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JÁNOS KORNAI'S EVALUATION OF THE TRANSITIONAL PATH

RECENT TRENDS IN THE ECONOMIES

AND SOCIETIES OF HUNGARY AND SOME WESTERN

BALKANS COUNTRIES BASED ON JÁNOS KORNAI'S

INSIGHTS

In this essay, we are trying to focus on and review Kornai's reflections and observations regarding to the achievements of former socialist economies and their progress on the transitional path. Kornai was a witness to dramatic events that accompanied the collapse of socialism from its very beginnings. Therefore, he is very much competent to evaluate the outcomes of the "Great Transformation", the process in which many hopes and expectations were invested. As a brave, honest and ever-present scientist, Kornai strives to objectively present and critically evaluate the achievements of Eastern European transitional economies. He does not limit his analysis of transition solely to the economic sphere, but critically considers the overall changes in the society, politics and economy. This paper relies on his insights and observations while studying Serbia and Bosnia & Herzegovina, in particular. It turns out that his assessments are absolutely relevant for those countries, the results of their transition being significantly lower than in other former socialist countries he analyzes, primarily because of the traumatic break-up of former Yugoslavia and continuous political instability that followed in its newly established states.

Key words: János Kornai, transition, Great Transformation, transitional path, building capitalism, consequences of transition

INTRODUCTION

Kornai Janos's work as an economist is impressive. It has been very much influential and has served as an inspiration to generations of economists. Even if we focus on a single issue such as transition, it is rather impossible to encompass all the abundance of his analytical observations and his study of such a big and important issue for all the former communist countries. The scope of this paper does not allow us to mention all of Kornai's contributions to the study of the process of transition, the issue that he addressed critically and objectively. This paper will, therefore, address only some of the facts of transition that are of close interest to us and in relation to the countries of the Central and Eastern Europe. The issues of a rather universal character are of

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DOI: 10.14267/RETP2020.03.13

our special interest since they are, to a high degree, related to the Western Balkans. Herewith, we do not intend to discuss and challenge Kornai's observations, but only to highlight those that are relevant to our understanding of the process of transition in the Western Balkans.

Kornai's economic and political views were largely shaped on one hand by his experience of the Second World War, his desire for freedom and for the „Western world“ that epitomized it, and on the other hand by the world he came from – his own country. Kornai has not been a strict follower of any of the particular schools of the economic thought. His economic thought is rather heterogeneous and therefore he constantly challenges and re-examines his observations.

In this paper we will single out some of his observations on transition that have inspired the very subject of this paper. Even though Kornai does not speak about the countries of the Western Balkans per se, his thoughts can be easily related to its economic reality and its problems.

Hereafter we will focus on Kornai's observations with regard to transition as related to the issues of legislation, democracy, populism and economy in Serbia and Bosnia and Herzegovina.

1. SOME METHODOLOGICAL ASPECTS

Although the focus of our attention was primarily on the analysis of Kornai's insight into the processes of transition and recent developments in Hungaria, in the wake of his approach and insight, the observed characteristics, ideas and evaluations, we have paid attention to two cases, the Republic of Serbia and Bosnia and Herzegovina (B&H). They represent well the Western Balkans countries outside the EU. These countries were excluded from Kornai's analysis of the transition process in the former socialist countries. Both have common characteristics related to the socialist heritage of the former Yugoslavia and its socialist system, as do Hungary and other countries of the former Eastern bloc. They are the beneficiaries of the financial and technical assistance of international multilateral financial institutions and are under their monitoring (IMF, World Bank).

In his papers we have consulted Kornai analyzes the processes of transition and pays close attention to current developments on the economic and political field in Hungary. The primary objective of this research was to analyze the views and evaluations of the great economist Janos Kornai and then, in the wake of his choice of topics and open questions, our intention was to focus on the same issues and problems in countries that present well the Western Balkans region. In that sense, we have tried to draw parallels in the case of Serbia and B&H in the field of economics and social change.

Given the breadth and scope of the topic in the paper, we could not go into excessively deep analyzes of numerous open economic and social issues, but with some fundamental characteristics of the observed economies, societies, their transition and current social situations. We used data from official statistics of the observed countries as well as relevant analyzes and studies of significant economic and social topics.

2. TRANSITION

Kornai's approach to the study of transition is all-encompassing, such as is his approach to the study of socialism in the form in which it once existed. Kornai himself points out to the fact that while writing his book *The Socialist System* he tried „to grab the interaction and interdepen-

dence among political structure, ideology, ownership relations, the typical behavior of various actor-in short, the systemic properties. In the same time to show the dynamics of the system.“ (Blanchard 1999. p.441).

According to Kornai the success of reforms depends on the initial conditions and, therefore, it should be based on their appraisal. The process of transition opened up various and difficult questions that demanded answers and provoked attempts and efforts of finding them. The answers were sometimes oversimplified, they often remained outside the realm of the political and social context, although a careful contextual analysis could have helped recognizing which answer was right or wrong, timely or outdated. (Blanchard O. 1999. p. 442).

Kornai's describes certain segments of the Hungarian society, such as the functioning of political parties, the state of democracy, autocratic tendencies, independent functioning of the legislative system and the rule of law. (Kornai 2006). His observations and conclusions in relation to those correspond, to a high degree, to those in Serbia and Bosnia and Herzegovina (B&H), which is often by an outer observer described as a „failed state“.

In his paper ”The great transformation of Central Eastern Europe, Success and Disappointment” (2006) Kornai writes about the Eastern Europe group of successful countries that managed to join the EU in 2004 (the Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Slovakia and Slovenia). In spite of the individual differences that exist among them, these countries share a lot in common and, therefore, they have deserved to be studied all together.

However, there are countries which, (since 90's and later on to today) have faced a vast economic, political and social downfall (Serbia, B&H, Montenegro, Macedonia, etc.)

