

# **Capitalism in the Yugoslav Successor States: Slovenia and Macedonia**

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Submitted to

Central European University

Department of Political Science

In partial fulfillment of the requirements for the degree of Master of Arts  
in Political Science

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Budapest, Hungary

2018

## **Abstract**

This study contrasts the trajectory of the capitalist transformation of two former members of the Socialist Federative Republic of Yugoslavia, Slovenia and Macedonia using a Polanyian theoretical framework. By relying on a process tracing approach, the study illuminates the configuration of factors that led to a neocorporatist capitalist model in the Slovenian case, and a wild capitalism which converges to neoliberal capitalism in the Macedonian case. The research question guiding the study is what are the factors that have contributed towards divergent capitalist models in the two countries. The study is confirming the findings of previous research in that the Slovenian case the reliance on the Yugoslav legacy, the initial preferences of the political elite, strong social partnership, capable state, and viable democracy and economy led to the neocorporatist outcome, whereas the Macedonian case follows a pattern similar to other cases that have emerged out of a weak state, difficult economic circumstances, and strong influence of the international financial institutions.

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## Introduction

It has been almost three decades since the former socialist countries began their capitalist transformations. The challenges they faced in the transformation seemed insurmountable, as some pessimistic authors point out (Offe, 1991). Nevertheless, these societies went through the process, some more successfully became fully capitalist and liberal democratic, others less so. In any case already at the turn of the century, what was formerly the socialist bloc in Europe, became a diverse landscape of variants of capitalism. The broad interest of this study is precisely the post-socialist capitalist diversity, more specifically two countries in the former Yugoslav region. First, Macedonia, which has barely been subject to research in the field of comparative capitalism, and one of the aims of this paper is to examine this understudied case. Second, Slovenia, which has been thoroughly studied, and will serve as a contrasting case to the former. The broad research question, which is guiding this study is why these countries developed different models of capitalism? The study will contrast the trajectory of transformation of the two countries in a Polanyian perspective.

Following Bohle and Greskovits footsteps, in this study capitalism will be viewed through the lenses of Karl Polanyi. The following passage illuminates the essence of this approach.

“Capitalism is a multi-level (international and national) form of political economy; it can produce immense wealth and freedom at the price of permanent conflict between the “self-regulating market mechanism” and the protective arrangements against its dangers; it expands and contracts in cycles of open-ended differentiation; but it is always exposed to existential risks stemming from the opposition between the movements” (Bohle and Greskovits, 2012; p. 13)

Slovenia and Macedonia were both part of the Federative Republic of Yugoslavia and had similar socialist institutions. Yugoslavia’s system was distinct from the rest of the socialist countries. One characteristic of the Yugoslav model is that instead of the state ownership typical of the communist countries, it had social ownership of the means of production,

envisaged to be controlled by workers councils (Horvat 1975[2015]). Also, its economy had significantly higher level of liberalization (Woodward, 1995; Horvat 1975[2015]). Paraphrasing from Hirshman's terminology in the "Rival Views of Market Society" (1992), this can be called "the Yugoslav blessing" in regard to the transition period, since it would be expected these countries to have more capacity for marketization. Most of the Yugoslav successors received an additional legacy, this time in the form of a sanguinary war provoked by the dissolution of the country. The two countries in question were the only two former Yugoslav countries which succeeded to secede relatively peacefully (Daskalovski, 1999). Moreover, another similarity is the immediate orientation towards "the West", manifested in the aspirations for membership in the Euro-Atlantic organizations (Boduszyński, 2010). Although they got these similarities ("Yugoslav blessing", peaceful secession, initial orientation to the west), the cases are actually vastly different. Slovenia had much more favorable initial position, geographically approximating the western countries. Also, Macedonia is multi-ethnic, whereas Slovenia is homogenous (Daskalovski, 1999), next Macedonia had problems with international recognition, that does not have an equivalent in Slovenia (Daskalovski, 1999), and finally Slovenia had much more developed economy than Macedonia even during Yugoslavia, three times higher GDP per capita (Boduszyński, 2010).

Comparative capitalism literature has Slovenia well documented (Feldman, 2006[2002]; Bohle and Greskovits, 2007; Bohle and Greskovits, 2012; Lane 2007; Crowley and Stanojevic, 2011). The Polanyian comparative capitalism framework developed by Bohle and Greskovits, identifies capitalist models based on a hexagonal framework, and come up with a threefold categorization. Slovenia has been identified as the only neocorporatist state in the post-communist world. Slovenia is the only country that has developed a capitalist model which integrates strong corporatist characteristics, besides that it retains strong social

protection and is least market radical among the post-socialist countries (Bohle and Greskovits, 2007).

However, there is no systematic study on Macedonia from the point of view of comparative capitalism, which makes it hard to compare it with another case. One study encompasses Macedonia and identifies it as hybrid capitalism which has more than one form of coordination but points out that the country approximates the continental model, which means governments has been pro-market, barriers to small and medium enterprises growth have mostly been removed, but has a weak social dialogue (Bartlett, 2007).

One particularly stark difference between the two cases can be seen by using Bruszt framework (2013) of market making in post-socialist societies, based on Linz and Stephan (1996). This framework analyzes the relation between democracy, state making, and market making, and suggests that in the transformation of the post-socialist countries reforms aiming at boosting democratic state capacities should precede economic liberalization and legitimize it, not the other way around. The framework uses three dimensions, that is liberalization of the economy, rule of law, and democratization. For the two cases in 1999, period when large portion of the transformation already happened, liberalization is about the same in Macedonia and Slovenia (Horvath and Campos, 2006), but the divergence is huge in the case of rule of law (Kaufmann, Kraay, and Mastruzzi, 2005), as well as democratization, as Slovenia was already a full fletched liberal democracy in 1999, while Macedonia was considered a hybrid regime (Freedom House, 1999).

Overall, the Macedonian regime type is characterized with weak state, low quality of democracy, weak welfare institutions (Stambolieva, 2016), and relatively high marketization rate. Types of regimes with such characteristics have been referred to in the literature as crony

capitalism (Peev, 2002), wild capitalism (Upchurch and Marinkovic, 2011) or patrimonial capitalism (King, 2001).

Having that in mind, Slovenia being neocorporatist, and Macedonia a form of wild or crony capitalism, this study will answer the following research questions: What is the configuration of factors that have contributed to the divergence of the capitalist model in the two cases? In addition to this the study will also reflect on the wider questions from the comparative capitalism literature such as the dynamic of tradeoffs between democracy, protectionism, and marketization, as well as the convergence or divergence of capitalist types. Moreover, following Bohle and Greskovits, it will test whether the Macedonian case follows a similar pattern to the one of other weak state neoliberal cases such as Bulgaria and Romania.

In order to do this, I will rely on the Polanyian framework of Bohle and Greskovits, which offers a method of categorizing capitalisms and theoretical tools for studying capitalist transformation (2012). In explaining this development, the framework combines the importance of initial choices and legacies, crisis and uncertainties, and international actor influence. The framework will be explained in detail in the subsequent chapter. The study follows the trajectories of the two countries in detail and explains what accounts for the divergent paths.

In the following chapter first, I will position the two capitalisms using the Polanyian framework. Then, I will define the capitalisms in the two countries by reviewing the literature. The second chapter will be on the explanation of emergence of capitalisms, additionally it will also include an outline of the analytical toolbox, as well as a brief description of the methodology. The third chapter consists of the empirical analysis of the two cases as well as a comparison between them. Finally, the paper ends with concluding remarks.

## Chapter 1: Defining Capitalist Types

While the Slovenian case has been recognized in the literature, and positioned as a model of neocorporatist capitalism, the Macedonian case is not obviously fitting in any of the three models of capitalism identified by Bohle and Greskovits. In order to introduce the case, this chapter provides a comparison of the characteristics of the two capitalisms based on the Polanyiyan framework developed by Bohle and Greskovits.

