the European Union.¹⁵ The case of former Eastern Germany may provide a good example. Unlike most other European post-socialist countries in transition, where meritocratic justice was emphasized through processes of liberalization and privatization, in former Eastern Germany a version of equality of opportunity and also of income was adopted with huge transfers flowing from the West to the East. This was perceived as neither just nor fair. It also proved not to be efficient.

Similar problems, though on a smaller scale, may appear with the transition countries joining the European Union. Issues of distributive justice may become more important than those of allocation of effort and income according to merit. That may not lead to the level of dissatisfaction with integration to be observed in Germany because there is no place from where transfers could flow. That, however, may prove to be a problem for the stability of the enlarged European Union precisely because of the frustration with low amounts of social and other transfers that should highlight the significance of social justice, equality of opportunity and the insignificance of historical legacies for the capabilities, opportunities and welfare of individual citizens.

Appendix I: Pareto-Choices

It may be useful to illustrate the various

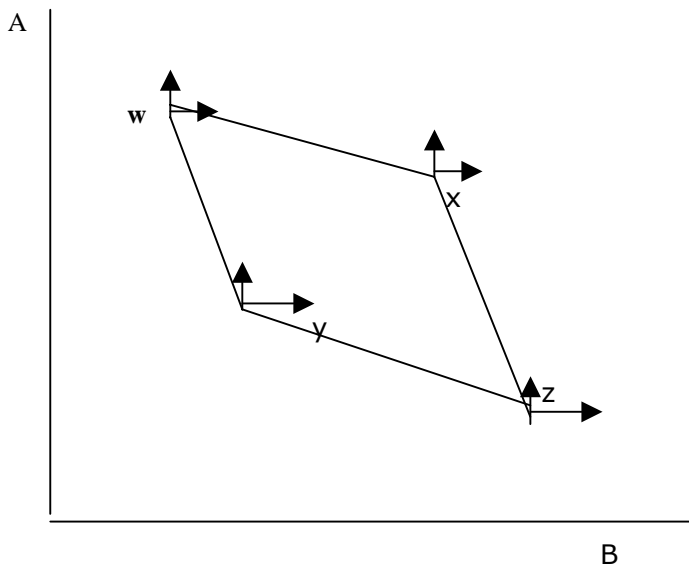
Pareto-concepts that are relied on in this paper and some of the most common problems that they may give rise to. The following figure can be useful for that.

A and B are two actors (persons, families or other social groups and social actors, firms, parties, states, international organizations). They are to choose from four social alternatives: **w**, **x**, **y** and **z**. It is assumed that they rank these alternatives though not necessarily in terms of welfare. They can be valued to be "better than" or "more useful than" or "larger than" or whatever is the criterion of comparison. It is also assumed that these alternatives are social in the sense that they can be realized only if both actors act (refraining from action being considered as an action too). The actors do not have to cooperate, however; they can conflict too. Thus, they may produce, trade, contract, fight or engage in just about every possible social relationship.

Four alternatives are considered, though three are enough to illustrate the problems of Pareto-comparisons and -choices. This is not really restrictive. Given the social character of the problem, it is natural to assume that two individual rankings will give at least four social possibilities: a *status quo*, a social improvement and two points at which one actor is better off and the other is worse off. These four social states can be characterized in Pareto-terms and in terms of the equilibrium in the following way:

¹⁵ More on that in Gligorov (2004).

Figure 1. Pareto-comparisons



Pareto-optimal states: **w** and **z**. This is because a move from either one of them to any other three would make one actor better off and the other worse off. A state is Pareto-optimal if there is no alternative state in which at least one of the actors is better off and none is worse off.

Pareto-inferior state: **y**. Because **y** is worse than **x** for both actors.

Pareto-superior state: **x**. Because **x** is better than **y** for both actors.

Equilibrium: **w**, **z** and **y**. The former two because the move to some other state is not acceptable to one of the actors. The most interesting is the state **y** because it can be an equilibrium even though it is a Pareto-inferior state. To see this, the preferences of the actors A and B should be spelled out. Assuming that they prefer more to less, *P* standing for preference, they will rank the four alternatives in the following way:

- A: **wPxPyPz**
- B: **zPxPyPw**.

Which gives the structure of preferences characteristic of the prisoners' dilemma.

Cooperate
Actor B
not-cooperate

If the two actors are to choose from the four alternatives, they will – in accordance with the argument for the non-cooperative outcome in the prisoners' dilemma – choose **y**. This they will do even if they initially find themselves at **x**. Thus, the Pareto-inferior social state is an equilibrium. Which then leads to the following characterization of **x**:

Disequilibrium: **x**. Though **x** is Pareto-superior to **y** and thus the move from **y** to **x** is a Pareto-improvement, **x** is not an equilibrium state of affairs.

