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CORRUPTED TRANSITION: THE PAINFUL RE-EDUCATION OF THE BALKAN LEVIATHANS[1]

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ABSTRACT: The EU integration of Romania and Bulgaria questions their future development and catching-up with EU standards both economical and political. Because of their specific patterns of transition, the Balkan countries struggle to embrace a genuine "rule of law" with strong reliable institutions. If institutions matter, their lack results in a growing and deepening lag in respect to the rest of the Union. While the perspective of EU membership was a major force of institutional alignment with the Union, once acquired it does no longer have the needed discipline effect. Endemic widespread corruption is an obvious characteristic of this ill transition with poor prospective results.

KEYWORDS: Transition, Corruption, European Union Integration, Bulgaria, Romania, Balkans

JEL Classification: D73, O17, P26

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Introduction

Transition in Eastern Europe started as a promising and enthusiastic process aiming at European integration as a synonym for political freedom, economic development and growth in a common Europe-wide area. But while in Central Europe and the Baltic region political and social changes were quick and proved to be irreversibly implemented with overly positive results, in the Balkans this process did not exhibit such a clear and well defined path.

Nowadays, after more than 20 years, the record of the transition process in the Balkans is bitterer than expected not only because of the ferocious interethnic wars and countless casualties. With the notable exception of Slovenia, former socialist Balkan countries – whether EU member states or not – are lagging far behind[2] most of their former Central European partners in the Council for Mutual Economic Assistance known as the "Comecon", both in terms of economic wealth and institutional change.

A critical review of the transition and the accession process of the Balkan countries shedding extra light on the effective forces in motion and broadening the understanding of the topic would call for a comprehensive analysis of the institutional dimension of the changes underwent. Put differently it has to describe the institutional forces by which the transition process was driven from an omnipresent and omnipotent "Leviathanesque" State structure to an EU membership or official or potential candidate country status which implies not only the political and regulatory changes, but the modification of the whole political social and economic structure of those countries.

The political regimes in the Balkans changed slowly[3], hesitantly and hence it can be argued to lack credibility. Unlike other former communist countries, especially in Central Europe, the Balkans did not manage to quickly and irreversibly shift to western European democratic and liberal standards and proved over the period to continuously maintain a heavy bureaucratic state structure along with political nepotism and "crony" capitalism. So to say the local Leviathans were not eliminated but slowly and with no convictions pushed to re-educate them-selves, that is to make them-selves fit into the new picture. From a retrospective point of

[2] See Table 1 in the annex for a quick overview of GDP performance over the transition years of those economies.

[3] Contrary to Poland and Hungary for example, where the first free elections were won by the opposition, in Romania and Bulgaria, these elections brought to power the former communist parties.

view the whole process of transition proves to have been poisoned from the very beginning.

The disappointing results exhibited by the transition of most of the Balkan countries put forward the question of the actual nature of the transition and European integration processes. That is, how could new externally provided or inspired rules of social economic and political behaviour, coined by or in accordance with an exogenous institutional "anchor", be implemented in order to accompany or enhance the regime change? While the regime is built upon explicit rules which are the result of a formal and design-based legislative effort and construction, institutions are much more complex and they exhibit an interwoven net of formal and informal rules and practices. Therefore as institutions should not only be seen as formal but also informal ones, one may argue that the transition in the Balkans with emphasis on EU member countries Bulgaria and Romania, can be considered corrupt. Consequently and most importantly the implementation of EU rules and regulations does not lead to their adoption but merely to formal, apparent compliance with them. As North (1991) insists in his now classic work, institutions are to be considered a crucial factor in explaining economic growth and development. This stresses the fact that in the short and mid-term those countries may not be able to catch-up with the other member states and would potentially be trapped in an institutional void or a "no rules' land". They would be lacking internal capacities to implement, design and promote suitable rules and institutions and thus collapse or implode.

The structure of the discussion is as follows. A retrospective view of the macroeconomic results of the transition period is available in Part 2, while in Part 3 the institutional and regime change soundness is checked through the level of perceived corruption. Part 4 discusses the process of economic integration and development and its driving forces, while Part 5 provides some insight in the institutional factors, both formal and informal which actually shaped the transition process and conditioned the outcome and possible future developments. The conclusion stresses some negative outcomes which could be expected and suggests opportunities for institutional entrepreneurship and new alternative institutional arrangements.

A retrospective view: disappointing macroeconomic results

Currently full members of the EU and candidates for entry in the Euro zone in accordance to the Accession Treaty, Bulgaria and Romania exhibit a different pattern than the rest of the former socialist members of the Union. Although they did not experience violent conflicts during the transition period, as with former

Yugoslavia, from economic point of view they are closer to the other non EU-member Balkan countries, than to the Central European countries.