The countries that Kornai analyses are the ones that have transitioned from socialism to capitalism in a peaceful manner. The transformation was complete and parallel in all the spheres of their economic and political structures. When we focus our attention to the countries that can be labelled by the term „transitional failures“, it can be concluded that their transformation was joined by war and aggression. The recovery of the countries of former Yugoslavia (apart, perhaps, from Slovenia) which underwent this painful process, was monitored by the international community, primarily through its financial institutions, that functioned as creditors and financiers of the economic recovery of those politically, socially and demographically devastated countries. Transition to the liberal market economy was a must and an obvious fact. Since decades are needed to be able to take the perspective and assess the overall success of the transition, Kornai avoids the final assessment with regard to the success of the „old-new“ model, even though the considerable rise of the economic growth rates could be taken as a very good sign of it. (Kornai 2006. p.213)

Kornai points out that transition to the capitalist system does not necessarily result in democracy. However, the reverse process is not possible, since there is no democracy without capitalism.

The transformation was implemented in an incredibly fast way, within the time frame of 10 to 15 years. The introduction of the political party system in which each party competes for its voters represents the beginnings of parliamentary democracy. Even though some economists suggested faster transition, the vast majority of the citizens of those countries were in favour of gradual changes, which is a view that Kornai himself shares. Kornai's fears and suspicions with regard to the quick transition and fast privatisation to the capitalist market economy turned to be true in the case of certain countries that came into existence after the fall of former Yugoslavia. Apart from Slovenia, which had „luck“ not to have had the help of the IMF and WB during its

transition, in the rest of the countries of the Western Balkans the privatisation resembled a „revolution“ - in other words, it was the „privatisation at any cost“. The results of the privatisation were, in the least, rather questionable. The privatisation has not been yet finalised, however, the firms that have been „in the process of waiting“ ended up being bankrupt and devastated.

However, inspite of the numerous shortcomings and dissapointments that follow the process of transition, Kornai points out to a certain degree of subjectivity that is present in the attempts to assess its success and its final results. In his system of values *civil rights* and *human rights* are highly prioritised, which is largely influenced by his personal and frightful experience of living in a totalitarian regime.

”I consider the transformation of the Central Eastern European region a success story because it established a capitalist economic system within a historically brief timeframe, thereby placing our nations again on the course of development leading towards the main direction of history. It is not that I love capitalism. It is not a very likeable system. But I hold those of its characteristics dear that are indispensable to the realization of the values I profess. In the long run, the economic advantages of capitalism will become manifest in the Central Eastern European region too: a sustainable higher growth rate of production productivity and consumption than the one experienced under the socialist system, technical innovation, entrepreneurial spirit, and together with the above, an increasing level of prosperity for society as a whole. I also consider the values of economic growth and the increase in the standard of living it brings to be primary values.....the very existence of a capitalist system is an indispensable precondition for a functioning democracy. These are those benefits that according to my ordering of values overshadow the disadvantage of capitalism. I acknowledge that there are others who subscribe to a different system for weighting the advantages and disadvantages between them.”(Kornai 2006.p.226) .

The Czech Republic, Hungary, Croatia, Slovakia and Slovenia used to belong to the Austro-Hungarian Empire which, even though it has not functioned on fully democratic principles, was excellent at implementation of the rule of law and protection of personal property. Therefore it was, somehow, expected that such memories of the rule of law and human freedom have been saved in the minds of the citizens of those countries and have eventually mirrored themselves in non-formalized rules of their social functioning. Serbia, Macedonia, Romania, Bulgaria, Bosnia and Montenegro did not have the continuous access to the Western culture all the way to the beginning of the 19th century, which could serve as one of the explanations to the failure of the process of transition in the countries of the Central and Eastern Europe.

Kornai is very much aware of numerous problems that arose in the process of transition which he denies to alleviate and put in disguise. Some of those are related to the significant fall of the standard of living, especially for certain groups of population, followed by a huge discrepancy between the income and the costs of living, huge rates of unemployment and work loss, as well as the omnipresent insecurity and unpredictability of living. He also mentions the variability of prices, interest rates, and exchange rates, that citizens of those countries were not used to, as well as the considerable rise of criminal and corruption rates. Even though corruption was present in socialist political systems, presently it has become much more widespread in all the society's segments, political, economic and cultural, and also appearing in small- and large-scale private transactions. ”Everyone is angry, and-often unwillingly, many people get dirty. It is almost impossible to avoid becoming involved in some transaction where one or another of the parties engages in certain shady transactions, and where either the client, the citizen, the

seller or the buyer, would not attempt to bribe, or be involved in a phoney tax evasion scheme of some sort”(Kornai 2006.p. 232).

Corruption can be singled out as one of the numerous problems that are faced by Serbia and B&H, which are, with regard to this issue, among the most corrupted countries in Europe. Various research that testify to this are done, together with the annual ratings and reports that inform the public about the state of corruption, and are mostly done by foreign investigators and NGO's in these countries. It is undoubtedly that corruption is harmful and detrimental to the social and political well-being of these countries, considerably slowing down their economic growth. Consequentially, the following question comes very much naturally: why and what causes such high rates of corruption? Majority of the countries of the Western Balkans are seen by foreign observers as 'capture' states that are ruled by certain interest groups that result from the interplay of the interests of the local politicians and tycoons. The reports by foreign investigators and local NGO's such as 'Transparency International' show the constant interchange between very small improvements in the fight against the corruption and a very small deterioration in the rate of corruption. Among 176 countries that were investigated for corruption in 2016 and 2017, Serbia took the 72nd place (scoring 42 out of 100 points, 100 points meaning there is no corruption and 0 points testifying the highest level of corruption). B&H took the 83rd place with the score of 39 points. (www.transparentnost.org.rs, <https://ti-bih.org/>)

However, if 'big corruption' creates problems, 'small corruption' can make them even bigger. 'Big corruption' involves managers of public institutions, prosecutors, judges and representatives of the leading governmental institutions. Everyday encounters with corruption, acts, gestures and behaviours it implies makes it eventually a part of the 'normal' lifestyle of the people in the Balkans.

By the end of the text cited above, Kornai does not deny the claim that the great transformation of the Central and Eastern European region could be fundamentally characterized as an unparalleled success. Kornai perceives „the great transformation“ primarily within the long historical context (not according to the Keynes' maxim – in the long run we are all dead) .