The reasoning is that at **y** both actors will prefer **w** or **z** to **x** and would not agree to forgo the possibility of reaching their best choice in order to settle for

the second best. As they cannot reach an agreement, they will settle for **y**. The same reasoning will destabilize **x**. Attempting to reach their best choices, the two actors may not agree to stay at **x** but move to **y**.

In terms of this classification, it could be argued that a reform move from **y** to **x** is equal to a **miracle**; the move from **y** to either **w** or **z** is the **canonical case** of development and may be free of social conflicts if compensations can be found for the losing actor; and a movement from **x** to **y** is akin to a **disaster**.

Table 1. Prisoners' Dilemma
Actor A

	cooperate	not-cooperate
cooperate	X	w
not-cooperate	Z	y

A move from **w** to **z** or *vice versa* is characteristic of social conflicts with significant equity problems. It is interesting to note that within a prisoners' dilemma there is an Arrow-problem. If either **w** or **z** are removed, three alternatives are left that are ranked, if it is assumed that **w** is removed, as follows:

- A: **xPyPz**
- B: **zPxPy**.

Agreement which is not dictatorial is impossible because though both agree that **x** is to be preferred to **y**, they do not agree on any of the other choices. Indeed, if they were to rank the alternatives, they will end up with the social ranking that reflects only the individual ranking of one or the other of the actors, but not with a common rank-

ing. Thus, again, the Pareto-superior choice cannot, in general, be made.

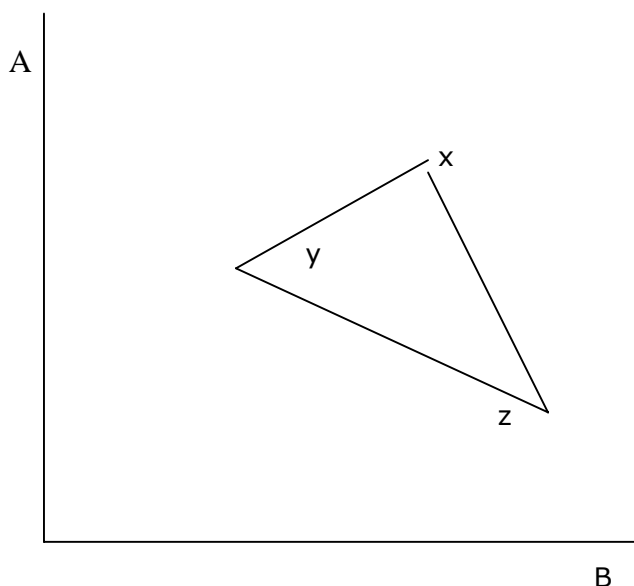
Both configurations of preferences, those of the Prisoners' Dilemma and of the Arrow paradox, are at the heart of the famous Sen's Pareto-liberal paradox, which is at the foundation of his stress on capabilities rather than on opportunities.¹⁶ This can be seen easily. In the case of Arrow preferences, if one person is given a right to determine a certain social outcome, the same right cannot be given to another person because there is room only for a dictatorial solution and only one person can have all the rights with nobody else having any right at all. Thus equality of opportunity understood as equal rights makes no sense within the theory of social choice. Equally, if individual rights are granted to two people facing a Prisoners' Dilemma they will end up choosing an outcome that is Pareto-inferior; indeed, the distribution of preferences in the canonical case of Sen's paradox is that of the Prisoners' Dilemma. Indeed, Sen's paradox as most other problems with the principles of justice are just interpretations of difficulties with social coordination and aggregation of preferences well known from game theory and the theory of social choice. Sen's paradox is particularly useful because it flashes out the conflict between liberty and welfare

¹⁶ The connection between the two is emphasized in Pettit (2001). See also List (2004). For a recent detailed criticism of Sen's capability approach see Pogge (2004). For a different capability approach see Nussbaum (2003).

that is crucial for development as he has shown.

that much because the rules do not by themselves

Figure 2. Arrow triple



Appendix II: Institutions, Social Capital and Path-Dependence

Institutions are now mostly defined as "rules of the game" or less precisely as "the way things are done". This procedural definition is only a part of what is needed for an instrumental definition. Instrumental rationality, generally characterized as:

If y is to be achieved, x should be done,

requires the specification of the goals in order for procedures, for instance, to be meaningful. This is perhaps easier to see within the interactive setting of game theory both because the "rules of the game" definition comes from there and because it is inherently social relying as it does on inter-dependencies.