This framework is building on the Polanyian triad of protectionism in one corner, market liberalization in the other corner, and government as a mediator in the third corner, moreover three additional corners are added by Bohle and Greskovits (2012), that is corporatism, democracy, and macroeconomic coordination. Regime types with high scores on each of the six corners would have “capitalism at its best” (Bohle and Greskovits, 2012; p.20). On the other hand, only increasing performance in one of the six corners, points out to the possible perils and “may sow the seeds of failure” (Bohle and Greskovits 2012; p.20), since that development also produces negative externalities, which would not have a suitable counterbalance in another corner, indicating the possible tradeoffs between the different aspects (Bohle and Greskovits, 2012).

On figure 1 the models of capitalism are visually presented in line with Bohle and Greskovits presentation, for the year 1999, and figure 2 shows the positions of the two capitalisms in 2014. In cases when data is not available for the two points in consideration, then data point from the year closest to that one is taken into account.



Figure 1: *Macedonian and Slovenian capitalism in 1999*

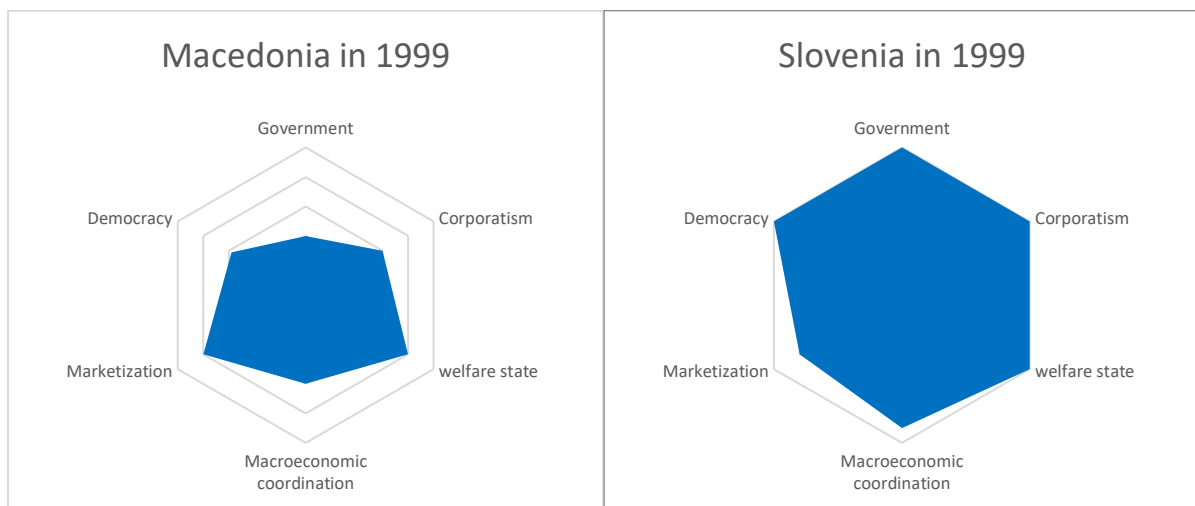
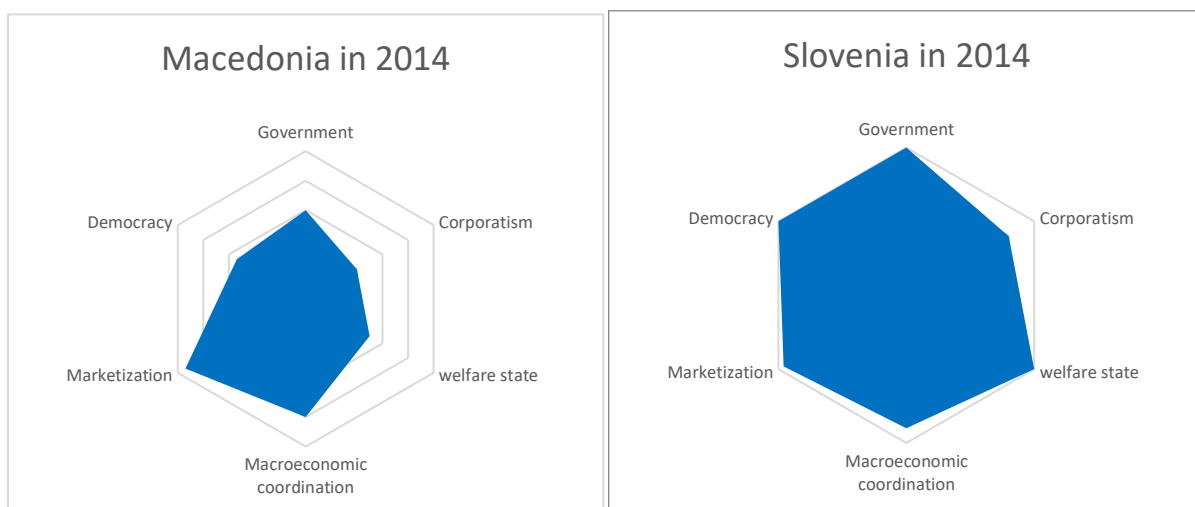


Figure 2: *Macedonian and Slovenian capitalism in 2014*



The figures are produced by using the following data to position the two countries. For *government*, the quality of governance is measured, by using the average sum of four indicators, government effectiveness, regulatory quality, rule of law, and corruption control, based on Kaufmann, Kraay and Mastruzzi report (2009) and Worldwide Governance Indicators (2017). Slovenia has an average of 0.975 for 1999, and 0.9325 for 2014, whereas Macedonia has -0.43 for 1999, and 1.35 for 2014, the latter is slightly more than Bulgaria (0.08), and slightly less than Romania (1.52). Next, *corporatism*, measuring social partnership, is

problematic because of missing data on Macedonia. Nonetheless, the degree of the figure is produced by taking account measures of union density, collective agreement coverage, and functioning of tripartite institution, it can be seen that in Slovenia<sup>1</sup> union density amounts to 42.8% in 1999, and 27% in 2014, collective agreement coverage is 100% for 1999 for national and 70% for 2014, but there is no data for sectoral level, and it is widely recognized by scholars that it has a functional tripartite dialogue throughout, albeit weakening by the time of the second figure (Stanojevic and Crowley 2011; Mesman, 2012). While for Macedonia union density in 1999 is approximately 41%<sup>2</sup>, and 27.9% in the second figure, collective agreement coverage is 100% for national, 75% for sectoral in 1999, while later it becomes 100% for national and 35% for sectoral (Majhosev and Hristova, 2012), the tripartite dialogue according to scholars has never been functional (Ivanovska 2014), therefore it has a low score on corporatism especially in the second figure. For *marketization*, measuring the implementation of market reforms, the six EBRD<sup>3</sup> transition indicators are used, the average for Macedonia is 3 in 1999, and 3.6 in 2014, while for Slovenia 3.5 and 3.6 respectively. In regard to *democracy*, Freedom House “Freedom in the world” scores are used, on a scale of 1 to 7, for Macedonia<sup>4</sup> in 1999 it was 3, and in 2014 it is 3 again, but worsened if the more detailed “Nations in Transit” report is looked at, whereas for Slovenia<sup>5</sup> it is 1.5, and 1 respectively, which represents a full fledged democracy. For *welfare state*, social spending by GDP is used, in Macedonia it was

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<sup>1</sup> The data for Slovenia is from ILO database (Accessed on 18.4.2018 <http://www.ilo.org>) and

<sup>2</sup> Data is from Majhosev 2012, and it is an estimation of the author based on his own calculation and data he acquired directly from the unions

<sup>3</sup> Data from EBRD, “transition indicators by country” database (accessed on 17.4.2018, <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html>); the measurements span on a scale from 1 to 4, where 1 signifies no reforms, and 4 signifies completely implemented reforms

<sup>4</sup> The data is from Freedom in the World: Macedonia 1999 and 2014 (accessed on 17.04.2018 <https://freedomhouse.org/report/freedom-world/1999/macedonia>; <https://freedomhouse.org/report/freedom-world/2014/macedonia> )