The very way transition was designed and implemented showed significant differences with the Central European and the Baltic countries. It also had a different starting point. Balkan countries experienced harder political regimes proper to the “orthodox state socialist system”[4] with no or very little will for change prior to the transition. The pre-transitional regimes of Poland and Hungary and the Baltic countries which recovered political independence after half a century of Soviet Rule were significantly more liberalizing. Moreover, in the Balkans there was not a significant turnover of the ruling elites, so that there was little if any break with the previous regime – even despite the painful political change in Romania[5] – as the new “democratic” leaders emerged far quickly and easily from the very ground of the communist party[6].

The impact of this different – by nature – transition pattern on Romanian and Bulgarian national economies can be easily seen by comparing the most common and basic macroeconomic performance indicator – the gross domestic product – of transition countries during the last 20 years. Bulgarian GDP in 2008 is at 116 percentage points of its pre-transition level, significantly close to the GDP of Croatia which reaches 111% the same year. Romanian economy shows better results, reaching 127% of its 1989 level just as Latvia and Lithuania do, respectively at 124 and 123 percentage points. This is still far from the performances of Slovenia, Slovakia or Poland, respectively 155, 164 and 177%[7].

Also, Balkan countries are among the latest former communist economies to break even their pre-transition levels of wealth. Romania does so in 2005, Bulgaria – just as Croatia, but which experienced an interethnic war – in 2006, but far behind Poland in 1996, Slovakia and Slovenia in 1998 or the Czech Republic and Hungary

[4]As described by Brusis (2002: 546).

[5]Where accordingly to the official records the casualties during the December 1989 events which led to the end of Ceauşescu’s regime were of some 1104 dead and 3321 injured.

[6]In both Romania and Bulgaria, the early leaders of the “transition” were almost all coming from the highest circles of the former regime. They were most often members of the second or third circle of power and they just pushed out from the stage those before them. See Oprea (2009: 39) for more detailed description of the Romanian case and the famous “bureau 226 group”.

[7]Data is taken from Database Central Europe. The choice of 2008 as final year for comparison of the GDP progression is motivated by the impact of the global economic downturn which has since affected the region. See Table 1 for further details. Also one should keep in mind the relative reliability of pre-transition national statistics. As a case in point, the French GDP doubled over that same 20-years period.

in 2000. Moreover, not only does the GDP slowly recover its past levels, but the decline period after 1989 is particularly long in the case of Bulgaria. Its economy reaches its minimum level in 1997 at 67% of the last pre-transition year. In this respect Romania performs better. In 1992 the minimum level reached is 75% of pre-transition GDP. Only the Baltic economies suffer worse decline, plummeting to 54% of their respective 1989 GDPs. This however happens in the very early years of the transition period. So to say, the slower and more hesitant political rearrangement in the Balkans comparatively to other former communist countries resulted in a slower and less efficient economic change which was hampered from the very beginning.

A major dimension of the transition process implies a deep reshaping of the structure of the economy itself. New or previously underdeveloped sectors appear, while the old overgrown industries need to be reorganised in a free-market compatible manner. The shift from a heavily industrialized economy to a service and tertiary sector economy would best illustrate the economic dimension of the transition process. Inefficient obsolete technologies and production techniques are abandoned in favour of customer-oriented and market compatible output. This subsequently leads to different dynamics of growth across sectors and to a necessary gap between the GDP growth and the evolution of the industrial output, where fixed capital, gross plant and equipment changes are slower. As the former communist economies were not service-oriented, this gap between the GDP and the industrial output is due to the necessary catching-up process and the readjustment of the whole productive system to the tastes and preferences of customers. Put differently, the cause for this difference in dynamics lays in the service sector development's impact on the GDP. Also, central planning organised production facilities accordingly to political rather than purely economic reasons. Consequently this process proved to be very painful as many industries were highly inefficient. This is in line with the performance record of the industrial sector. As of 2008 both Bulgaria and Romania have not yet reached their pre-transition levels of industrial output. Only Croatia, Latvia and Lithuania are in the same position. What is more significant for the pace and promptness of the transition process is the speed of the readjustment of the industrial sector itself. As all former communist economies, Romania and Bulgaria had overgrown industrial sectors suffering from endemic inefficiencies. Their industries were viable only because of the cheap underpriced raw materials and energy supplied by the USSR.