With regard to the results of the transition which took place via the *velvet* revolution, in his paper *Vrh obrasca*

DNO OBRASCA

”Liberté, Égalité, Fraternité : Reflections on the Changes following the Collapse of Communism” (2010), Kornai questions the ultimate outcomes of the revolutionary motto: Liberté, Égalité, Fraternité, - freedom with regards to political rights, private property, free entrance to the market and as well as freedom to choose between alternative goods and services. In relation to these, he concludes that huge progress took place. However, when it comes to equality among citizens, the gap between classes widened very quickly which caused aversion and repulsion towards the newly established political and economic system. Fraternity or, in other words, solidarity, is a widely accepted value but hardly implemented as such. Post-socialist countries inherited the premature welfare state. The vast majority of population prefer universal social rights, however, the necessary material resources are not sufficient for those ambitious aims to be reached. He finishes his paper by discussing various political options that could alleviate the contradictions between the conflicting and inconsistent aims. (Kornai 2010.)

As to the achievement of freedom, he sums it up in a following way: we enjoy the essen-

tial achievements of freedom. It is a sad observation though, but at the same time an important socio-psychological fact, is that not a large number of people value freedom to a high degree. Other basic needs are valued more highly. (Kornai 2010. p.383.). He is rather surprised by the fact that a considerably smaller number of people in post-socialist countries give the highest value to freedom than in those countries that had capitalist systems before 1989. Freedom is one of the biggest values of liberal political and economic systems.

It seems that, in the countries of mature market economies, the freedom principle is nurtured and cherished as one of the biggest values of the system per se. This principle is being continuously and publicly affirmed as the highest value of a certain society and therefore its citizens recognize, accept and value its importance. Kornai himself promotes the importance of this principle and its affirmation through the system of education and different public media. To this we could add the proverbial saying that only when we lose something we learn to value it properly. It is not unusual that people in post-socialist countries do not value freedom enough. Freedom, in the first place, means taking responsibility for your own self and your family. Socialism, on the other hand, liberated people from the existential worries to a high degree – worries related to work and basic survival needs.

Very much understandably, the gap between people, in terms of their economic and social equality, widened, more or less in all the post-socialist countries. Therefore "the most important instrument of improving income distribution is to create increased equality of opportunities". On the first place in education. (Kornai 2010.p.388.)

Even though Kornai says that the process of transition is over (such claim is supported by various facts), in case the broadest social perspective is taken, it couldn't be claimed so. Ultimately, Kornai deals with post-transitional aberrations. From a strictly economic position, the transformation of property took place and the rules of capitalist economy were introduced, while the private sector and private initiative were given a considerable amount of freedom (the degree of which differs from one state to another).

Each transition has got its *price* and it is difficult not to fall under the impression that the price of the transition was high, especially in those countries that have been labelled as the „transitional failures“. The break-up of Yugoslavia resulted in massive forced migrations, huge unemployment rates, social crashes, the rise of non-democratic tendencies and autocratic structures, as well as in the breach the autonomous functioning of the legislative system being jeopardised. To be even worse, the governments' only resorts when it comes to their development strategies seem to be relying hugely on foreign investment and stimulating small and medium enterprises.

Geostrategic re-organisation in the Western Balkans had detrimental consequences on the society and the economy of this region. Along with this process, the process of transition, that

was not the result of the free will of its citizens, took place². The transitional process did not follow the normal evolutionary development.

The initial implementation of democratic freedom in B&H resulted in free political elections in which three nationalist parties won and very soon after that the civil war has started.

Kornai takes a broad perspective in his analysis of the transitional process. Understandably so, it is impossible to devote the equal amount of attention to all of its facets. However, he pays a lot of attention to social, historical, political and anthropological factors. It seems methodologically similar to Polanyi's approach to analysis since our "need to discover the priorities of a society, the all-encompassing coherence of human inter-dependence, is the only by which we can hope to overcome the complexities and contradictions of our times." (Maciver 2003.p.13.)

3. CURRENT ECONOMIC AND SOCIAL RESULTS OF TRANSITION IN SERBIA AND B&H

The countries of the Western Balkans (apart from Slovenia) have been in the state of permanent economic, political and social crisis since the 90's. Their economic growth is so slow that it still cannot reach the level of the national produce that those countries had before the civil war and at the beginning of the 90's.

The ruling development paradigm of the countries of the Western Balkans is based on structural reforms, encouragement of entrepreneurship, the growth of small and medium-sized businesses, as well as on the desperate attraction of foreign investment. Their economic policies are orthodox with hard budget constraints.

Economic growth rates as measured by GDP growth have been very low throughout the post-conflict period. After the 2008 crisis, GDP growth rates decline. In some years, these have been negative in both countries. In 2016, the GDP growth rate in Serbia was positive, amounting to 3.3% annually and in 2017 the GDP growth rate was 2.0%. (Statistical Yearbook of the Republic of Serbia for 2018) After 2012, in which the GDP growth rate in BiH was negative, growth rates are positive, so that from 2015 to 2018, those in B&H amount to over 3% annually. However, these are very low rates of economic growth, given the very low starting point. The orthodox stabilization policy acted on macroeconomic stability so that B&H inflation from 2013 to 2016 had negative growth rates. (Bulletin of the Central Bank of Bosnia and Herzegovina, No.4.2018). Thanks to a similar macroeconomic policy, periods of pronounced inflation have also ended in Serbia in recent years.

The "Reforms" in Serbia and B&H were moving towards liberalization and opening up the country to free flows of goods and services. The liberalization of imports and the reduction of

² "Taking into account the fact that transition to capitalism is purely a technical problem, economic theories that are based on the neoclassical paradigm tended to ignore the fact that capitalism is much more than the alternative method of the re-location of resources. It is the *lifestyle*. Therefore, transition implemented by the strict state's hand imposed on the common citizen the institutional changes that are very much foreign and distant from the genuine living substrate of the communities in Central Eastern Europe. All that the common citizen succeeded to get is the change one set of institutions with another, non of which they chose themselves free". (Pejović 2004 S. p.20)

customs and other barriers directly stimulated imports, causing many industries to collapse. Finally, rapid privatization was a great help to the decay. On that occasion, some businesses were being sold for nothing, and new owners were either failing or unwilling to maintain and raise production. Investors from labor-intensive industries are coming to Serbia i B&H today. They are employing very low-skilled workforce for the lowest levels of processing with lowest wages. Often, these are investors who are engaging in moral hazard (they take government subsidies to hire domestic labor and sometimes simply disappear). Foreign direct investment was often aimed at buying the domestic market.