<sup>5</sup> The data is from Freedom in the World: Macedonia 1999 and 2014 (accessed on 17.04.2018 <https://freedomhouse.org/report/freedom-world/1999/slovenia>; <https://freedomhouse.org/report/freedom-world/2014/slovenia>)

approximately<sup>6</sup> 22% and 17% respectively for the two periods, and for Slovenia 21.2% and 23.8% (Stambolieva, 2016). Also, the overall share of government expenditure as percent of GDP is additionally used as a proxy measure for the welfare state, since the data for Macedonia on % of GDP for welfare spending is not completely reliable, in this measure for Slovenia<sup>7</sup> amounts to 46.5% and 43.6% respectively, while for Macedonia 35.4%<sup>8</sup> and 34.3%<sup>9</sup>. For *macroeconomic coordination*, there is no similar index which has scores for Macedonia to the one used by Greskovits and Bohle in the original study, therefore I use a proxy measure for central bank independence index for Macedonia for the both years, based on the measure Central Bank Independence Weighted (CBIW) Index, used by Dincer and Eichengreen (2014), in this study Macedonia has a score of 0.33 for the first period and 0.74 for the second.<sup>10</sup> For Slovenia the score is based on the original study.

As it can be seen from the figures, the countries significantly differ, in terms of quality of democracy and governance, on the one hand, then the compensatory mechanisms, including welfare state, but also the corporatist elements, and finally, although it cannot be seen from the figures, the economic profile of the country is widely different as well.

At the outset, both countries as successors of Yugoslavia, have inherited a similar welfare system. The Yugoslav welfare state was a mix of Bismarcian and Beverigean model with quite generous provisions (Stambolieva, 2016). It covered the general social provisions, such as pensions, disability insurance, healthcare, unemployment insurance *et cetera*. (Stambolieva, 2016). Even before the dissolution of Yugoslavia with decentralization some minor divergence was present, but after secession the countries largely diverged. Slovenia

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<sup>6</sup> The data on four elements of social spending (pensions, social security, healthcare, and unemployment) is from Marija Stambolieva (2016) and it is based on the authors calculations

<sup>7</sup> Data from Stambolieva 2016

<sup>8</sup> Data from Stambolieva 2016

<sup>9</sup> Data from Gligorov 2015, WüW

<sup>10</sup> The measure goes from 0 to 1, where 0 signifies minimum central bank independence, and 1 signifies maximum central bank independence. More about the index can be found on Dincer and Eichengreenb (2014)

retained most of the old system, with some reforms in the methods of provision, but kept the mixed Bismarcian and Beverigean model (Stambolieva, 2016). On the other hand, Macedonia, and especially after 1998 underwent huge reforms (Gerovska Mitev, 2007), mostly in the direction of dismantling the old welfare institutions, leading to a residual model of welfare (Stambolieva, 2011). The reforms were implemented gradually, in all of the welfare state components, first in healthcare and pension, and then in other aspects of the welfare state (Stambolieva, 2016). This is clearly reflected in the provided data on social spending.

Another important characteristic of the two countries which cannot be properly captured only by the figures is the character of the democracy in the two countries. Macedonia has not been full authoritarian, but it persistently fails to build a full fledged democracy and is constantly falling into hybrid regime category, even backsliding some periods. On the other hand, Slovenia has been able to build a full fledged democracy, quite soon after independence, starting from 1993 it already has scores on Freedom House which put it in the democracy camp (Boduszyński, 2010). Boduszyński, refers to Slovenia as substantive democracy because of its high procedural correctness in combination with liberal content, in the sense of regime legitimizing strategies, and nature of political divisions (2010). On the other hand, Boduszyński refers to Macedonia as illegitimate democracy, because it has somewhat procedural correctness, as it has always satisfied characteristics such as peaceful transition of power and free elections, but has flaws, as well as low liberal content, since it has deep divisions internally, and ambivalence of the citizenry towards democracy in general (2010). This in turn provides a good explanation of the continuous hybrid regime record.

Considering the capitalist varieties of countries, the economic profile also bears huge importance. Macedonia was the least developed country in Yugoslavia, whereas Slovenia was the most developed country (Pleština, 1992). As it can be seen on table 1, Slovenia's GDP is three times higher than Macedonia's GDP, and the unemployment level is low, in comparison

to the huge unemployment level in Macedonia. Although, according to EBRDs reports, the actual numbers of unemployment in Macedonia are unrealistic, since there was a huge shadow economy sector.<sup>11</sup> Moreover, the international embeddedness of the economies is severely different as well, as it can be seen on table 1, the export structure of Macedonia is concentrated with labor intensive industry, whereas Slovenia has a concentration of more complex industry.

Table 1 Economic indicators<sup>12</sup>

	Macedonia		Slovenia	
	1991-1999	2000-2014	1991-1999	2000-2014
GDP per capita, PPP (\$)	4 931	9 315	15 236	25 451
Unemployment	35.4%	32.9%	7.44%	6.48%
Exports as % of GDP	38.2%	37.5%	46.2%	62.2%
Foreign Direct Investments (FDI) net inflow as % of GDP	1.36%	4.7%	0.9%	1.9%
Industry Value Added as % of GDP	33.67%	24.7%	35.2%	33.3%
Complex manufacturing exports as % of exports	14%	23%	42.8%	53.4%

Besides the Polanyian approach developed by Bohle and Greskovits, there are several approaches in defining post-socialist capitalisms. Building on the varieties of capitalism literature developed for the advanced western capitalism (Hall and Soskice, 2001; Amable, 2003), scholars have attempted theorizing the eastern post-socialist countries (Knell and Srholec, 2007; Mykhnenko, 2007; Feldman, 2006[2002]; Lane 2005; Buchen, 2004; Lane 2007). Slovenia has been extensively debated in this literature, usually as an exemplary case of a post-socialist coordinated market economy (CME) (Feldman, 2006[2002]). However, some scholars point out that direct implementation of the varieties of capitalism framework in the post-socialist capitalisms can do more harm than good (Greskovits and Bohle, 2007; Myant and Drahokoupil, 2010). Criticism points out that the varieties of capitalism approach sees an

<sup>11</sup> See EBRD transition reports from 1996 to 2010

<sup>12</sup> Data from data.worldbank.com (accessed on 4.25.2018) on GDP, Unemployment, Exports as % of GDP, and FDI net inflow as % of GDP; data.Worldbank.org on Industry Value added; Comtrade.un.org on Complex Manufacturing Exports (SITC 5 and 7)

institutional comparative advantage in the given institutional configurations, whereas it does not consider evolving institutional configurations that lack this advantage, or where the institutional configuration is a disadvantage. In difference to this the Polanyian approach does not have this difficulty.

Macedonian case, being barely included in the literature, is more difficult to define. Bartlett, basing his study on Lane's framework (2007), writes on the western Balkans varieties of capitalism, and points out that a specificity is the reliance on informality, as well as the high reliance on international institution building, which according to Bartlett often produced uncomplimentary institutions (2007). In this study Macedonia is considered a hybrid capitalist state. What's missing from this analysis is the state and its capacity. Therefore, the lower regulatory quality, as well as the low level of democracy, are not taken into account.

Somewhat connected with the issue of having non-complimentary institutions is the notion of cocktail capitalism (Cernat 2006). Defining characteristics of the cocktail capitalism is its often-incoherent combination of institutions and relations, which also lead to weak economic results. This resonates with both Bartlett's description of the western Balkans, and with the Macedonian economic record. However, besides that, as already stated, the Macedonian regime is also characterized with persistently low record in both rule of law and democracy.

On the capitalist models with flawed or weak state capacities, and democratic record, one early work of King, based on an analysis of Poland and Russia, distinguish patrimonial capitalism in the latter, and liberal dependent capitalism in the former (2002). Patrimonial capitalism is characterized with weak state capacities, patron-client relations between the new capitalists, i.e. the managers, and ruling elites (King, 2002; King, 2007; King and Szelenyi, 2005). The Macedonian system might not be as close to the patrimonial Russian capitalism, as

Russia is characterized with lower level of democracy and rule of law. In addition, Macedonia as a candidate country for the EU, benefited to some extent from EU influence on governance, and certain regulatory framework was adopted. Nevertheless, there are similarities.