Central European economies experienced contraction of their industrial output early in the transition period. The industrial output minimum was reached in the years 1991 to 1993 accounting for the quick movement in the reorganisation and readjustment of their productive structures by scrapping the obsolete and inefficient ones. Meanwhile Bulgaria and Romania saw their industrial output decline slowly and irremediably for a decade, touching the bottom line in 1999. In the Bulgarian case that happened two years after the severe financial and economic crisis that stroked the country and led to the establishment of the externally imposed Currency Board which brought financial discipline and hard budget constraints to the whole economy. Moreover, while the minimum of industrial output of the Central European economies was around 60 to 70% of their pre-transition levels, Romania and Bulgaria touch the bottom at 45% of their respective 1989 levels. Not only was time lost, but also significant amounts of wealth, production capacities, and of course market opportunities. All this happened during the significantly dynamic period of economic activity of the 1990s' with growing economic openness and increases in productivity due to the quick and wide spread implementation of new technologies. This delay is significant for a transition economy where changes are not correctly and irrevocably implemented, thus providing for further roving and misuse of scarce resources.

Corruption levels as a comparative illustration for the transition process soundness

The effects of political hesitations and the implementation of the gradualist approach to the transition process are clearly visible for both countries lagging behind more dynamic Central European economies. What stands behind the macroeconomic data is the quality of the institutional change itself. That is the conditions in which business activity can be done. The Transparency International's Corruption Perception Index (CPI) illustrates the overall quality of the prevailing formal and informal economic conditions.

By opposition with the shock therapy applied in Central Europe, the gradualist approach gives the State administration a major role in the conduct of the transition process and unavoidably creates conditions for collusion – illegal secretive agreement between private actors in order to alter market conditions – and corruption, herein public corruption[8]. All coercive rules set by legislators and country rulers in order to influence, organise and regulate markets and economic activity could be considered to a given extent as a fertile mould for corrupt practices.

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[8] Although the corruption process is identical for public and private actors, in the case of private corruption its effects are internalised through the eventual impact of private agents' misbehaviour and disrespect to contractual obligations on the profitability of the company and its goodwill. See Karpouzanov & Trifilio (2005) for further discussion of public corruption.

From its very beginning, the transition process in the Balkans entrusted the pre-existing political structures with a leading role in it. In turn this easily provided conditions for officials' behaviour matching with Transparency International's definition of corruption: "the abuse of entrusted [public] power for private gains". Although it is extremely useful and operative, it gives only part of the whole picture. Corruption can be defined as a breach of contract between an agent and a principle, where the later is at least partially replaced by a third party, usually private special interest promoter and decision maker. This modifies the behaviour and most importantly the outcome of the governmental or local authorities' agent's efforts, decisions and actions. Unavoidable institutional vulnerability of the public administration officials when in contact with private actors can be pointed out[9]. So to say, corruption appears to rather be a logically coherent process undertaken by rational economic actors. Assuming the existence of a positive correlation between the intensity of State interferences – central planning being the ultimate level – and the degree of perceived corruption, in principal-agent dialectic, corruption is to be seen as a logically consistent reaction of public officials and private agents to the rule-inconsistency thus making it spontaneous and natural if not unavoidable. Moreover, under such conditions, corruption permits economic relations where they could not take place otherwise. Therefore corruption becomes an informal economic and social institution. And so it deeply conditions individual behaviour.

In the face of the enormous administrative task to transfer the loosely defined property rights over collective, national or Party assets to private interests and the restitution of spoiled private property during the communist regime, such as land and forests, real estate, factories and other production facilities, one could easily see the bait and the motivating opportunities in the surrounding administrative quasi-chaos[10].

So while discussing transition and its productive private property redistribution effects not only the structure of the economy comes into account, but the very conditions of business making and the unfolding of the economic process requires attention. This is clearly illustrated in the Transparency International's corruption

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[9] In a previous study we have made an attempt to show that corruption answers the imperatives of public officials in the process of selecting apparent socially suitable projects and actions under sheer ignorance and uncertainty. See Karpouzanov & Trifilio (2005) *op.cit.*

[10] The slowness of the establishment of a land register in Bulgaria was one of the main reasons hampering the development of a proper working agriculture based on private ownership and entrepreneurship, as land was restored partially, many ownership documents from the pre-collectivist period were intentionally or accidentally destroyed and the sale of land to foreigners was prohibited.

index[11] and its evolution trough the transition period. As of 2010 both Romania and Bulgaria score poorly, way under 5, with respective 3.7 and 3.6 on the 0 to 10 scale of the Index. In addition, one may draw attention to the fact that EU membership has not improved the case and corrupt practices are still widely observed. Precisely, in the case of Romania, its evolution closely follows the political alternation of power as reported by Oprea (2009). From 1998 to 2000 the TI index score has improved with the political will for European integration and the conduct of deep economic reforms. After 2000 during the four years of the second Iliescu administration mandate the Index score deteriorates from 3.3 down to 2.6. With the 2004 election of Traian Băsescu, Romanian score improves again but stagnates under 3.8 ever since. In the case of Bulgaria, the corruption index improves in the pre-membership period and then, once EU membership is achieved, it sharply deteriorates from 4.1 in 2007 to 3.6 the next year. So during this period Bulgaria scores just as EU-candidate Croatia. In recent years those two countries have been joined up by Serbia after Milošević stepped down from power in 2000 and the country laid down the long expected sound ground for democratic and economic changes under the leadership of the late Zoran Đinđić.