In that context, it is easy to see that the idea of institutions being rules of the game does not mean all

define the game. At least the specification of the payoff structure is necessary to have an idea of at least the game-form that is being considered. That is why some argue that a meta-game should be specified and then various institutions should be seen as strategies chosen by social actors to play their particular games. Of course, the specification of this meta-game is not an altogether straightforward task. Most that have been proposed beg the question of where does that meta-game come from and if it is to be chosen by the players then that choice would have to be made within a meta-meta-game and so on *ad infinitum*. There are other problems with this game-theoretic definition of institutions that come from general problems that game theory faces. Particularly important is that of multiple equilibria which is often what is being meant when cultures and institutions are being mentioned.

It is argued in the literature on social capital that culture could serve as a vehicle to move from a particularistic to generalized trust.¹⁷ This begs a number of questions, one being that of how society is constructed. Here, very often the traditional sociological distinction between community and society is relied on. The former being based on the culture of collectivism and the other on the culture of individualism. However, the traditional literature highlighted the role of the legal norms in the creation of society while trust played a more important role in communities. In that context, the notion of social capital may be a way to bridge the gap between the communities and the wider society, in a sense constructing social bonds from communal ones. Thus, social trust somehow emerges from people bowling together or from similar activities in local communities.

It is not clear how useful the idea of social capital really is if it is conceptualized in this way. These communal and societal bonds may complement each other, but they may also be substitutes for each other. In other words, it may be the case that the weakness of social bonds leads to the increased importance of communal trust. Thus, it may not be the case that strong communities support strong societies but they may be the sign that societies in

which they are to be found are in fact weak.

In the game-theoretic context, it may not be rational to trust or build up the reputation to being trustful because trust and trustfulness may introduce incentives to cheat. This is why the supply of trust is almost always dependent on (i) interest in the outcome, (ii) one or the other type of collateral, and (ii) on the effectiveness of enforcement. Thus, apart from interest, two key issues are the availability of collateral and the supply of enforcement. Without going into these issues, the point to be made here is that trust is very much endogenous to other economic and social factors.¹⁸

Less demanding and easier to conceptualize is the idea of institutional inertia or path-dependence. It relies on the problem that the fixed cost may present for investing in a change or a reform. An established institution has an advantage over an alternative institution because the costs of the maintenance of the former may be much lower than those needed to introduce the latter. There is an element of a public good in an institution. Thus, there could be an undersupply of new institutions. Thus, the idea of the institutional inertia supports the activist role of the state in reforms and transitions.

Appendix III: Optimal speed of transition and inequality

The literature on transition is almost devoid of considerations of issues of equity and inequality. The general model looks at the speed of reallocation of assets and labour from the state to the private sector and to the attendant fiscal problems both on the revenue and on the expenditure sides. It models the speed of transition as the optimal combination of, on one side, job destruction in the state sector and job creation in the private sector and, on the other side, the increase in expenditures on unemployment benefits and the increase of the tax burden. A particularly simple version looks at the level of employment as a function of the sustainability of the fiscal balance. Assume that

$$E = E_s + E_p \quad (1)$$

that is, total employment, E , is a sum of state, E_s , and private employment, E_p (there is also informal employment that is put aside here). Assuming that s is the rate of job destruction (or the number of jobs lost) in the state sector and p is the rate of job creation (or the number of jobs gained) in the private sector, the rate of unemployment or the number of staying unemployed, u , is equal to the difference in this two rates or numbers, that is:

$$u = p - s. \quad (2)$$

Unemployed receive benefits, U_b , that are covered by taxes, t , that fall on labour. In the simplest case, the budget consists of unemployment benefits only or, more realistically, the change in the amount of public expenditures re-

¹⁷ On this and on social capital in general see Duraluf and Fafchamps (2004) and Fafchamps (2002). For the history of the concept see Farr (2004).

¹⁸ On that see especially Rigobon and Rodrik (2004).

flects the change in unemployment benefits, b , which reflect the speed of labour shading, s . That is

$$s = b = t. \quad (3)$$

By choosing the tax rate, government determines s and to that extent the rate of unemployment. With given private employment, low tax rate leads to low unemployment benefits and thus to a low speed of transition from state to private sectors. The expansion of the private sector depends also on its higher productivity. Lower taxes mean lower wages and thus faster expansion of the private sector. That increases the speed of transition and dampens the rate of unemployment.

If unemployment benefits are low, so are wages and thus profits are higher, transition is faster and unemployment is lower, but inequality between those employed in the state and private sectors increases. Thus, faster transition implies greater inequality. Summing up, it is to be expected that faster growth through higher productivity, lower unemployment and lower taxes devoted to subsidies and unemployment benefits will lead to greater inequality.