Myant and Drahokoupil also recognize capitalisms with weak rule of law record (2010). One such regime type in the extreme, is oligarchic capitalism. This type is characterized with low state provision, low regulatory capacity, authoritarian or semi-authoritarian government, and clientelist relations with a handful of powerful business organizations, so called oligarchs. Strongly resembling King's variant, and for the same reason is not completely appropriate as well.

Another study situated in the comparative capitalism literature, which deals with capitalisms with troublesome democracy and governance, identifies a type calling it "wild capitalism" (Upchurch and Marinkovic, 2011). The characteristics of this type of capitalism is widespread corruption, informality, clientelism, having placed regulation, but often do not follow it, and also elements of the liberal market economy (LME) or neoliberal model, and a tendency to develop into it.

Based on this literature review, as well as the above described characteristics of the Macedonian capitalism, the position of this paper is that the notion of wild capitalism is most accurately able to describe the Macedonian situation, with a tendency towards the neoliberal variety of the original Bohle and Greskovits typology. The basic characteristic of the neoliberal type of capitalism is the radical marketization, without market correcting mechanisms to mitigate the potential negative externalities from this approach.

Overall, the low quality of democracy, high corruption, often not following official regulatory framework (Giandominico, 2012; Börzel, 2011), high level of informal economy as it was previously mentioned, especially in the early period until 2007 – 2008, a tendency to

dismantle the welfare state, and unwillingness to build corporatist arrangements or dismantle the previously existing institutions which supported such arrangements. While, this term is borrowed from Upchurch and Marinkovic (2011), it is not used exactly as in their study, but it is rather adapted to the Polanyian framework.



## Chapter 2: Explaining Diverging Capitalism Pathways

The emergence of different varieties of capitalism in the post-socialist world has been studied by many scholars, as it can be noted from the previously mentioned literature. Out of the several approaches, this paper is closely aligned with the Polanyian approach. The aim of this chapter is to review the literature on studying the change and emergence of capitalist varieties in post-socialist countries and show the advantages of the Polanyian approach that is used in this paper. After that, the constituting elements of the approach will be explained in more detail, and finally the methodology will be briefly described.

One of the earliest works, already mentioned, is the explanation of the emergence of varieties of capitalism offered by King and Szelényi (2005). This approach points out to the importance of “state structures, the existing pattern of networks, and the political activity of various classes or groups (workers, managers, intellectuals, bureaucrats) to explain transition outcomes.” (King, 2002; p.6). It takes particular note of capitalisms in states with weak capacities. The authors argue that the emergence of the specific variant of capitalism is substantively determined by the way capitalism has been introduced in the country. More specifically, one way of introducing capitalism is “from without”, when managerial elite aligns with intellectuals against the communist party bureaucracy, and one capitalism from above, when party bureaucrats in alliance with managers implement marketization and liberalization. The latter leads to patrimonial capitalism, characterized with patron-client relations between the new capitalists, i.e. the managers as well as party structures, and ruling elites. The former to “modern” capitalism, usually dependent on foreign capital (King, 2002; King and Szelényi, 2005; King, 2007). The transition path eroded the state capacity in the case of patrimonial capitalism, largely due to the shock therapy that followed (King, 2007). In essence this approach argues that neoliberal reforms helped solidify patrimonial capitalism (King, 2007; King and Szelényi, 2005). Although this approach offers very substantial arguments, there are

two shortcomings when considering studying the two cases in question. First, is the little attention it gives to the international influence, most notably the EU, but also the international financial institutions (IFIs), which are widely recognized for substantial influence (Schimmelfennig and Sedelmeier, 2005; Jacoby, 2006). Second, crisis and uncertainties which might change the direction of the countries are also not substantially considered. The transformation process is dramatic, and causes social displacement, as well as uncertainties, which can in turn give rise to opposition forces. It is to be expected that these processes can divert the original path, either significantly or marginally, either way this is an important factor of the final outcome.

Feldman devises another theoretical framework on emergence of post-socialist capitalisms, most in line with the classical Hall and Soskice varieties of capitalism theory (2007). The core of the theory is the transition period of the countries, and whether they have promoted previously existing networks or disrupted them. Network promoting signifies retaining of the networks from socialist times, and this would predict developing a more coordinated capitalist type, whereas the opposite would predict a more liberal capitalist type. This theory offers a compelling argument, which can certainly explain part of the story, but its shortcoming is that it does not offer a more encompassing theory of the politics that are involved in the initial period of market making.

Myant and Drahokoupil produce another framework for studying the emergence of post-socialist capitalisms (2010). These authors are on the position that the transformation of the post-socialist economies was a complete remake of the systems, not just the economy, but also the political system and generally social life. The main differentiating characteristic of the post-socialist capitalisms in this approach is their standing in the international economy. This approach is also accounting for the level of rule of law and quality of democracy, international influence, welfare state, and the manner in which privatization was done, whether gradualist or

by implementing a “shock therapy”. However, there is little emphasize on the politics of transformation, therefore it does not take into account the troubles of legitimizing of the liberalizing policies, as well as the opposition to them. This in turn, makes this approach unable to take account of why different institutional mechanisms prevailed in one state, whereas they did not prevail in another state. This is the case because above all this approach is focused on the economic growth models of the post-socialist capitalisms and seeks to distinguish between the growth strategies.

These shortcomings are overcome by the Bohle and Greskovits Polanyian framework (2012). As it was shown in the previous section, where the cases are presented, the six characteristics identification of the form of capitalism offers a very detailed picture of the specificities of the regime type. However, the especially strong side of this framework is the explanation of the transformation phase. Three types of sources from which factors that influence the making of capitalist model are recognized. One is the initial choices of the ruling elites, constrained by the given circumstances. Especially important in the sense of initial choices are the historical legacies and their interpretation by the elites. Moreover, the legitimization of the marketization process, which can come from identity politics or materialist compensatory politics, is taken into account as one of the crucial factors which leads to a certain regime type. Second source of factors are crisis and uncertainties in implementation, which can be exogenous and endogenous. Finally, international influence is also considered as an important source of influence.

From this brief description of the Polanyian approach, it is evident that this approach offers a very nuanced picture of the transformation process. It takes into account various sources of factors which influence the process of transformation, and especially focuses on the politics of transformation, the various ways of legitimizing market reforms that could have come as a response to reactions, in a rather spontaneous way, nevertheless leaving its imprints

on the regime type. In line with this Polanyi notes “While laissez-faire economy was the product of deliberate state action, subsequent restrictions of laissez-faire started in a spontaneous way” (2001[1944]; p.147), illustrating the dynamic of the process.

## **2.1 Analytical Toolbox**

As the previous section clearly states, the Polanyian theoretical framework developed by Bohle and Greskovits will provide this paper with most of the analytical toolbox, and in this section, I will clarify all of the elements of that framework.

Bohle and Greskovits framework’s first elements are the initial choices (2012). Two things are most important in regard to that, one is the paradigm that is leading the reforms, second is the sources of support on which the political elites conducting the reforms relied. Marketization in post-socialist countries, strongly resembled the great transformation described by Polanyi, both were in essence “bought at the price of social dislocation.” (Polanyi, 2001[1944]; p.79). Therefore, the political support, which could legitimize the reforms plays a key role. The support on which political elites relied for implementation of the transformation, was either materialist, characterized with welfare provisions or protectionism, or identity based, which appeals to nationalism (Bohle and Greskovits, 2012).