By comparison, in 2010, Albania and Bosnia and Herzegovina score very similarly at 3.3 and 3.2 respectively, while the Czech Republic scores at 4.6, Hungary at 4.7, Poland does better at 5.3 and Slovakia reaches 4.3. While there is an overall tendency for improvement of the Balkan countries' TI index scores over the last decade – with only Greece exhibiting recently a sharp deterioration of its performance – the improvement is rather slow if compared with that of say Slovenia – steadily above 6 since year 2000 – or that of Turkey reaching from 3.2 to 4.6.

So after more than twenty years of transition, last four of which as full EU members, both Bulgaria and Romania exhibit quite a poor record of transition results in terms of wealth growth and quality institution building. To a given extent it can be argued that they did not perform significantly better than some candidate countries, Croatia for instance. As these populations were striving for European standards of living, their expectations have been by large denied.

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[11]The TI index of perceived corruption ranges from 0 to 10, where the lowest the score, the highest the perceived corruption is. As of 2010 only five countries scored more than 9, Denmark, New Zealand, Singapore, Finland and Sweden. One should keep in mind that the TI index was first launched in the mid-nineties and only progressively included reliable data of East-European and Balkan countries.

Economic integration as a driver for institutional change

Transition and European integration were meant to allow economic development, catching-up and growth by transforming and improving the existing industrial structure and by providing the legal and regulative framework for a soundly operating free market economy. Traditionally, literature points out three major factors determining and explaining economic development and growth (Rodrik *et al.*, 2004: 132). These are the geographical concerns comprising both distance and access to world markets, and the available natural resource endowments on one hand; trade and commerce as part of an economic integration process on the other; and last but not least the institutions of the concerned society. Geographic factors can be considered purely exogenous. Moreover their relevance in explaining the transition process differences with other former communist economies can be minimised, as the Balkan countries are closely situated to the core of the European market through the Danube and have an easy sea access to Western Europe. Also they have solid historical ties with the Western part of the area.

Then the trade and commerce vector and the institutional vector are of major importance in this process. As Rodrik *et al.* (2004) report econometric studies of the determinants of economic growth tend to attach much greater importance to institutions. Moreover, the very framework of the Common Market and the EU calls for profound institutional tuning up by the transition countries in view of their potential membership. So what comes in first place is the relationship between the economic integration process and the coining, absorption and implementation of EU-compatible legal rules.

Initially economic analysis and advisory emphasised on market and price liberalisation, lowering trade tariffs and privatisation, as Hvrylyshynand & Wolf (1999) put it while they enumerate and describe the features of transition. This is in line with the standard analysis where freely operating markets are supposed to be the main driving force of the transition process, by allowing better distribution and allocation of resources, enhancing economic calculus and overall economic efficiency. However, following Salin's judicious point that "[classical] liberal economists are not concerned with markets, they are concerned with rights, which is not really the same", it can be argued that in the process of economic transition the institutional arrangements in action are much more important than the simple liberalisation of the markets. Put differently, it is not what happens on the markets that matters, but how it happens. Moreover as it will become clearer, the market liberalisation without an appropriate and functioning juridical system and a sound macro-economic framework proved to be counterproductive.

Economic performance, trade and commerce interdependence linkage and straightforward transposition to the national legal systems of the rules and regulations coined in Brussels are only part of the features that stand behind the idea of EU integration. Beside the rearrangement of the productive structures, resources allocation schemes and networks and management principles, European integration is meant to be a process of profound modification concerning the very structure of society that drives all those events and conditions the above-mentioned features. This line of reasoning integrates in the analysis the notion of "institution" which in Rodrik & Subramanian words (2003:31) is the "prevailing explicit and implicit behavioural norms and their ability to create appropriate economic behaviour". Relying on the now classic Douglass North's definition (1991:97) these are "the humanly devised constraints that structure political, economic and social interaction" in a given social common space. So it is the set of social norms and rules that condition individual behaviour and allow for its forecasting and the comprehensible establishment of reliable expectations. That is what is meant by the very structure of society, as individual actors expect and rationally forecast given behaviour from other market participants and State officials and hence are able to build assumptions and action plans upon those expectations. Therefore and more importantly this set of institutions provides the "incentive structure of an economy". So the shift from the communist to the capitalist economy was to be something much more subtle and profound as a process than the mere allocation or restitution of formal property rights and the liberalisation of market prices on which emphasis was initially put.