Dramatically high and permanent unemployment rate together with the market reforms and transition (privatisation of the public firms) set on the stage in Serbia and Bosnia and Herzegovina (B&H) since the end of the 90's. (N. Plakalović: 2016). During the last decades the unemployment rate in Serbia ranged from 30% to 21%, According to the records of official statistics in 2002 in B&H was 41.1% of the unemployed. After the monitoring methodology of unemployment changed and unemployment statistics monitored on the basis of surveys that anyone who is doing anything or is employed in the informal sector of the economy cannot be treated as unemployed. That's why in 2006, unemployment is 31.1%, in 2018, 18,1% (www.bhas.ba). Unemployment rate in Serbia (22%) and B&H (28%) in 2014. is the highest in the region of South East Europe. Only Macedonia has level of unemployment as B&H. (World Development Indicators, World Bank, 2016.)

The average salaries in those two countries are among the lowest in Europe, as well as in comparison to other countries of the Western Balkans. B&H, if not the poorest, it certainly is among one the poorest countries in Europe. The economy of Serbia is in a somewhat better position.

Economic experts say that industrial production in Serbia is currently lagging behind the developed countries by three to five technological generations. According to the latest official data available, Serbia's 2017 industrial production was 44.2 percent lower than 1990 (before the breakup of Yugoslavia, wars and sanctions). In Gross value added by economic activities, the Serbian industry participates in 2017 with 15.1%, real estate business 7.3%, agriculture with 6.0% and professional, scientific and technical activities with 4.0%. (Statistical Yearbook of the Republic of Serbia for 2018). The only 'bright' point is the last area where most of the exports are from the export of IT services. This is a bit problematic, though, as it is often a job where the domestic workforce is engaged in outsourcing arrangements. Participation of the Serbia industry in total GDP is extremely low given that in developed countries, participation of industry in 2015 ranges from 20% (in most developed countries) to 40% (China). Worldwide, industry's share of GDP is around 30%. (Infiniti, 2019, p. 8). The 4.0 generation industry has enormous, exponential growth and increasing availability globally.

The position of the industry in the overall economic structure in B&H is worse than that of Serbia. In the structure of gross value added in 2016, the manufacturing industry accounted for 13.1%, agriculture 5.6%, trade 13.9% and public administration 7.7% (<http://www.bhas.gov.ba>).

A key structural problem for Serbia and B&H is the low technological level of production that cannot influence the faster increase of economic growth rates. The trend of physical volume of production and gross value added is diverging. Serbia is at the top of the country in terms of increasing exports of goods. Paradoxically, this is not accompanied by GDP growth. Industry and exports surpluses are "pulling" by low-tech manufacturing goods. It is good for the balance

of payments position but not for economic growth. Medium- and high-tech manufacturing domains account for one quarter of manufacturing .

According to official data of the Statistical Office of Serbia, total export of Serbia in 2017 amounts to 16.997 million US dollars. Of that, the manufacturing industry accounts for 91% of exports, agriculture and forestry 5.8%, electricity 4.3%. Manufacture of motor vehicles and trailers accounted for 14.2% of the manufacturing industry, food products with 11.3%, basic metals with 10.4%, rubber and plastic products 9.0% and electrical equipment production 8.9%. (Statistical Yearbook of Serbia for 2018). Regardless of the weaknesses of the industry, almost all of the country's exports are based on industrial production.

4. U-TURN

Nearly fifteen years after the publication of his study of the transition process, Kornai comments very critically on the current state and tendencies that are becoming more pronounced in Hungarian society. It is true that similar tendencies are present in other countries that were previously subject to its analysis. If this could be a consolation, then it is quite natural and expected that similar tendencies would be manifested in the countries of the Western Balkans, whose transition path was much more thorny (wars, sanctions, forced migration of population, de-industrialization...). Finally, this could lead to the conclusion that these unwanted processes have the character of a certain regularity.

In the study "Hungary's U-Turn", *Capitalism and Society* (2015), Kornai points out to Hungary's tendencies of moving away from the principles of democracy, as well as those of moving towards centralisation, autocracy, and interfering with the autonomous work of the executive and legislative branches (Kornai 2015.p.4.)

Kornai also criticises the way in which Hungarian Constitution and its fundamental laws were adopted in 2010: „In Hungary, the situation has changed: the holders of power are able to elevate any decision to the status of law quickly and without hindrance, at the push of a button.“ (Kornai 2015.p.4.)

Prosecution service in Hungary is centralised organization and formally it operates independently from the rest of the government. In practice the chief prosecutor is chosen by the holder of supreme power with formalistic appointment by the parliament. (Kornai 2015.p.5.) For this reason many affairs of corruption that are related to the holders of power and those close to them have been covered up. On the other hand, the legislative system does not neglect similar affairs that are related to the members and supporters of the opposing parties. Such functioning of Hungary's legislative bodies correspond fully to the way the legislative systems function in Serbia and B&H. The actions against the political opponents are usually taken up just before elections – which is one of many typical ways in which such legislative systems function.

Constitutional Court where "overwhelming majority of members of that Court were chosen by the current prime minister- and soon all the members, without exception, will be Viktor Orbán nominees. If their mandate is extended *right now*, this move, along with other similar moves, will shift the legal status of the country toward irreversible power relations. Thousands (yes, the number is no exaggeration) of discrete changes, all moving together in the same direction, create a new *system*." (Kornai 2015.p.11-12.)