Growth of productivity is the easiest to document. Initially, in most cases, employment does not decline as fast as the GDP and thus productivity declines even more than GDP. Later on, productivity and GDP growth go hand in hand, while employment growth comes with a lag.

Inequality has increased significantly, though in some countries more than in the others, as the theory would predict. In

table 2 the GINI coefficients and other simple indicators of inequality are shown for selected countries at the turn of the 21st century. The GINI coefficients were as a rule below 25 and often closer to 20 (for instance 21 in Hungary before 1989). In some cases, the increase in inequality is particularly high (e.g., Estonia, Russia, Bulgaria, Croatia).¹⁹ Most of the cases in which inequality has increase are countries that have seen quite fast transition. In some cases, these are countries that have gone through a serious crisis, which have lead to the decline of public revenues and thus to the decline in unemployment and other benefits. In some cases, the increase of inequality is the consequence of the way the state assets were privatized. Interesting cases are Russia, where inequality has increased quite dramatically as a consequence of the series of crisis and of the method of privatization, Bulgaria where crisis has played the key role in the steep increase in inequality, Hungary where wages and benefits were reduced significantly in the reform in mid-nineties and Croatia where the key role was played by privatization. In countries with high unemployment rates, inequality is not particularly higher than in those with lower unemployment rates. In some case, this is the consequence of the more generous unemployment and other social benefits. Thus, the limited evidence on the inequality in transition seems to indicate that the

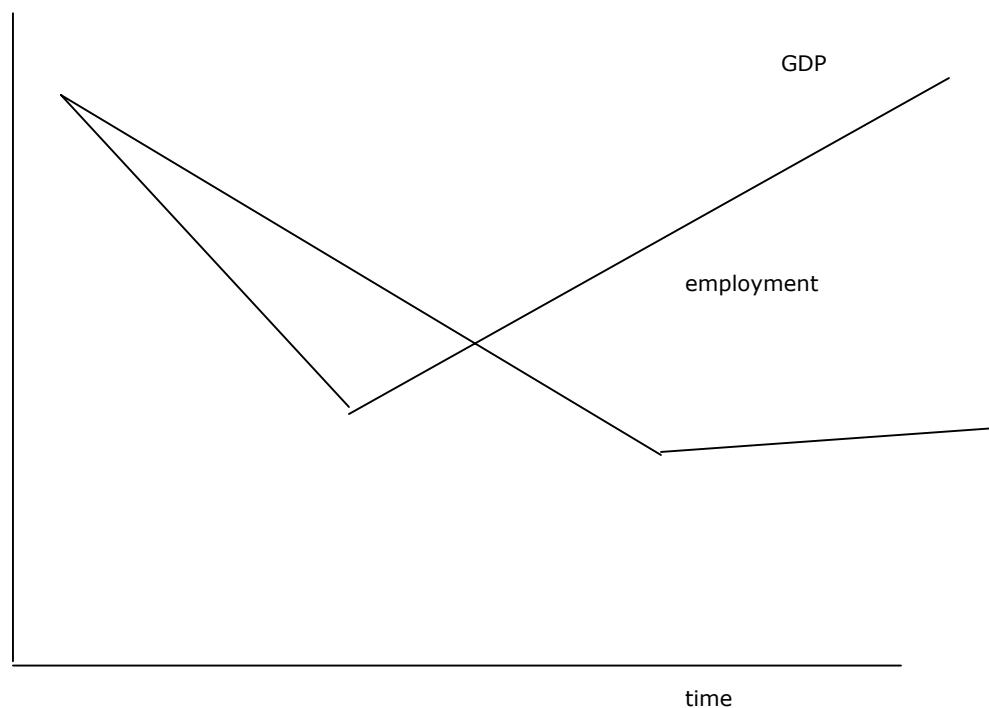
predictions that can be based on the speed of transition literature is correct: higher benefits are connected with more unemployment, slower transition and lower social inequality.

The development of the public sector is much more difficult to analyze. Stylized facts may perhaps be summarized as follows: public expenditures are rather high, as a share of GDP, but are declining; budget deficits are significant, but public debt (as a share of GDP) is mostly stagnating due to high growth rates; expenditures on wages and salaries have decreased significantly, though data is not very reliable; expenditures on subsidies vary across countries, but are low by most standards; expenditures on health and education have declined: finally, expenditures on pensions and other dependent persons have declined quite significantly. Investments tend to be significant because of the need to upgrade the infrastructure in the wide sense of that term. Overall, in most cases, the state sector is still quite large.