Rodrik & Subramanian (2003:32) provide a four-way classification of different types of institutions that can be distinguished in respect to their role in implementing the emergence and the development of a market economy. *Market-creating* institutions, such as property-rights protection and contract enforcement are the basic features which provide for the very existence of a market in a given social group. They translate the nature of individuals as social beings who have the natural "propensity to truck, barter, and exchange one thing for another" in the classic lines of Adam Smith (1776:12). *Market-regulating* institutions are mainly public regulatory agencies meant to deal with spill-over effects. Put differently those institutions are part of the common action framework and insure the establishment and the proper functioning of the economic system in respect to common formal rules. The third type, the *market-stabilising* ones have to enhance the national economy's resistance to shocks. Independent central banks, budgetary and fiscal rules (*e.g.* the "zero-deficit" constitutional rule), and monetary regimes are such *market-stabilising* institutions. The Currency Board Arrangements implemented during the transition period in Bulgaria, Estonia, Lithuania and

Bosnia-and-Herzegovina or the Exchange Rate Mechanism (especially the current ERM II) are good examples of this third-type institutions. Finally, the *market-legitimising* institutions are those which provide social cohesion around the economic model through wealth redistribution, social protection safety nets and social insurance. They are according to Lendvai (2004:325) the framework through which social policy schemes are formulated, implemented and evaluated.

All those institutions are formal ones. They do not necessarily result from a process of imitation, learning and selection of rules, which provides solid ground for their adoption and implementation in a given community. Instead, they can result from a mere transposition of the legal and judiciary framework of the "anchor" or reference country or under the guideline of an international organisation. That in turn means that formal rules do not correspond to informal institutions which actually drive individual behaviour. As a matter of fact, even basic features of the *market-creating* institutions as identifiable property rights were disregarded as the use of figureheads was widely spread. *Market-regulating* institutions such as governmental financial supervision agencies totally failed in monitoring and preventing financial mismanagement, banking sector instability and country-wide Ponzi schemes in Eastern Europe with Albania's 1997 "Lottery Uprising" being the most dramatic example[12]. *Market-stabilising* institutions, especially monetary regimes (such as crawling or managed peg in Bulgaria before 1997's Currency Board) failed protecting individual savings from inflation and currency exchange crisis, and *market-legitimising* ones clearly underperformed in providing the minimum of promised welfare redistribution, medical care and social protection.

Despite the unclear and highly uncertain prospect of EU membership during the initial transition years, it was widely accepted that increasing trade relations would induce if not suffice for economic integration, legal framework improvement and the implementation of the "rule of law". One of the reasons for this view to be broadly shared is that it puts the notion of *integration* as a driving convergence force between rich and poor regions through international trade providing for productivity change and income growth. That is a kind of a Balassa-type of "naturally generated" demand for further integration, beyond the sheer economic dimension of the process, but also a social and political, and to a given extent

[12]Where the inevitable bankruptcy of those financial houses of cards led to a nation-wide riot, violent armed unrest, local gangs war with more than 1500 dead, massive emigration abroad, the virtual collapse of the State and resulted in a UN-backed intervention of foreign military forces to stop the overall chaos, restore order and force of law under the United Nations Security Council Resolutions 1101 and 1114 which paved the route for the four months long Operation Alba from April to August 1997.

cultural integration in the greater European area. Therefore it was expected that through trade a solid bottom-up process of institutional change and development, establishing and enforcing checks and balances procedures in line with EU standards will either emerge from existing local institutions or grasp the existing western standards. This is based on the very logic of the economic process where good and high performing institutional solutions are supposed to be imitated and applied by both competing and cooperating, that is interdependent economies. The Balkans, just as the other transition economies were expected to absorb and adopt such rules. In the light of the previously presented indicators of economic development and growth and institutional quality, one can hardly pretend this has ever happened.