Goran Ilić, a person designated by the State's Prosecutorial Council to deal with the issues of the autonomy of Serbia's prosecution, says that the legislative system of Serbia does not provide

its prosecutors with autonomy. (Petrović 2017.) To be even worse, such legislative system itself creates the circumstances in which the interference with the autonomy of the prosecution's work is possible. Heads of the Prosecution Committee are being appointed by the Parliament at the Government's proposal. Therefore, instead of being led by professional responsibility and with accordance to the Constitution, prosecutors owe responsibility for their actions to the Parliament and, in this way, their responsibility is being politicised. All the prosecutors, as well as the State's Public Prosecutor are being appointed time-limited, six-year long mandates (in Serbia, as well as in Azerbaijan, Macedonia, Andorra, Ukrajina). The aim of such a system is to make prosecutors obliged to cooperate with the executive bodies and political parties. Best judges claim publicly that the legislative system is only formally independent while, in fact, it is hugely dependent on the holders of the state's political power. Judges feel threatened by those who have the power to decide about their destiny and those are the representatives of the executive governing bodies and political apparatus. A certain number of judges are appointed not on the basis of their professional adequacy but due to the influential connections they have with the holders of the political power. (Derikonjić 2016)

In B&H, Constitutional Court is comprised by nine members, out of which, each two members are representatives of the constitutional ethnic groups and are elected by the ruling political parties. According to the words of Perić Branko, the judge in the court of B&H (Nezavisne novine, 10.12.2015) Constitutional Court took control over the legislative system, and went as far as to annul verdicts and their implementations, without having them professionally discussed and taken into consideration. Around ninety verdicts of the Court were not implemented. On top of it, such actions, as a consequence, also change the constitutional structure of the country as it was agreed upon by the Dayton Peace Agreement. The legislative system is absolutely inefficient in its fight against corruption since it is being controlled by political parties.

5. GOVERNMENT SECTOR AND POLITICS

Kornai also speaks about the expansion of the government sector's power into the domains of banking, energetics, public works, transportation and media. He points out to the trend of centralisation that has taken place since 2010.

The role of the state and its attitude towards the economic market is pretty much obvious. The problem is that the inevitable co-existence and interaction of state and market have been seriously distorted in Hungary; symbiosis is subjected to political interests. (Kornai 2015.p.7.)

"We are not talking about case of 'state capture' carried out by a small group of oligarch in order to establish regulations and pass measures in their own interests..... clientelism, a kind of feudal master-servant dependency, is asserted between the politician/bureaucrat and capitalist entrepreneur." (Kornai 2015.p.7) It is "Crony capitalism". Close connection between politics and business is a world-wide phenomenon and it is a fertile ground for the rise of corruption. Organisations that should fight against corruption are not independent. Corrupted politicians and businessmen know that powerful politicians will protect them against "whistleblowers" who take personal risk in their fight against corruption, being absolutely unprotected and victims to of "character assassination" campaigns. The Hungarian developments should serve as a warning for all those who insist unconditionally on increasing the role of the state, on extending and strengthening regulations, without emphasizing the accompany-ing dangers." It cannot be said whether Hungarian economic politics has swerved towards the right or towards the left. Some of

its facts remind of socialism, but, in its very essence it is actually capitalist. (Kornai 2015.p.9.) Formal independence of the central bank is jeopardized since the Premier's "right-hand man" takes over this institution as its, only theoretically, „independent“ governor. All the members of the governing board are the loyal members of the consolidated machinery of power.

What makes difference with the Hungary's case, is the fact that members of the governing bodies of the Central Bank of B&H and the National Bank of Serbia are actually „renowned“ members of the ruling political parties by which they were appointed. Jobs in central banks are among the best paid ones and therefore the competition for those is very high. However, their professional staff can be appointed only by highly positioned party members of leading political parties who, in other words, have a monopoly on these. Central banks are defined by law as independent institutions, but in reality they are very much dependent. Fortunately, the currency board is in power in B&H and therefore the Central Bank of B&H cannot lead their own independent monetary policy. Instead, it has to be based on the law according to which the monetary base has to comply with the amount of the official exchange reserves. A few years ago, five banks in Serbia went bankrupt due to which their deponents and tax payers lost 1200 million euros. Even though the National Bank of Serbia was responsible for bank monitoring, it did not take any responsibility for what had happened. According to Aleksandar Vučić, back then the prime minister of the country, tycoons found their way into those banks through their political connections and then granted credits to related parties and tycoons that were not justified by any of the adequate lawful procedures for granting loans. The politician who provided the tycoons with the link to the banks was paid two million euros for his „service“. Those who were responsible for these illegal actions have never been prosecuted.

Political influence is predominant in all segments of the public sphere. As noted by Rosta Miklós (2015), it is in action "overpoliticization of the civil services". Although it speaks of a Hungarian case, this is even more relevant to Serbia and the B&H. In the context of soft budget constraint he concludes: "The SBC syndrome makes the public administration system simply a tool of the political power of the incumbent government. In that case, public administration obediently follows the commands of the political elite, without focusing on the trust of the citizens or on professional considerations". (Rosta 2015.p.8.)

Kornai "realize that there were several important factors behind the reversal: the grave mistakes made by governments and the political parties functioning within and outside the parliament between 1990 and 2010, the spread of corruption, the trauma caused by the appearance of mass unemployment, the increase of social inequality, and the disappointment of a large proportion of the population after the high expectations brought by the change of system. The maturation of democracy is a long historical process, and Hungary has only just begun." (Kornai 2015.p.19.) The causes for such a situation can be found in Hungary of twenty years ago that was ruled by the "goulash communism" when population become accustomed to the paternalism of a heavy-handed regime." (Kornai 2015.p.19.) The way in which the socio-economic system is structured influences strongly the mentality of a nation and leaves a long-term consequences on its culture, which has been rather obviously proven in the case of Eastern Germany. Nations's

culture can play a limiting role in the process of its transformation, the pace and intensity of its implementation.³

The economic crisis of 2008 has considerably slowed down the economic growth of the countries in transition, especially in the case of B&H and Serbia where in certain periods, the rates of economic growth were even negative. On one hand this has slowed down the transitional processes and on the other it has caused the rise of populism in politics.

“One manifestation of the U-turn is the methodical harassment of civil society”. (Kornai 2015.p.6.). Civil society organisations in Serbia and B&H are financed mostly by American donors. Since a vast majority of the population of Serbia and B&H (speaking about its Serb entity), rather understandably, has got a negative attitude towards the USA and the NATO, such organisations are treated mostly with indifference or with an amount of open animosity, such as in Serbia. Non-governmental organisations support open and public promotion of alternative views and opinions, which are contrary the dominant State’s politics. The animosity towards such organisations stems from the belief that their main aim is to change the society’s character and its system of values. “Autonomy“ of the public media is very much jeopardised, especially in B&H where the ruling parties interfere with their functioning through their insiders. The public media mostly function as the voice of the leading political parties and their propaganda. Even the media that seem to be independent and financed from abroad have their own strictly defined agendas and policies. The number of the objective media is very small and their aim is to lessen the power of the political propaganda and their brainwashing.