¹⁹ More details in Milanovic (1998).

Figure 5

GDP growth
Employment

**Table 2****Indicators of inequality from Human Development Report, 2004**

	Gini	Top 20%/bottom20%	Top 10%/bottom 10%
Albania	28,20	4.1 times	5.9 times
B&H	26,20	3.8 times	5.4 times
Bulgaria	31,90	5.8 times	9.5 times
Croatia	29,00	4.8 times	7.3 times
Macedonia	28,20	4.4 times	6.8 times
Romania	30,30	4.7 times	7.2 times
Slovenia	28,40	3.9 times	5.9 times
Czech Republic	25,40	3.5 times	5.2 times
Poland	31,60	5.8 times	9.3 times
Hungary	24,40	4.9 times	8.9 times
Slovakia	25,80	4 times	6.7 times
Lithuania	31,9	5.1 times	7.9 times
Latvia	32,40	5.3 times	8.9 times
Estonia	37,20	7.2 times	14.9 times
Russia	45,60	10.5 times	20.3 times
Ukraine	30,30	4.3 times	6.4 times
Turkey	40,00	7.7 times	13.3 times

Appendix IV: Some Statistics

After the initial transitional recession, the growth in transition economies was driven by increases in productivity. Figures 3 and 4 illustrate that for the NMS (New Member States) and separately for Bulgaria and Romania where the same process emerges somewhat belatedly. The decrease of employment and increase of unemployment is certainly one indicator of increased inequality.

Figure 6

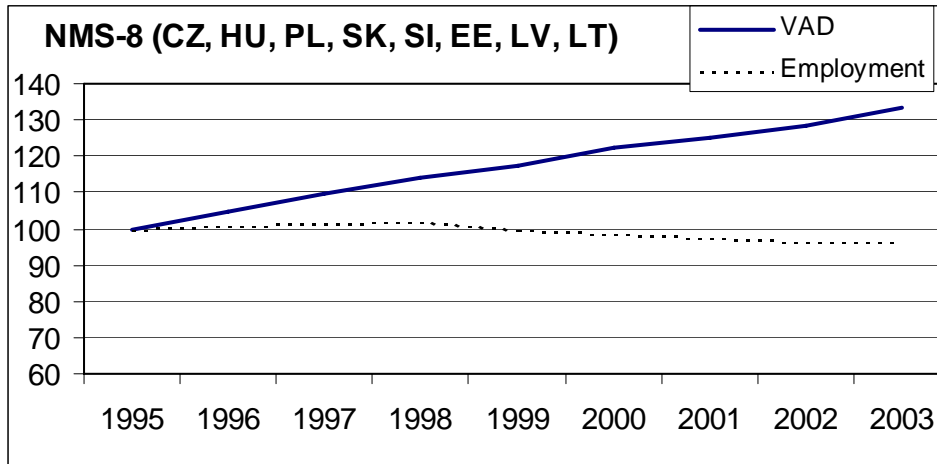
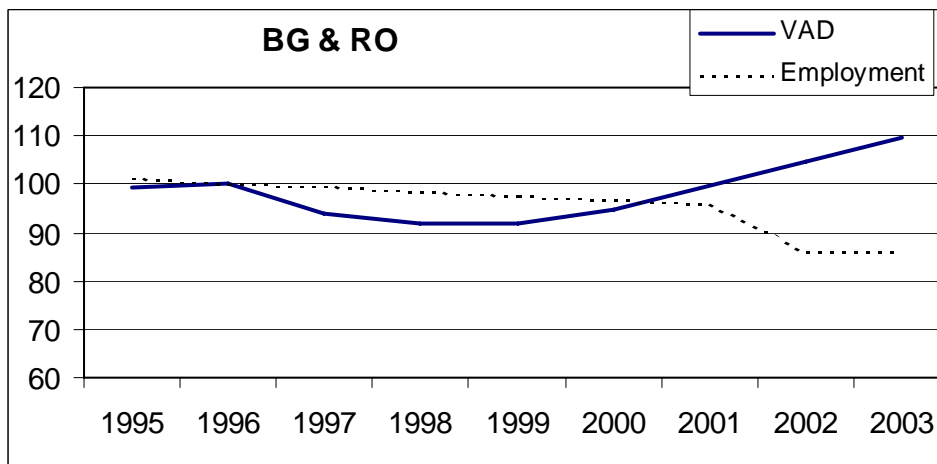


Figure 7



Note: VAD = value added; NMS = new member states; Czech Republic (CZ), Hungary (HU), Poland (PL), Slovakia (SK), Slovenia (SL), Estonia (EE), Latvia (LV), Lithuania (LT), Bulgaria (BU), Romania (RO).
 Source: WIIW.