It can be argued that most of the efforts during the transition period did only poorly account to increment the general economic conditions of the concerned populations and that they did not generate enough knowledge and skills to endogenously modify the institutional framework in a desired direction despite the adoption of new western-type shaped formal rules and regulations. North (1991:108) gives a starting point, as he claims, for a possible explanation of the relation between institutions and economic growth. In his words two related "key elements" are at stake: on one hand there is the "relationship between the basic institutional framework, the consequent organizational structure, and institutional change" and on the other "the path dependent nature of economic change that is a consequence of the increasing returns characteristic of an institutional framework." In his famous essay on the basis of relatively simple market institutional arrangements, such as the Moroccan *Suq* and the medieval Champagne Fair, North clearly suggests that the later has proved to play a highly positive role in the increment of economic conditions, development and growth, through a genuinely endogenous processes of individual wealth maximising programs where merchants provided efforts to improve their bargaining skills, information gathering capabilities and the generally accepted rules of the trade game. Therefore he concludes that the individual merchant's "investment in knowledge and skill would gradually and incrementally alter the basic institutional framework." And as trade expands, North says the State takes over the protection and enforcement of property rights on an impersonal basis and sees and accepts the limitation, the "shackling of [its] arbitrary behaviour [...] over economic activity." The important point here is that the institutional change and rearrangement is precisely driven by independent and uncoordinated economic market forces.

The actual transition process and the interplay of informal institutions

Needless to say this did not happen in the Balkans in such a smooth and unidirectional way. Because, while in the case of the Champagne Fairs, the institutional building followed a *learning-by-doing* process so it demanded a considerable time span during which alternative institutions had to be competitively compared and tested, in the case of the former communist economies, the process was more of a *learning-by-copying* as already operating appropriate institutional solutions were available to policy and rule makers. Moreover, consistently with the *integration* view, it was believed that the political changes considered as prerequisites for EU membership were to be brought *via* economic factors, pressure from the society and of course external partners. However, the informal norms that emerged and turned to be largely applied were those that blurred, hampered and corrupted this idyllic picture of the transition process. Here North's understanding of the "path dependence"[13] concept can be useful in explaining institutional change *via* the role of increasing returns. In the examined transition processes, the starting point consisted in a shift from a prevalent party-State formal institutional framework which internal contradictions and irrelevances provided for the emergence of highly sophisticated informal institutions. That is, at the very breach of the transition process economic networks operated under informal rules suddenly unleashed by the total absence of any coercive bounds as the communists States' legal and law enforcement structures collapsed. In the resulting extreme weakness of formal rules both because of their inappropriateness and with the prospect of their profound change, the returns of deviant behaviour and corrupt practices have clearly been greater as they allowed for early exploitation of existing economic and business opportunities and hence political power. Therefore they provided for a positive feedback and gave a lead to informal institutions.

As both countries, Romania and Bulgaria are examples of the gradualist approach of transition as opposed to the shock therapy effectively followed in Central Europe, so transition was managed by those very institutions that were to be modified and ultimately replaced. Hence the collapse of the communist regimes unleashed the bounds of the informal economic and social rules that emerged in order to compensate and take advantage of its irrational, inefficient and wasteful nature. The very lack of sound economic principles under the communist rule and

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[13]Path dependence is a quite recent concept in economic literature. It was developed in the 1980s' in order to explain technological and industry evolution processes. See Brian Arthur (1988, 1989) and Paul David (1985).

the consequent impossibility to operate and meet production goals set by the party rulers, led top-ranked economic agents such as factory or warehouse directors or distribution network managers to get involved in informal barter-based trading schemes, by-passing official networks. This gave birth to a whole new social stratum, the famous *tolkachi* who specialised in barter trade and clearing and established a well developed commercial net. As Boettke *et al*. (2005:291) describe it "the rules that governed social intercourse were not limited to the official rules of a centrally planned economy dominated by the communist bureaucracy, but included the implicit rules that governed black market dealings, intra-plan negotiations by *tolkachi*, back-room deals among bureaucrats, and corrupt dealings with party officials". In the consequent years, there was a struggle between the promoters of those informal rules, basically those who most benefited from the existing blur and the poorly defined rules of the game on one side and on the other the defenders of more universal, clearly externally provided or inspired rules consistent with tight budget constraints, contract enforcement and legal and judicial stability.