How reformers treat legacies are another important building block in the framework, and they are a constituting element in determining which logic of the aforementioned two, would prevail, and how the initial choices are structured (Bohle and Greskovits, 2012). Legacies are not interpreted in this framework as directly determining outcomes, but as having a mediated effect. The perception of the elites, but also the general populations, on the pre-socialist and socialist legacies, whether they are seen a liability or as an asset greatly influenced the transformation strategy. The relevant legacies refer to the various unfinished tasks, such as nation building, especially important for countries that did not previously have independent

nations. But also, in terms of welfare state, industrialization and relation to the west. So, legacies are not simply out there, they are interpreted. The point is that at the outset, the elites were faced with these challenges and unfinished tasks, the transformation path was determined by the selection and prioritization among them (Bohle and Greskovits, 2012).

These perceptions and interpretations in turn, lead us to the notion of political opportunity structures, as used by Bohle and Greskovits (2012). This concept points out to particular openings which give potential for orienting and constraining choices of elites, political dynamic and competition, and social movements reactions.

Additionally, another limitation on the transformation are the actual initial state capacity, and political and economic circumstances.

Another crucial element in the Bohle and Greskovits framework are the crisis and uncertainties which frequently occur during the transformation. These could be exogenous, which are completely uncontrolled, but also endogenous, in any case both can alter the transformation path.

The whole process is shaped by the Polanyian double movement, namely, as he asserts “For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite direction” (Polanyi, 2001[1994]; p.136). The role of the countermovement is practically a reaction to the social dislocation caused by liberalization, and its role is to mitigate the negative externalities produced by the change.

Bohle and Greskovits sum up this so far by arguing that the capitalist model which is to be established in the country “grew out of conflicts and compromises between reforms elite’s radical economic agendas and the possibility to mobilize consent and maintain legitimacy” (Bohle and Greskovits, 2012; p.62).

The last element of the framework developed by Bohle and Greskovits is the international factors and actors (2012). The post-socialist countries, in difference to the advanced capitalist countries, have developed their capitalist system under significantly more international influence, with advice and mediation from international institutions, especially including the process of Europeanization, but also other international institutions. An important factor which instigated reforms in the state capacities was the credible commitment from the EU, namely the promise of membership. Particularly important for the Macedonian regime type will be the influence of the international financial institutions (IFIs) Moreover, their integration into the existing international market, as well as the influence of transnational corporations that have invested in the respective countries.

## **2.2 Methodology**

This paper is a paired comparison of the trajectory of two cases. It compares processes and illuminates the configuration of factors that led to the specific outcome in the two cases. Although the cases are very different, the contrast between them can help illuminate certain features and it can help reach meaningful conclusions. As Skocpol and Sommers put it for the contrast of contexts research design, which has resemblance with this research paper, “systematic contrasts offer a comment on each other’s uniqueness” (1980; p. 179). In this paper I will reconstruct a historical narrative of the trajectory of interest in the two cases, which will include sequence of events, as well as relevant context for the transformation process and the final outcome, i.e. the variant of capitalism in the two respective countries. The narrative that is constructed is not an “ad-hoc storytelling”, but it is informed by the relevant theory, and grounded in the empirical reality (Capoccia and Keleman, 2007).

The comparison is based on providing a narrative for the development of the two cases, which led them to developing their own trajectory, that in turn leads to the final outcome, or the variant of capitalism in the respective cases. Process tracing analysis utilizes

configurational logic, in which the final outcomes are illustrated as results of a configuration of explanatory factors, which consist of necessary and sufficient conditions (Blatter and Haverland, 2014).

Data that this study will use in order to construct the in-depth accounts of events will be from two sources. First, from public sources such as official documents, international institution reports, most notably reports from the European Bank of Reconstruction and Development, the International Monetary Fund, the World Bank, the EU, Freedom House, but also documents from state institutions and other international organizations, and finally news articles. Second, findings and data from secondary sources will be used extensively.

## Chapter 3: Slovenia and Macedonia: Diverging Pathways

This chapter provides the bulk of the empirical analysis of the paper. The first section points to some of the Yugoslav legacy in both countries, which provides the starting divergence. Then the next section outlines the narrative of the Slovenian case, with an analysis of the trajectory, followed by the narrative of the Macedonian case, and in the final section the trajectories of the cases will be contrasted.

### ***3.1 Yugoslav Legacy in Context***

Two crucial elements of the legacy from socialist Yugoslavia will be discussed. First, following Kitschelt et al (1999), I will point out the type of socialist order, which is strongly determined by the pre-communist legacy, and in turn gives the context for building the post-socialist system. Second, I will describe the early socio-economic circumstances of the countries, by showing the Yugoslav industrial and economic legacy.

Yugoslavia was obviously not democratic, but the liberalization, along with the decentralization tendencies, certainly made it among the least repressive socialist societies. In determining the socialist regime, Kitschelt et al. describe Macedonia as patrimonial socialism, whereas Slovenia is in the camp of accommodative socialism (1999). Although, they were part of the same country the different pre-communist legacy, Slovenia being more industrialized and developed, compared to backward Macedonia which was basically an agricultural society in the forties (Woodward, 1995), in addition to the relatively more developed civil society in Slovenia which at times contested the socialist rule, makes the difference. Patrimonial socialism is characterized with clientelist relationships, as well as reliance on personalistic ties and corruption. This type of socialism would predict less capable state apparatus, which is in dire need in the transformation period, and less favorable democratization circumstances (Kitschelt et al. 1999). On the other hand, accommodative socialism, had a more rational state,



and it occurs in societies that have a memory of urban middle class in the pre-socialist period, thereby would also have some civic unrest, that would be accommodated, rather than repressed (Kitschalt et al. 1999). This predicts a more capable state.

Yugoslavia's specific market socialism left particularly specific legacy in terms of labor and manager organization (Gligorov, 2004). First, the essence of the workers self-management socialism, was that the "means of production" were socially owned, not nationally, and this in turn led the workers in having a strong identification with "their" firms (Töpfer, 2012), along with organized and powerful unions (Stojanovic and Crowley, 2011). Second, they also left an influential managerial class, which has been relatively autonomous and able to organize (Bartlett, 2000).

Moreover, regarding the economy Yugoslavia was trying to facilitate larger exports in the western countries (Plestina, 1992). The Yugoslavs followed this strategy by concentrating export-oriented industry in the north-west federal republics, especially in Slovenia. Additionally, to a significant extent it was more complex manufacturing, whereas in Macedonia, the poorest federal republic, mostly labor-intensive industry was concentrated, and mostly for internal Yugoslav usage (Plestina, 1992; Woodward, 1995). The different development patterns are reflected on the data on exports from Table 2.

Table 2 Percent of exports as part of overall exports of Yugoslavia<sup>13</sup>

	Exports as % of total Yugoslav Exports	
	1970	1980
Macedonia	5.49%	4.66%
Slovenia	18.65%	20.46%

This strategy was going in the way of the efforts of the Yugoslav leadership to close the gap between the federative republics (Bombelles, 1991; Woodward, 1995; Plestina 1992),

<sup>13</sup> Data from Wyzan (1995) p.199

because of this concentration of different industry profiles it failed to do so. Nonetheless, as it can be seen from table 3 Macedonia from an agricultural country in the forties, became the most industrialized federative republic, with 51.5% of the social product coming from industry.

Table 3 Share of Industry in Output<sup>14</sup>

	1965	1987	Growth 65-87
Macedonia	31.9%	51.5%	6.8%
Slovenia	42.3%	47%	4.9%
Yugoslavia	30.8%	44.1%	5.7%

Another crucial Yugoslav effect is that throughout the approximately five decades as part of Yugoslavia, Macedonia was a recipient of federal aid (Bombelles, 1991). The purpose was to support public services. In addition to this, another type of aid was coming in the form of loans, particularly useful for the loss makers of the Macedonian industry (Bombelles, 1991). With the dissolution of Yugoslavia, the loss of these funds made an adverse fiscal effect on Macedonia, but a positive one on Slovenia, which was a net contributor in the federal budget.