6. THE STATE OF DEMOCRACY

It becomes apparent in most transition countries that the key problems of ‘new’ political systems in ‘building’ are a lack of democracy or at least a great lag behind the democracies of developed countries or the ‘ideal model’ that Kornai envisioned. That is why he is very critical of the state of democracy in his country.

On the essential importance of democracy Kornai says the following:” Where the term ‘democracy’ is an honor, the status of democracy is awarded or denied to the Hungarian form of government by journalists, political analysts, politicians or diplomats according to whether they hold a favorable or unfavorable opinion of the present Hungarian system. The terminological confusion remains even when ‘democracy’ receives a defining attributive. The expression ‘illiberal democracy’ was originally introduced to political science with pejorative connotations,

³ The culture that rejects „Western standards“ seems to be one of the biggest obstacles to the social transformation of the countries of Western Balkans. Such culture is „collective“ in its very essence, aspiring towards egalitarianism and collective values. In such societies emotions are dominant and are used for the purposes of the manipulation of masses. Collectives and groups are very important, as well as the wider family. Emotions and irrationality prevail and, therefore, it is very difficult to explain certain actions and phenomena without having the understanding of the emotional state of the involved ones. As a consequence, we seem rather irrational to an outsider, which we actually are. Emotions of sympathy, love and hatred prevail, blinding the clarity of vision and strongly influencing the process of decision making. Relationships are personalized, informal connections and structures are dominant.

while Viktor Orban uses the term ‘liberal state’ with self-assured pride to describe his own system”. (Kornai 2015. p.13).

Some of the features of developed democratic systems are the following: ‘respect for minority rights; there are written and unwritten limits to what the majority, however large it may be, can do against the will of the minority. We could go on listing other important common features.’ (Kornai 2015.p.14) Dictatorship is the other extreme. In between these two extremes, there are those countries in which neither of these rules prevails. Kornai defines them as *autocracies*, Hungary being one of such countries.

“Hungary is the first of the post-socialist democracies that has joined the autocracies, but there is no guarantee that it will be the only one. The balance of power might shift in other countries in such a way as to turn them into autocracies”. (Kornai 2015.p.14.) In 47 post-socialist countries only 10% of their population lives in democracy. Primary characteristics of autocracy are the following: governments cannot be replaced via civilised and peaceful procedures, institutions that should provide conditions needed for the government’s replacement exist only formally and their influence is very weak, parliamentary opposition does exist but its functioning is very much jeopardised by the use of different instruments of repression (imprisonment through false allegations, or even politically motivated murders). Secondary characteristics of autocracy are the following: Repressive means are used against parliamentary opposition, institutions functioning as “check and balances” are weak and non-independent, the ruling political group appoints its own cadres to virtually all important offices, No legal constraints against civil protest; weak civil society, there are legal frameworks for participation but they are practically not applied, freedom of the press is constrained by legal and economic means. (Kornai 2017b.p.259.).

Ten years ago, nine out of 29 transitional countries functioned in the state of consolidated democracy while five of those functioned in consolidated authoritarian regimes. (<https://freedomhouse.org/report/nations-transit/nations-transit-2017>). Presently the number of countries with authoritarian regimes rose up to eight, while the number of those with consolidated democratic regimes fall down to seven. In the last ten years the democratic score in Central Europe deteriorated much faster than in two other sub-regions, the Balkans and Euro-Asia. Independent media and corruption have contributed considerably to such a state of affairs. It is estimated that Hungary went through the biggest downfall, while the biggest fall of the democratic score in the Balkans took place in Serbia, B&H and FRY Macedonia.

Bustikova L. and Guasti P. (2017) investigate what is rotten in the new democracies of Central Europe. Liberal-democratic project in Visegrad Four (the Czech Republic, Hungary, Poland and Slovakia) has been either stalled, diverted or reversed. They differentiate in between illiberal “turns” and “swerves”. Hungary is at brink of decisive illiberal turn.

“There are foreign politicians who see Orban as a model ; there is real danger that this contagion, leading to the loss of democracy and of the rule of law, will spread”.(Kornai 2015.p.14.).⁴

One of the factors that keeps Orban in power is the fact that he is seen as a defender of Hungary’s sovereignty, says Kornai. But “Hungary must be an organic part of Europe: it must unambiguously belong to the Western world; it must further strengthen the links binding it politically, economically and culturally to the West.”(Kornai 2015.p.15.).The European Union is unprepared for a situation where one of its members keep turning against the value system and formal and informal norms of its community.

Kornai also notices the presence retrograde ideologies (nationalism, chauvinism, ethnic or religious prejudices and a conservative view of the family, which appear in a variety of shades) that are not openly expressed. (Kornai 2015.p.19)

7. POPULISM AND NATIONALISM

The common theme of countries that have undergone the transition is the increasing emergence of populism. This question becomes relevant even in Western Europe. Kornai’s reflections on populism are very inspiring. It is very easy to relate his assessments, views and conclusions to the cases of the Western Balkan countries. As well as there is some regularity in that domain.

Changes on the global level have led to the transition of the former socialist countries but quite expectedly and now they are very much affecting these countries. „The consequences of the process of transition reach far out of the domain of economy into the domain of the political organisation, as well as into various social institutions, and at the same time affecting society’s systems of values“. Many important questions have not been resolved and answered. “Throughout the socialist world the fight for the issues of social homogeneity, individuation and inequality is widespread. On one hand there are politicians that fight for pluralism in politics, individualism and social differentiation, believing that these values lead towards progressive European future, while on the other hand, the right-hand, nationalists strongly oppose those values”. (Verderi 2005. p. 461.) We are of the opinion that such a state is the result of populism in politics. According to certain authors populism in Serbian politics has been continuously present all the way from the end of the nineteenth century.