Ialnazov and Nenovsky (2011) point out the existence of different phases of cooperation and achievement of reforms during the transition period in respect to the present value of the future social outcomes. So the early years of transition are seen as conflictual period with lack of a common goal and the needed social cooperation for its achievement. Figuratively speaking here, economic actors are struggling for sharing the "carrot" which is the left-over economic wealth and property after communism collapsed and the "stick" is nonoperational as the State and public power is unable to control and enforce the law. In the aftermath of the 1997 severe financial and economic crisis in Bulgaria, the commitment for and the prospect of EU integration provided a solid external anchor for the implementation of sound reforms and establishment of the "rule of law". During this period the "carrot" was absent, it was the future EU accession, but the "stick" was in motion through the current economic debacle. As European integration became more and more certain, the tights of formal institutions loosened up until informal rules eventually took over formal ones as membership became effective. That is the time horizon of the actors has sharply shortened with the EU-accession and they shifted their behavioural patterns back to institutions incompatible with the anchor inspired or imposed rules. The "stick" of non-admittance in the EU-club being no longer operative, the prospect of being excluded very unlikely, the "carrot" being the EU funds streaming in the country and the redistribution opportunities thus created, it is of no surprise that informal institutions were back in motion. This in turn means that during the transition and accession period the transposition of the anchor-compatible rules did not lead to their adoption but merely to a *pro forma* compliance. Put differently informal institutions were only temporary put on hold but hardly modified. Moreover the new European-type formal institutions did not match with local informal institutions. It does not mean that EU compatible rules and regulations should be systematically readjusted to local realities and thus be subjugated to informal institutions. Nevertheless this shows the relative difficulties if not impossibilities to implement those rules in the given informal institutions framework as local lawmakers and politicians are merely the translators of anchor formal institutions but hardly their promoters, advertisers and defenders.

Conclusive remarks

The transition results vary significantly among former communist countries either EU-members or current candidates. As simple macroeconomic data and the Transparency International's CPI suggest the Balkans with the notable exception of Slovenia lag far behind their fellow "Comecon" partners from Central Europe and the Baltic region. Despite the recent significant liberalising reforms undertaken by most of the Balkan countries in terms of low company and personal income taxes, simplification of administrative procedures, that is "red tape", and removing most of the trade restrictions, there is still not much result in terms of wealth growth, economic development and sound institutional building and implementing. This in turn can in the long run undermine political support for economic liberalisation and further integration in the EU. Put differently people do not see the gain from their efforts. Moreover, there is a generally accepted opinion that deviant behaviour pays more than strict compliance with and adoption of formal rules and also it is believed formal institutions even within the EU are not reliable. This shortens the time horizon of economic agents. As the number of cooperative or conflict interactions tends to infinity, cooperative behaviour of individual actors depends on their discount factor, which in turn depends on the quality of the institutional framework and its expected evolution. Therefore one may worry about the creation of governance dependence in Eastern and South-Eastern Europe. That would become a lawless or "no-rules" place, unable to promote and enhance institutional building with heavy dependence on EU funds and assistance. A somehow radical solution may be the deepening of liberalising oriented reforms and alternative solutions such as further privatising of public services, unilateral adoption of the Euro, as it has already been done in Montenegro where the relinquishment of national currency for the Deutsche Mark and sub-consequently the Euro prevented from government monetary mismatches. In short all market based, that is individual interests rooted institutional solutions compatible with EU legal framework are of high interest for a sound institutional building in the Balkans.

Let the final words belong to a top ranked state official, namely Krasimir Jivkov, President of the Sofia-Region Council. Among the "Specific aims of the Region's communication strategy for transparent governance" one may find the following task: to "contribute to the effort of building a social opinion for which corruption is not a problem, but a solution"[14].

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Annexes

Table 1: GDP evolution from 1990 to 2008 in % of 1989 pre-transition level

In italic GDP level above the pre-transition level of 1989; in bold and italic: GDP minimum level during transition.

Country\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bulgaria	91	81	76	74	76	78	71	***67***	69	71	75	78	81	85	91	97	*103*	*109*	*116*
Croatia	93	73	65	***60***	63	67	71	76	78	77	79	82	86	91	94	98	*103*	*109*	*111*
Czech Rep.	99	87	***87***	87	89	94	98	97	96	98	*101*	*104*	*106*	*110*	*114*	*122*	*130*	*138*	*141*
Estonia	92	85	67	61	***60***	63	66	74	79	79	87	93	*101*	*108*	*116*	*127*	*140*	*150*	*145*
Hungary	97	85	82	***82***	84	86	86	90	95	99	*104*	*108*	*113*	*117*	*123*	*128*	*133*	*134*	*135*
Latvia	*103*	90	61	***54***	55	55	57	62	65	67	71	77	82	88	96	*106*	*119*	*130*	*124*
Lithuania	97	91	72	60	***54***	56	59	63	68	67	70	74	79	88	94	*101*	*109*	*120*	*123*
Poland	88	***82***	84	88	92	99	*105*	*112*	*118*	*123*	*128*	*130*	*132*	*137*	*144*	*149*	*158*	*169*	*177*
Romania	94	82	***75***	76	79	85	88	83	79	77	78	83	87	91	99	*103*	*112*	*118*	*127*
Slovakia	98	83	78	***75***	79	84	91	96	*100*	*100*	*101*	*105*	*110*	*115*	*121*	*129*	*140*	*155*	*164*
Slovenia	92	84	***79***	81	86	89	92	97	*100*	*106*	*110*	*114*	*118*	*121*	*127*	*132*	*140*	*150*	*155*

Source: Database Central Europe

Table 2: Industrial output evolution from 1990 to 2008 in % of 1989 pre-transition level

In italic: industrial output level above the pre-transition level of 1989; in bold and italic: industrial output minimum level during transition.