In addition, adverse development in employment have been more pronounced among women, the young and those who have been out of work for a longer period of time. Tables 2-6 illustrate that. Countries have performed differently in different periods, but most of them do not differ very much in their political performance or in the level of social conflicts.

Table 3**Employment rates in new EU member states/candidate countries, LFS**

employed in % of working age population 15-64

	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	69,3	68,7	67,3	65,6	65,0	65,0	65,4	64,7
Hungary	52,1	52,2	53,7	55,6	56,3	56,2	56,2	57,0
Poland	58,4	58,9	59,0	57,6	55,0	53,4	51,5	51,2
Slovakia	61,9	60,8	60,6	58,1	56,8	56,8	56,8	57,7
Slovenia	61,6	62,6	62,9	62,2	62,8	63,8	63,4	62,5
Bulgaria	54,0	54,1	53,7	51,2	50,4	49,7	50,6	52,5
Romania	65,5	65,4	64,2	63,2	63,0	62,4	57,6	57,6
Estonia	64,9	65,4	64,6	61,5	60,4	61,0	62,0	62,9
Latvia	57,1	59,8	59,9	58,8	57,5	58,6	60,4	61,8
Lithuania	60,3	62,6	62,3	61,7	59,1	57,5	59,9	61,1
EU(15)	60,3	60,7	61,4	62,5	63,4	64,1	64,2	64,3
EU(25)	.	60,6	61,2	61,9	62,4	62,8	62,8	62,9

Source: WIIW.

Note: LFS = labor force survey.

Table 4**Employment rates in the NMS/candidate countries by gender, LFS**

employed in % of working age population 15-64

Male

	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	78,1	77,4	76,0	74,0	73,2	73,2	73,9	73,1
Hungary	59,5	59,7	60,5	62,4	63,1	62,9	62,9	63,5
Poland	65,2	66,8	66,5	64,2	61,2	59,2	56,9	56,5
Slovakia	69,2	67,7	67,8	64,3	62,2	62,0	62,4	63,3
Slovenia	66,0	67,0	67,2	66,5	67,2	68,6	68,2	67,4
Bulgaria	57,7	58,0	57,5	55,1	54,7	52,7	53,7	56,0
Romania	72,6	71,9	70,4	69,0	68,6	67,8	63,6	63,8
Estonia	69,8	70,7	69,6	65,8	64,3	65,0	66,5	67,2
Latvia	62,3	64,9	65,1	64,1	61,5	67,9	64,3	66,1
Lithuania	.	68,4	66,2	64,3	60,5	58,9	62,7	64,0
EU(15)	70,4	70,7	71,2	72,0	72,8	73,1	72,8	72,5
EU(25)	.	70,2	70,6	70,9	71,3	71,3	71,0	70,8

Female

	1996	1997	1998	1999	2000	2001	2002	2003
Czech Republic	60,6	59,9	58,7	57,4	56,9	57,0	56,3	56,3
Hungary	45,2	45,4	47,2	49,0	49,7	49,8	49,8	50,9
Poland	51,8	51,3	51,7	51,2	48,9	47,7	46,2	46,0
Slovakia	54,6	54,0	53,5	52,1	51,5	51,8	51,4	52,2
Slovenia	57,1	58,0	58,6	57,7	58,4	58,8	58,6	57,6
Bulgaria	50,4	50,3	49,9	47,5	46,3	46,8	47,5	49,0
Romania	58,4	59,1	58,2	57,5	57,5	57,1	51,8	51,5
Estonia	60,2	60,4	60,3	57,8	56,9	57,4	57,9	59,0
Latvia	52,4	55,0	55,1	53,9	53,8	55,7	56,8	57,9
Lithuania	.	57,2	58,6	59,4	57,7	56,2	57,2	58,4
EU(15)	50,2	50,8	51,6	52,9	54,1	55,0	55,6	56,0
EU(25)	.	51,1	51,8	52,9	53,6	54,3	54,7	55,0

Source: EUROSTAT; WIIW incorporating national LFS

Note: NMS = new member states; LFS = labour force survey.