⁴ At the economic summit organised by the German magazine „Die Welt“, Victor Orban states that in case Germany does not decide to finance the construction of gas lines and roads in Hungary, they will turn towards China with such requests. The response of Bosnians (Muslims) towards Orban’s politics has been very negative. On the other hand, the responses of Bosnian Serbs, on social networks are mostly pro-Orban and supportive of his politics. A big majority of Serbs support Orban’s political views - his break-up of the co-operation with the IMF, the reluctance to open borders to the Syrian and others refugees, the „autonomous“ national policy seem to be in tune with the Serb public opinion. Orban shows much strength and independence in his international politics on the basis of which the citizens of Serbia create his image. Their comments on public show their support and respect with respect to his international politics. <http://www.novosti.rs/vesti/planeta.299.html:705576-ORBAN-PORUCIO-BRISELU-Ako-nemamo-finansijsku-podrsku-EU-okrecemo-se-Kini>, <http://balkans.aljazeera.net/vijesti/orban-ne-bude-li-sredstava-eu-okrenut-cemo-se-kini>

Populism is a phenomenon which appears firstly in the *ideological sphere* of life. (Kornai 2017.p.1.) Populism is usually associated with *nationalism* and they are closely correlated. It is point where Kornai's understanding of these two current issues differs from the standard characterization.

"The *style* of populist ... tries to affect the *emotions* of the audience or readership. Instead of calm discourse with opposing views, he creates enemies and mobilize followers to join him in a battle, or rather in a series of battles, until it leads to a victory over the hated enemy. He creates some kind of mass hysteria" (Kornai 2017a.p.2.).

On the peak of the populist-nationalist movement we see the paramount leader. He is a charismatic personality. A personal cult of the leader is quite a common attribute of populist movement. The twin ideologies, populism and nationalism, can appear under various colors of the political spectrum, on the right side of the political arena but also on the left side.

There are significant differences between such policies according to the situation of the country. Economic progress is not constant. Periods in which a country's economy deteriorates create fertile circumstances for the rise of populism. However, economic reforms are not a guarantee of political democratization – these do not obligatorily influence one another. (Kornai 2017a. p.4.)

Populist leaders in Serbia and B&H earn their votes by fervently supporting national interests of their respective ethnic groups. Since the national borders of their countries have not been yet clearly defined, this has been a very sensitive issue.⁵

The collective emotion is the key factor that populism uses and on the basis of which it strengthens its power. This collective emotion negates individuality and pluralism in politics. (Stojanović 2017.) Populist movements always speak on behalf of the whole nation. The ability to stay out of it and think differently is not possible. Here, it should be pointed out, that „the modernisers“ see Serbia through the glasses of the ideal democracy. They put the ideals of freedom, democracy and human rights against the picture of Serbia that has been humiliated and destroyed in every possible way and its every segment. In the public discourse we come across „the first kind“ of Serbia: nationalist, rural, conservative and primitive and ”the second kind“ of Serbia: civilised, clean, urban and aspiring towards modernisation. ”The first kind“ of Serbia, rather understandably, insists on the importance of the national identity and the protection of its national interests that have been severely jeopardised.

In its essence, nationalism is observed as being anti-democratic and it is always accompanied with negative connotations. Recent war in the region resulted in millions of refugees and displa-

⁵ Serbian leader is an ”authentic“ representative of its people and its voice that „protects“ them from the corrupted elite, tycoons, foreign intelligence services, inner and outer enemies. (Jovanović 2017.) The government of Aleksandar Vučić has, at one point of its functioning, started a large anti-corruption campaign, which seemed to have had a strictly defined programme. However, its results seem to be insignificant. Older important and unsolved cases, such as the case of twenty-four unlawful privatisations, on whose solving insisted the EU, were overshadowed by newly opened cases. Such cases have not been solved yet and many who were involved in these cases seem to be the close associates of Vučić, according to the words of Jelisaveta Vasilic, the member for the Council for the Action against Corruption. (Preradović 2014.) It seems that Serbia, unavoidably, slides down towards a one-party regime, and in this historically backward movement it goes back to the kind of regime that is recognisable by the name of its main ruler.

ced persons, as well as in high rates of unemployment - 40% of the unemployed in B&H and 13% in Serbia, all of which contribute to the huge rise of nationalism in the region. The question is what the alternative is that political parties could offer instead of nationalism. Certain attempts to introduce a certain degree of modernisation have not been readily accepted by the region's population. They are usually rejected and seen as a kind of threat, or even a kind of punishment that has to be endured. Recent ethnic wars make the whole situation even more complex. Rather extreme nationalism that caused them and resulted from them cannot be underestimated.

A specific phenomenon related to the countries of Western Balkans, as well as those of Central and Eastern Europe, lies in the fact that they lagged considerably behind in the process of the formation of national states, which is why their ethnic and national borders did not coincide with their historical borders. In other words, states were formed only after nations were constituted. That is why the borders between them remained fluid and fuzzy. "This very phenomenon became the source of hysteria of Central and Eastern European nations, i.e. it created such a climate in which permanent fear for the (national) community became dominant, and nation, as the main value, took its place even above freedom." (Vegel 1996. p.7.) Freedom and democracy run their course independently from the nation, but they can also take conflicting positions. Therefore, political regimes in these countries historically swing between extreme dictatorship and anarchy, various kinds of populism and ideal totalitarianism. Fragility of democracy within such a context stems out of the fact that democracy is closely related to national values. In this context freedom can be marginalised, too. Therefore, post-communist nationalism should not be seen as an accidental outcome. Bibó István points out to the fact that lives of minorities are not easy even if pressures exerted upon them are not direct and visible. In the „The Law of Peoples“ John Rawls puts an accent on *demos*, while Bibó puts it on *ethnos* taking Central European hysteria as a starting point. Bibó traces the causes of the crises back to the unresolved national issues which are deeply rooted in history and which do not come up to the surface in a voluntary fashion. Therefore Bibó does not reject the existence of national states and their democratic potential. (Vegel 1989. p. 9.)