### **3.2 Slovenian Neocorporatist Capitalism**

The economic stability and strength of the Slovenian economy has underpinned the conviction of the Slovenian political leaders to build the capitalist system in a gradual manner, straying away from the dominant neoliberal doctrine. In addition to that the strong state capacity and the favorable conditions for democratization, strengthened the country to pursue its own path in building capitalism.

The trajectory of the Slovenian capitalism will be reconstructed in two parts. First part is from the independence until 2004, this period is characterized with the gradualist development of the Slovenian capitalism, it is in this period that the country became recognizably neocorporatist. Then from 2004 the ideological grounds have changed with the elite change, but also the external circumstances change. The latter tendencies exacerbate after

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<sup>14</sup> Data from Kraft (1992) p. 25

entrance of the country in the European Monetary Union (EMU) and after the 2008 great recession leading to slow erosion of neocorporatism.

### **3.2.1 Foundations of Neocorporatism**

The economic and political independence is the initial point of the transformation. Signs of democratization according to most authors can be traced in the early eighties when the civil society was rapidly developing in Slovenia (Ramet, 1997; Cox, 2005). Although there was no serious contentious action, as in some socialist states, demands for democratization and liberalization were generally popular (Boduszyński, 2010). This set of events resonated with the communist party, which after 1986 was led by the reformist wing, that sought similar reforms both in terms of economic liberalization and democratization of the country (Boduszyński, 2010). Democratization started to take shape in 1989 and 1990 with constitutional changes aiming to this direction. One phenomena worth noticing is that Slovenia retained the corporatist structures of the Yugoslav political system, namely the bicameral parliament, in which one of the chambers was reserved for economic interest representation (Töpfer, 2012).<sup>15</sup>

The first multiparty elections were held in 1990 (Jeffries, 2002). On the elections the six-party coalition Democratic Opposition of Slovenia (DEMOS), an ideologically fragmented coalition glued together solely by the opposition to the communist party, won decisively, while on the presidential elections the former communist Milan Kucan turned out the winner (Bugajski, 2002). The DEMOS government, led by Peterle, a center-right Christian democrat, was in an uneasy situation, because of the diverse coalition. Peterle government led the country into independence, but it was not able to unify the coalition around the shock therapy

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<sup>15</sup> The parliament had three chambers initially, while with the changes from 1992 they became two (Cox, 2005), nonetheless the constellation was similar.

transformation plan, which brought the country to a political deadlock, eventually settled by a new majority in the parliament (Krašovec and Johannsen, 2016).

The privatization and overall transformation strategy was one of the most divisive issues after independence (Boduszyński, 2010). Two main streams existed. As already mentioned, the Peterle government advocated for shock therapy transformation and complete break with the past, this view was supported by Jeffrey Sachs, who advised the government. The other approach showed more appreciation for the potential assets of the former system that could be used for the transformation and advocated a gradual transformation, and privatization favoring insiders. The latter was supported by the first financial minister Joze Mecinger and was favored by the parties descending from the communists, managers of state owned enterprises, as well as unions (Mecinger, 2004; Mecinger, 2006). As Stanojevic and Crowley point out, the privatization debate coincided with a huge strike wave by the unions, which imposed themselves as a factor at this time, favoring the gradualist approach as well, but with more favorable terms for the workers (2011).

Janez Drnovsek was the second prime minister, leading a center-left coalition, with one brief break and some changes this coalition stayed in power from 1992 to 2004 (Boduszyński, 2010). It incorporated both non-communists and reformed communists (Töpfer, 2012). This government adopted a law on privatization which was a compromise of the two above described approaches, nonetheless embedded into the gradualist strategy. The law envisaged 20% of the shares to be distributed to workers and managers for free, 20% to state funds, 20% to citizens via mutual funds, and 40% commercial for managers and workers with discounts, and outside investors (Sachs and Pleskovic, 1994; Mecinger, 2006).

The privatization went on gradually, and by early 2000s the state funds were a large shareholder in all companies, especially capital-intensive ones (Mecinger, 2006). Managers

acquired substantial shares in all companies as well, while workers became co-owners, and usually in the cases of labor intensive companies even majority shareholders. (Stanojevic and Crowley, 2011). Essentially it was an insider privatization, relatively unfriendly to FDIs, reflected in the low percent of FDI inflow during these years. In turn, this retained the networks from socialism, which according to Feldman contributed to the corporatist outcome (2014).

The unions certainly imposed themselves as powerful players that could not be ignored, but this was not sufficient for ensuring a corporatist arrangement. Another reason was need for stabilization of the economy from the huge inflation after separation. Slovenia stabilized relatively quickly, but still was facing negative growth until 1993 (EBRD, 1994), mostly due to the loss of the Yugoslav market. However, it was also facing huge inflation. The inflation was brought down thanks to defeating the soft-budget constraints coalition, running a balanced budget (even surpluses in 1992, 1993, and 1994 (EBRD, 1995)), and especially important in the context of corporatism, the wage constraints, which were facilitated by tripartite arrangement (Kraft, 1995; Kraft, Vodopiec, and Cvikl, 1995).

The DEMOS government tried to issue a wage freeze unilaterally, but it was unsuccessful due to union's contentious action (Stanojevic, 2012). On the other hand, Drnovsek government "traded" the wage constraints acceptance of the unions, in return for institutionalization of the tripartite dialogue in 1994 and not reducing job security (Stanojevic and Crowley, 2011; Stanojevic, 2012). This was acceptable for the workers, because as Stanojevic points out they were also acquiring income from the informal sector, therefore they could be satisfied with lower wages and strong job security (Stanojevic, 2017). In fact, corporatist arrangements were beneficial for all of the social partners, the government could handle the inflation, as well as keep social peace. While the employers, especially the export-oriented industries needed to keep wages down, and boost competitiveness (Stanojevic, 2012).

At the time the membership in the Chamber of Commerce was mandatory, making it particularly favorable for corporatist arrangements.

All of the major reforms in the socio-economic sphere at this period were done in close consultations with the social partners, and usually in the form of political trade-offs as the one already described. Examples include the minimum wage law in 1998, the employee relations law in 2001, law on labor relations in 2002, the pensions reforms *et cetera*. (Stambolieva, 2016). This pace was retained throughout the nineties, setting a corporatist culture in place.

However, even the gradual approach produced social dislocation. This state of affairs is confirmed by the noted increase in unemployment which reached 11.5% in 1992. Although, after that it was gradually decreasing reaching around 5% in 2001.<sup>16</sup> Nonetheless, all of the social distress caused by the transformation was met by the strong welfare state, which was sustained thanks to the willingness of the Slovenian elite, as well as not having the necessity of issuing budgetary cuts, as it can be seen on Table 3.

Table 4 Government expenditure as % of GDP in Slovenia<sup>17</sup>

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
45.8	44.1	43.6	43.4	42.9	43.8	44.4	44.5	44.1	44.3

Accordingly, spending on social welfare has been stable around 22-24% throughout (Stambolieva, 2016). As Stanovnik puts it “[the welfare system] could aptly be described as a rock of stability in a tumultuous and tempestuous period of rapid economic, political, and social change.” (2004; p.316.). Therefore, in this aspect, as in other aspects, Slovenia has retained much of the heritage from Yugoslavia, and the issued reforms were not aiming at cutting welfare, but only in adopting it to the circumstances (Stambolieva, 2016).

<sup>16</sup> Data on unemployment from data.worldbank.org (accessed on 20.05.2018)

<sup>17</sup> Data from EBRD Transition report 1997 and 2002

The policies of high social spending, as well as gradual reforms were criticized by IFIs. However, as Mrak, Stanovnik and Štiblar note Slovenia did not need to enter into much arrangements with the IFIs, which in turn could not impose their views on the transformation process through conditionality (2004).