Table 5

Youth employment rates in the NMS/CC

% of population aged 15-24

Total

	1997	1998	1999	2000	2001	2002
Czech Republic.	41,5	38,3	36,4	34,3	32,3	
Hungary	29,6	33,9	34,9	33,5	31,8	30,1
Poland	28,9	28,5	26,6	25,3	24,0	21,7
Slovakia	.	35,0	31,0	29,0	27,7	27,0
Slovenia	40,4	37,5	34,3	32,8	30,5	30,6
Bulgaria	.	.	.	19,7	19,7	19,4
Romania	36,5	35,5	33,7	33,1	32,6	28,7
Estonia	.	35,5	30,0	28,3	28,1	28,2
Latvia	.	33,3	32,3	29,6	28,8	31,0
Lithuania	.	34,0	32,5	26,5	22,9	23,8
EU(15)	37,2	38,2	39,4	40,4	40,8	40,6
EU(25)	36,4	37,1	37,6	38,0	38,1	37,6

Male

	1997	1998	1999	2000	2001	2002
Czech Republic .		47,3	42,3	39,3	37,2	35,3
Hungary	33,4	37,6	38,5	37,3	35,7	32,9
Poland	33,9	32,7	30,5	28,3	26,6	24,2
Slovakia	.	38,0	32,9	29,8	28,9	28,7
Slovenia	44,2	39,5	36,3	35,7	34,1	34,4
Bulgaria	.	.	.	21,8	20,0	20,4
Romania	40,4	39,4	37	32,8	35,2	31,4
Estonia	.	40,0	34,9	32,6	33,9	34,6
Latvia	.	37,7	36,9	34,7	32,8	36,4
Lithuania	.	39,7	36,8	29,6	25,2	27,1
EU(15)	40,8	41,8	42,9	43,9	44,2	43,7
EU(25)	40,3	40,8	41,2	41,5	41,4	40,7

Female

	1997	1998	1999	2000	2001	2002
Czech Republic .		35,8	34,3	33,5	31,4	29,2
Hungary	25,8	30,2	31,2	29,7	27,8	27,3
Poland	24	24,3	22,8	22,2	21,5	19,3
Slovakia	.	32,1	29,0	28,2	26,5	25,3
Slovenia	36,4	35,4	32,4	29,7	26,8	26,5
Bulgaria	.	.	.	17,7	19,4	18,4
Romania	32,7	31,6	30,4	30,5	30	26,1
Estonia	.	32,0	26,0	24,0	21,9	21,6
Latvia	.	28,8	27,6	24,4	24,6	25,4
Lithuania	.	28,1	28	23,2	20,6	20,5
EU(15)	33,6	34,6	35,9	36,8	37,3	37,4
EU(25)	32,5	33,4	34,1	34,6	34,7	34,4

Source: WIIW

Note: NMS = new member states; CC = candidate countries.

Table 6**Youth unemployment* rates in NMS and SEES, LFS, in %**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Albania	.	.	.	.	.	.	.	.	.	.
Bosnia & Herzegovina	.	.	.	.	.	.	.	.	.	.
Croatia	.	.	26,9	28,4	30,9	36,5	38,4	41,5	35,5	35,9
Macedonia	.	.	69,5	74,2	70,9	62,9	59,9	56,1	58,4	65,7
Serbia & Montenegro	.	.	50,3	50,2	51,5	53,1	49,6	.	.	.
Czech Republic	8,7	7,8	7,2	8,6	12,4	17,0	17,0	16,6	16,0	17,6
Hungary	19,4	18,6	18,0	15,9	13,5	12,4	10,1	11,2	12,6	13,4
Poland	32,5	31,2	28,5	24,8	23,2	31,3	35,1	41,0	43,9	43
Slovakia	27,3	24,8	20,9	21,7	23,6	32,1	35,2	37,3	36,1	32,2
Slovenia	22,2	18,8	18,8	17,6	18,5	17,9	16,8	18,1	16,7	17,4
Bulgaria	44,9	37,7	33,5	34,8	32,2	34,0	35,3	39,5	36,5	28,3
Romania	22,5	20,6	20,2	18,0	18,4	18,9	18,6	17,5	21,7	18,5

Notes: *) 15 to 24 years.

Source: CANSTAT 2003/4, national LFS statistics.

Note: NMS = new member states; SEES = Southeast European states; LFS = labour force survey.