Country\Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bulgaria	83	66	54	49	54	56	59	53	49	***45***	47	47	48	55	65	69	73	80	81
Croatia	89	63	54	51	***50***	50	51	55	57	56	57	60	64	66	69	72	75	80	81
Czech Rep.	97	76	70	***66***	67	73	75	78	79	77	78	86	91	96	*105*	*111*	*122*	*132*	*132*
Estonia	*100*	93	60	49	***47***	48	49	57	59	57	65	71	77	85	94	*105*	*115*	*123*	*115*
Hungary	91	74	***67***	70	76	80	82	92	*103*	*114*	*134*	*139*	*143*	*152*	*163*	*175*	*192*	*208*	*206*
Latvia	*101*	*100*	66	45	40	38	38	40	41	38	39	43	46	49	53	57	60	61	59
Lithuania	97	94	66	43	32	33	35	36	39	35	36	42	43	50	56	59	63	65	68
Poland	76	***70***	72	76	86	94	*102*	*113*	*117*	*122*	*130*	*130*	*132*	*143*	*161*	*167*	*187*	*205*	*212*
Romania	82	63	49	50	52	57	60	56	48	***44***	48	52	55	57	60	61	65	69	69

Source: Database Central Europe

Chart 1: Industrial Output evolution in transition years (1990-2008)

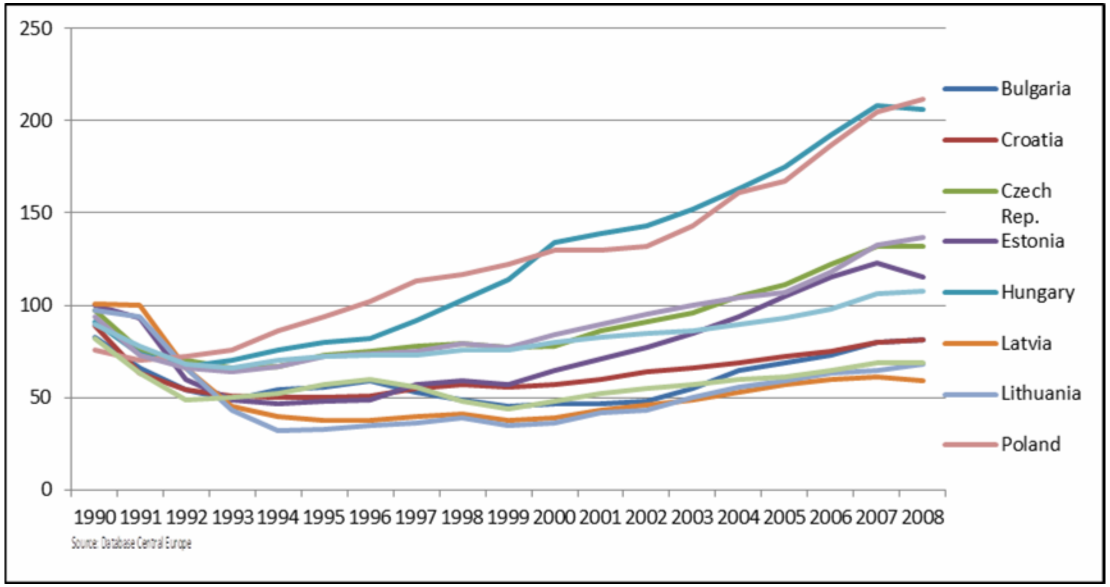

Table 3: Perceived corruption from 2000 to 2008

Country\Year	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bulgaria	3,5	3,9	4	3,9	4,1	4	4	4,1	3,6
Croatia	3,7	3,9	3,8	3,7	3,5	3,4	3,4	4,1	4,4
Czech Republic	4,3	3,9	3,7	3,9	4,2	4,3	4,8	5,2	5,2
Hungary	5,2	5,3	4,9	4,8	4,8	5	5,2	5,3	5,1
Poland	4,1	4,1	4	3,6	3,5	3,4	3,7	4,2	4,6
Romania	2,9	2,8	2,6	2,8	2,9	3	3,1	3,7	3,8
Slovak Republic	3,5	3,7	3,7	3,7	4	4,3	4,7	4,9	5
Slovenia	5,5	5,2	6	5,9	6	6,1	6,4	6,6	6,7

Source: Transparency International's Corruption Perception Index Annual Reports