Other protections such as trade and state subsidies were not as important. State subsidies accounted only for around 2.7% of GDP (Bohle and Greskovits, 2012). Trade was liberalized early on, the country joined GATT already in 1994 (EBRD, 1998). The average tariff rate has been around 10%, in the nineties, so it was not the most liberal among the post-socialist states, as for instance the Baltic states and the Visegrad states had an average of 2.5% and 9.1% respectively (Bohle and Greskovits, 2012). One source of protection were the banks, which were practically owned by the enterprises, and this in turn assured easy loans (Mrak, Stanovnik and Štiblar, 2004). Many of these loans were of high risk, which is reflected in the high financial restructuring cost of the banks, namely, around 14% of the GDP (Mrak, Stanovnik and Štiblar, 2004).

Overall, the its strong export sector, led the development and assured a stable economic rise, while the decommodification policies, both in terms of labor and welfare, allowed for protecting elements of the society from adverse market effects. Therefore, Slovenia had both growth and equity.

One more element which was also a key cornerstone of the Slovenian transformation is the high quality of democracy as well as high level of rule of law. The capable state, that could maintain rule of law, can be traced in the socialist as well as pre-socialist constellation of the state, which could predict this (Kitschelt et al., 1999), but also having in mind that the state did not undergo a huge fiscal shock that could potentially ask for huge cuts certainly had its role, as well as the economic viability of the country. Finally, the role of the EU is relevant as well,

as noted by scholars of europeanization, the accession process has positive influence on the state capacities (Dimitrova, 2002). Also, one has to mention the role of the European Union as an external impetus to the democratic capacities of Slovenia. The EU was a unifying factor of the political parties, and it often was an actor that contributed to overcoming of certain deadlocks (Boduszyński, 2010).

### **3.2.2 Erosion of the Slovenian Neocorporatism?**

Neocorporatism has firmly dominated Slovenian politics up until the change of elites in 2004. The Slovenian Democratic Party won on the elections in 2004, changing the balance of power in favor of another ideological camp, this time center-right, and economically neoliberal. The new prime minister Janez Jansa promoted an economic development plan called “Slovenian Development Strategy”, which clearly positioned the government in the neoliberal camp (Mecinger, 2006; Stambolieva, 2016; Stanojevic, 2012). The program promoted flat taxes, flexibilization of labor market, further privatization in companies where state had ownership, namely, general liberalization of the economy. This quickly led to confrontations with the social partners, notably the unions, which organized protest rallies against these measures (Stambolieva, 2016). Although, the government backed off most of the reforms (Stanojevic, 2012), these are the first sings of defection of the social partnership.

According to Stanojevic the reason for the relative demise of the corporatist system was twofold, first external factors put the system under pressure, and second the domestic answers to this pressure was unfavorable for corporatism (2012). In combination with this, the above described break of the ideological center left dominance, made the social partnership more difficult.

Stanojevic points out that the external pressures on competition, especially on the export-oriented industries, were starting to intensify (2012). This led the firms to demand work



intensification and flexibilization. Effectively this brought an end to the income from informal economy, which was keeping the wages low and the workers satisfied. Without this mechanism corporatism had yet another challenge, which was impeding continuation of the previous success. Later, with EMU membership of Slovenia and the introduction of the Euro, things became even harder on this matter, as it took away monetary policy making from the authorities, and put more pressure on competitiveness (Stanojevic, 2011).

In this period two more things led to the weakening of the partnership. First, the union density was greatly decreased exactly at this period, Stanojevic traces this in the conflict between the rank-and-file demands, which were unable to be met by the leadership of the unions (2012). Second, the employer organization membership stopped being mandatory from 2006, which led to a drastic decrease in density. Not having these two organizations as strong, centralized and representative, made corporatism less sustainable, as the classical literature on corporatism points out (Schmitter, 1974).

The financial crisis of 2008 made things drastically more difficult due to the need for austerity, although a new social democratic government came in power, it was not able to come into terms with the social partners, especially the unions (Stambolieva, 2016). Moreover, a banking crisis also shook the country (Stanojevic, 2018). The debt was rising, largely due to bailouts of the banks and covering the huge budgetary deficits that have appeared after the crisis, and this was coupled with competitive pressures, all leading to further weakening of social dialogue.

This government lasted for three years, after which Janez Jansa became a prime minister again. The Jansa government suggested an austerity package, including slashing wages of the public administration for 15%. Expectedly the public administration union went

on strike, after which they settled on with the government on a reduced cut of 8% (Krasovec and Johannsen, 2017). This points out that still the social partners could not be ignored.

Another post-crisis government came in power in 2014, this time a centrist liberal party. Generally, a continuation of the policies of the previous post-crisis government, was in place. This meant more austerity, but also more privatization. Thereby, more of the remaining state-owned companies were sold, mainly to foreigners (Stanojevic, 2018).

Evidently throughout this period, post-EMU, and especially post 2008 crisis, the pendulum of the double movement swung towards commodification. Stanojevic points out that while corporatism was an asset in the previous period, after EMU it became more of a liability, as it was an expensive system which endangered the competitiveness of the economy (2018). While at the same time the social partners representation weakened. Corporatism continued to exist in a form, but it is rather a shadow of the former self.

Slovenian welfare state still remained relatively strong. The Jansa government had a move towards privatizing parts of the healthcare system, but this policy was not followed by the subsequent governments (Stambolieva, 2016). Whereas, other attempts to curtail the welfare state occasionally occurred, such as the suggested 2011 pension reforms, they mostly failed (Stambolieva, 2016), and the overall robust welfare state of Slovenia stayed in place.

Economically the legacies from the Yugoslav Federation were truly a blessing for Slovenia. In the founding years a strong political coalition emerged that saw assets in these legacies and used them in the transformation. Reliance on the assets such as the corporatist structures, welfare state et cetera was all part of this approach. This initial choice sets the path of Slovenia. Furthermore, the transformation path was produced in circumstances of uncertainty, where the different actors such as the unions, the managers, political parties, were continuously involved in political struggles. The IFIs as an international factor, had a limited

influence, which allowed Slovenia to pursue its distinct path. Whereas the EU served as a factor for sustaining stability of the democratic order. To sum up, both the internal and the external factors contributed to produce the balanced, and successful transformation of Slovenia. However, this path incrementally eroded as a result of both domestic factors such as the break of the ideological hegemony with the 2004 government and external factors, namely, the economic crisis, and competitive pressure after Slovenia became part of EMU. Still continuity of neocorporatism in Slovenia is in place, but it is severely weakened.

### **3.3 Macedonian Wild Capitalism**

The Macedonian version of capitalism was forged in tremendously adverse circumstances. The whole process is characterized with several exogenous shocks, such as trade embargos, international unrecognition, an internal armed conflict *et cetera*. All accompanied with unpleasant economic situation and weak state capacities.

The trajectory of the Macedonian capitalism will be narrated in three chronological parts. The first part starts from the founding of the country, in which key initial decisions were made, until the first change of elites in 1998. Second part is from mid-to-late nineties until mid-2000s, this period was characterized with the internal armed conflict in 2001 and largely IFI-led economic reforms. Third part starts from 2006, when for the first time a government came in power with a relatively stable political and economic situation, and goes until the contemporary period.

#### **3.3.1 Political and Economic Independence**

Independence brought in many challenges for the Macedonian society, both politically and economically. Having in mind the above sketched picture of the Macedonian economy as part of Yugoslavia, independence was much more painful as compared to Slovenia.

Signs of democratization begun to show up after the reformist wing in the Communist Party of Macedonia won the internal struggle in 1989 and started to advocate liberalization and democratization both economically and politically (Spasov, 1993). With constitutional changes in 1990, multiparty elections were enabled, and in difference to Slovenia a unicameral parliament was established, dismantling the previously existent Yugoslav corporatist second chamber (Vankovska, 2007), bringing it further away from a heterarchy as compared to Slovenia.<sup>18</sup>

The first elections in 1990 did not produce a clear winner. The biggest party was the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (IMRO-DPMNU), a party that had a Macedonian nationalist agenda, besides this it was nominally supportive of Euro-Atlantic integration of the country, second was the League of Communists – Party for Democratic Change (later Social Democratic Union of Macedonia – SDUM), the official successor of the old communist party but rebranded as social democratic and pro-western, third was the ethnic Albanian Party for Democratic Prosperity (PDP), focused on ethnic questions. Several smaller parties were represented as well (Perry, 1997).