President of Serbia, Aleksandar Vučić, follows diligently directives of the IMF by implementing austerity measures in the public sector - via employment, salaries and pensions reductions, etc. He is perceived as the main „implementer“ of reforms based on the IMF's directives. At the same time, his ruling party (SNS) controls the leading and the most influential public media in Serbia. His party provided for itself a huge number of supporters all over the country and in all of its social structures. According to the sociologist, Jovo Bakić (2017), in spite of the fact that, according to the studies, a vast majority of the citizens of Serbia do not trust politicians and political parties, SNS has got around 700.000 members and „interest-motivated members“, which means that every tenth citizen of the country is a member of the ruling party. The main aim of its voters is to enter in public institutions, municipalities and public services. They vote for ruling parties neither because they believe in their ideas and programmes (which those usually lack), nor to contribute to the well-being of the society (whose importance they are not aware of), but mainly because of their personal material interest and careers. It is important to create such a climate in which majority of citizens believe that they cannot make considerable changes via elections, in this way making the ruling party feel invincible. It is also a rather well-known fact that the opposing parties, that once used to be the ruling ones, do not much differ in this regard from the ones who are currently in power. (<http://www.bezcenzura.rs/2018/01/19/jovo-bakic-bez-dlake-na-jeziku-o-diktatorskom-rezimu-vucic-i-njegove-hijene-rastrgli-su-srbiju/>)

Without having any concrete and systematic idea of the country's economic progress, apart from being focused on how to attract foreign investments that are hugely „subsidized“ from the state's budget, the attempt of the leader to motivate his citizens by protestant work ethics and ideals, seems to be ridiculous. (Petrović 2017.) Such attempts to motivate his citizens to work more diligently implies that Serbs are lazy. It is clear that work is important, but it is also clear that many kinds of work do not result in material benefits - only a productive kind of work for which many pre-conditions need to be provided first.

During 80's macroeconomic planning in developed countries is being abandoned, while liberalisation, deregulation and privatisation are being on rise. In socialist countries the compromise of macroeconomic planning was the reason why this economic model was totally abandoned. It is true that the ideology of the liberal market contributed to it, as well as the economic concept and model that were suggested to the transitional countries by international financial institutions. This is how economic planning has disappeared altogether and has been replaced by structural reforms. Together with this, institutions that dealt with economic planning have been extinguished, too. In this way, state with own economic policy that acted correctively, stopped functioning and supplementing the market mechanism through which one important aspect or, at least, a small part, of the economic sovereignty was expressed. (Bukvić 2004.p. 116.)

One of the results of the process of globalisation is reduction of the power of (national) governments to create and influence the economic and social future of their respective countries. This is especially related to the countries labelled as „transitional losers“ which very tend to seek culprits for their economic failure in neoliberalism, globalisation and free trade, that are blamed for narrowing the space within which they could develop their own productive capacities and in this way employ the sufficient amount of working power. This has also influenced the rise populism in politics and fervent insisting of the national economic sovereignty in those countries. They blame the policy of „heavy budget constraints“ which balances public and state's budget on behalf of vulnerable social groups and slows down solving of the unemployment problem. Foreign investments seem to be the last economic resort and therefore the state (Serbia) spends a considerable amount of their budget resources in order to stimulate and encourage such investments (co-financing the opening of new working places). For these reasons, foreign investments are being tolerated, while at the same time foreign investors enter the zone of moral hazard by assuming they have such a right because of the high risk which is related to investing in such countries. In addition, local politicians use foreign investments as the result of their very own efforts used to attract them, on the basis of which they earn greater political reputation and new voters.

In general, local investments are insignificant and incapable of providing adequate economic growth rate, which, according to the estimates of the local experts, it should be around five percent on a yearly basis. At the moment, those rates are half as big as those that could provide the economic growth, according to which they could reach the level of the economic development of the EU countries only in the following 50 years. Due to the catastrophic policies of the ruling political parties the question is if political elites could really take the responsibility for the economic growth in those countries and if they could do anything concrete that would speed up the rates of economic growth and employment, in other words – could they be capable for leading proactive economic policies. (Plakalović 2017.)

CONCLUSION

Kornai is an economist who deals with economic problems in an all-encompassing manner by always placing them within a wider social, ideological, political, historical, geostrategical and other contexts that contribute considerably to the overall and deeper understanding of the issues in question.

Therefore, by following his steps, we tried to give, at least, a partial insight into the issues that are related to the process of transition that he sheds light on, in some of his important works. We have been always fascinated and inspired by his thinking with regard to the phenomena that have been common among the socialist countries back in their days, and as equally so now, when most of those countries have been and are going through the process of transition. His enormous knowledge in the field of economy, his all-encompassing approach to its issues, his very deep insight and knowledge of his own country, put him in a position to be able to give proper and valuable diagnoses related both to the times of communism, as well as to those of transition towards a free market economy.

Even though Kornai himself once said that the process of transition was over, the actual reality points out to the fact that this process is not over in case we chose to see „The Great Transformation“ in its completeness, since it cannot be reduced down to the economic reforms. It also involves crucial social changes which are of even greater importance. Privatisation procedures themselves and the implementation of the democratic minimum, to which the present circumstances testify, especially the very obvious U-turn in most of the transitional countries, confirm exactly that without the „Great Transformation“ in the social domain (ideology, politics, society) the process of transition cannot be completed. Finally, Kornai speaks about a long-term process since a few decades are not sufficient enough to provide us with full and complete conclusions and tangible results, which means that the process is still not close to its „completion point“.

Transition has been observed from a strictly economic point of view. Ownership transformation of property have been more or less implemented, however the questions related to the rule of law, improvement of a regime that efficiently guarantees the protection of property rights and development of its institutions are still very much open and seem to be at the beginning of a very long evolutionary road. In the meantime, a big number of informal institutions that are deeply rooted in history and culture exert a huge influence over the development of the countries in question. Those informal institutions are ruled by various interest groups whose rule is based in corruption and which exist in the form of political parties.

Starting from the Kornai analysis of the transition process in the sphere of institutional development, rule of law, politics, populism and nationalism in Hungary, we have noticed the emergence, if not the same then very similar phenomena and trends in Serbia and B&H. This is especially true in the areas of the rule of law, the role of politics in society, corruption, populism and nationalism. Although the transition processes in the Western Balkan countries were much more traumatic than in other Eastern Bloc countries, many current problems in the economy, especially in society and politics, are present in other former socialist countries. This may point to the conclusion that there is a certain pattern in these processes that may well be linked to a past, common tradition of socialism.

Therefore, the process of transformation, as based on our experiences, cannot be seen solely through the structural reforms and the change of the formal rules (laws and regulations) but it

requires to be implemented through a long process of the institutional development. In the same way, this process cannot be completed through the simplistic adoption of western rules and procedures. Transition is a generationally long process.

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