Table 7**Long-term unemployment in NMS and SEES, LFS**

More than 12 months, in % of total unemployed

	1996	1997	1998	1999	2000	2001	2002	2003	2002	2003
Albania 12m+	76,0	84,0	89,0	90,2	89,6	91,8	93,1	92,6	93,1	92,6
Bosnia & Herzegovina	.	.	.	.	.	.	.	.	.	.
Croatia	41,1	44,2	44,7	49,2	52,1	55,9	54,8	53,4	54,8	53,4
Macedonia	80,7	83,2	82,9	83,8	83,3	86,9	84,5	85,1	84,5	85,1
Serbia & Montenegro	78,8	74,1	79,5	79,6	81,7	74,8	75,6	.	75,6	.
Montenegro	85,5	82,2	83,9	81,6	80,1	85,0	86,0	.	86,0	.
Serbia	78,1	73,3	77,9	79,3	81,9	73,4	74,3	.	74,3	.
Czech Republic	28,2	28,1	29,5	36,0	48,3	57,1	50,5	50,1	50,5	50,1
Hungary	48,3	43,8	41,6	44,6	44,0	41,8	40,1	34,7	40,1	34,7
Poland	39,1	37,9	37,5	32,9	37,9	43,1	49,9	49,5	49,9	49,5
Slovakia	51,6	50,3	50,7	46,9	53,9	57,9	60,0	64,4	60,0	64,4
Slovenia ¹⁾	52,2	56,7	57,7	57,7	62,4	61,9	57,7	56,5	57,7	56,5
Bulgaria ¹⁾	.	60,4	59,1	56,8	58,2	62,2	66,2	65,3	66,2	65,3
Romania ¹⁾	51,3	47,7	41,9	44,3	51,5	49,5	53,1	60,7	53,1	60,7

Notes:

1) More than 11 months.

Source: EUROSTAT, national LFS statistics for respective countries.

Note: NMS = new member states; SEES = Southeast European states; LFS = labour force survey.

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GDN-SEE Workshop
15-16 July 2005, Vienna (Austria)
PROGRAMME

Venue: The Vienna Institute for International Economic Studies (wiiw), Oppolzergasse 6,
1010 Vienna
Friday, 15 July 2005

11.00 – 11.30 Introduction to the projects of the GDN-SEE research
competition 2005
VLADIMIR GLIGOROV

Group 1 Labour markets, migration
CHAIR: ANNA IARA

11.30 – 12.00 Labour Market Dynamics and Characteristics in Bulgaria and Romania – Chal-
lenges for a Successful Integration in the European Union MARIANA
KOTZEVA, BIANCA PAUNA

12.00 – 12.30 Improving Policies to Enhance the Developmental Effectiveness of Remit-
tances DANIEL POP

12.30 – 14.00 Lunch

14.00 – 14.30 Go For Pay or Pay To Go: Macro-Economic Impact of Bulgarian Return Migra-
tion VENELIN BOSHNAKOV, IORDAN KALTCHEV, VESSELIN MINTCHEV,
TSVETOMIRA TSENOVA

14.30 – 15.00 Old Europe Working Experience in the EU Acceding Countries ANNA IARA

15.00 – 15.30 Migration and External Balances RADMILA DRAGUTINOVIC MITROVIC,
MILENA JOVICIC

15.30 – 16.00 Coffee break

16.00 – 17.00 Discussion of the research projects

Saturday, 16 July 2005

Group 2 Foreign aid
CHAIR: VLADIMIR GLIGOROV

9.45 – 10.15 Moving from Aid-Dependency to Aid-Sufficiency in Post-Conflict Regions: A
Case-Study of Bosnia and Herzegovina, and Kosovo ALEXIS ANTONIADES,
KRISTEN BOON, PETROS PASSAS

10.15 – 10.45 Discussion of the research projects

10.45 – 11.00 Coffee break

Group 3 FDI, trade, exchange rates
CHAIR: MARIO HOLZNER

11.00 – 11.30 The Effects of Trade Liberalization on Trade Flows and Firms' Performance in
SEE JOZE DAMIJAN, JOSE DE SOUSA

11.30 – 12.00 Dollarisation And Macro Stability In a Small Open Economy in Border of the
EMU ERJON LUCI, MARTA MUCO, PETER SANFEY, ELVIRA SOJLI

12.00 – 13.30 Lunch

13.30 – 14.00 Real Exchange Rate Distortion in Southeast Europe MARIO HOLZNER

14.00 – 14.30 Discussion of the research projects

14.30 – 15.00 Coffee break

15.00 – 15.30 General discussion and conclusion.

BELGRADE CENTRE FOR EUROPEAN INTEGRATION (BeCEI) is a non-governmental "think tank" which gathers leading Serbian and foreign experts in political, economic and security reforms that are necessary for the Euro-Atlantic integration of Serbia and Montenegro. BeCEI's main role is twofold: to help the government's reform agenda with independent research and consultancy, and to help the public understand and participate in the country's full integration especially into the European Union. BeCEI performs these roles through its policy-oriented studies and other publications, through education and training for people from governmental and non-governmental organizations, and through public awareness campaigns. Following previous engagement of its members in many regional projects, BeCEI puts special emphasis on this aspect of its work, and cooperates with similar think tanks coming from, or dealing with, South East Europe.

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