Since no party was able to form a government, the President Kiro Gligorov, an experienced politician and former communist, suggested a technocratic solution (Perry, 1997; Boduszyński, 2010). Although the technocratic government led the country independence, it was not able to pass crucial reforms as it did not have clear majority in parliament, it failed to pass the privatization law (Töpfer, 2012), and failed to address the inflation<sup>19</sup> (Wyżan, 1995).

Once Macedonia became independent in 1991 (Perry, 1997) having in mind that historically it never existed as an independent country, the “unfinished task”<sup>20</sup> of nation

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<sup>18</sup> For discussion on heterarchy see Bruszt 2002

<sup>19</sup> Inflation was already gaining ground from 1989 in Yugoslavia, but with independence, it skyrocketed (Kraft, 1995).

<sup>20</sup> On the relevance of unfinished tasks see Bohle and Greskovits (2012)

building played a big role. The initial political changes in ethnic relations, resulted with downgrading of some of the rights of the Albanian community.<sup>21</sup> Overall the interethnic relations, especially with the large Albanian community was ambivalent throughout the nineties. On the one hand including Albanian parties in high government positions (Szajkowski, 2000), on the other hand constant ethnic tensions, and economically more difficult situation for the Albanians (Boduszyński, 2010). The situation was eventually resolved with constitutional reforms addressing ethnic issues, after the small internal ethnic conflict in 2001 (Boduszyński, 2010).

A new government was constituted in 1992, which with some changes lasted until 1998. It was led by the SDUM, in coalition with three smaller parties, the Liberal Party, largely composed of managers of state owned companies, the Socialist Party of Macedonia, and the Albanian PDP (Bideleux and Jeffries, 2006). This government clearly was dominated by former communists. In contrast to this, in Slovenia there was a wider consensus in the society, and decisions were brought in a wider coalition, the government included both liberal opposition parties, and reformed communists, thus having a balanced influence on the reform process and wider support.

The SDUM came to power under a social-democratic platform with promises such as “economic democracy” “actively participating state in the economy”, and boosting of social protection programs (Cekic, 2011). However, it hardly delivered any of that.

Before proceeding to privatization and marketization reforms, the international setting is important to be outlined, as this posed a serious constraint on Macedonia. This type of issues did not have an equivalent example in Slovenia. First, is the Greek blockage of the recognition of the country by the European Community, and other international organizations, as well as

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<sup>21</sup> For more on the inter-ethnic relations see Boduzhinsky (2010)

issuing the trade embargo in 1994, which lasted until mid-1995 (Jeffries, 2002). At the same time, the UN sanctions on Yugoslavia, blocked trade with the north from 1992 to 1995 (Gligorov and Mojsoska, 2005). The result was a blockage of the traditional Macedonian north-south axis of trade (Wyzan, 1995). Partially this contributed to the increase in the shadow economy, which is estimated to have been more than 40% of the economic activity in the nineties (EBRD, 1996).<sup>22</sup> These adverse effects, in combination with the independence shock caused prolonged contraction of the economy which lasted until 1996 (Gligorov and Mojsoska, 2005), one of the longest among the post-socialist countries.

The government implemented many marketization reforms. According to the EBRD indicators, price liberalization reached the highest score 4 in 1992, trade and forex system and small scale privatization in 1994. Large scale privatization reached 3 in 1996, whereas competition policy and restructuring were lagging behind.<sup>23</sup> Competition policy had the lowest score until 2000, when it reaches score of 2 for the first time. This points out that powerful economic interest groups could influence key political decisions. The same is implied by the implementation of privatization, as it will be shown.

Starting from the independence until 1996 the country was running huge fiscal deficits and had enormous inflation. The highest priority of the SDUM government was to stabilize this situation (Gligorov and Mojsoska, 2005). This issue was successfully addressed only after the accession in the International Monetary Fund (IMF) in 1993. Namely, in 1994 the government launched a stabilization program based on fiscal and monetary tightening, as well as unorthodox measures of wage freeze settled in a tripartite arrangement (Wyzan, 1995; Kraft, 1995). While inflation and fiscal deficits were stabilized, this came at the cost of slashing public

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<sup>22</sup> Information on the shadow economy in Macedonia can be found in the EBRD Transition Reports

<sup>23</sup> Data from EBRD database on indicators for transition economies (accessed on 17.4.2018, <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html>)

expenditure. These decisions were made largely in coordination with the IFIs, as Mojsoska notes, their influence in monetary and fiscal policy in Macedonia was huge (2005). As it can be seen on Table 4 the budget was significantly reduced, and eventually by 1997 stabilizes at 35% of the GDP. Largest portion of the cuts went to subsidies, pensions, and capital investments (Stambolieva, 2016). This tied the hands of the government and disabled it to compensate for the losses during the transition. In contrast to this the Slovenian public expenditure oscillated around 43% of GDP in the same period (EBRD, 2000), which gave substantially more space for implementing market correcting measures.

Table 5 Government Expenditure as percent of GDP in Macedonia<sup>24</sup>

1992	1993	1994	1995	1996	1997	1998	1999	2000
49.1%	53.6%	45.8%	39%	37.1%	35.3%	35.8%	35%	34.2%

In the absence of other methods of compensation, the state also purposely tolerated the already mentioned huge shadow economy, which as Stambolieva points out served as a protective shield against the people's dissatisfaction (2016). Another protection from adverse market effect, was the gradual trade liberalization strategy. The average tariffs in Macedonia starting from 1996 until 2003, when Macedonia entered the WTO, were around 15% (Bishev and Petkovski, 2004). Budgetary subsidies were not an important protective mechanism, especially after 1995 when they accounted for less than 1% of GDP (EBRD, 1999). If not direct budgetary subsidies, researchers point out that the banks were used to finance the loss-makers (Bishev and Petkovski, 2004). Restructuring of the banking sector was slow, initiated after 1995, largely under influence of soft-loan seekers such as the loss-maker companies (Bishev, 2002). The restructuring was particularly costly because of these bad loans, amounting to around 43% of GDP (Bishev and Petkovski, 2004). In comparison in Slovenia this was only 12% of GDP.

<sup>24</sup> Data from EBRD Transition report 2000, and Transition Report 2001

Privatization started in Macedonia during Yugoslavia under a federal law from 1990, but it was stopped in 1991 (Slaveski, 1997). The national government started making a new law, under the advice of an Australian born ethnic Macedonian, Chento Veljanovski, an economist working in the UK in neoliberal think tanks close to the Thatcher government such as the Institute of Economic Affairs (Concurrences, n.d.). He sought to make the privatization process FDI friendly, which is why direct sales was his preferred method (Cohen and Samkoski, 1992; Veljanovski, 2012). However, the final law, gave an option for a variety of privatization methods, from which the company was supposed to choose itself (Šuklev, 1996), which meant the managers. This resulted in Managerial buy-out (MBO) being a dominant method (Slaveski, 1997).

The employees who de facto felt that the companies were “theirs”, as the former social ownership system implies, made the implementation of MBO difficult (Töpfer, 2012). Indeed, the unions were pressuring inclusion of employee buyouts under favorable circumstances, and this was included in the law after the government made an agreement with the unions (Ivanovska, 2014). However, data clearly shows that the profitable companies especially, were MBO dominated. What is more, it was common practice that the managers would buy their shares for very low prices, whereas employees were getting them at inflated prices (Petkovski and Bishev, 2004). Also, pressure on the workers sometimes in combination with threats, to sell their shares to the managers were frequently occurring (Ivanovska, 2014). Little or no reaction by the state followed from these reports (Slavevski 1997), showing the powerful managerial influence, as well as the corruptive environment in which the process was held.

The law started to be properly implemented from 1995, largely under IFIs pressure (Slaveski, 1997). By 1997 most of the companies were privatized under this insider method, in turn making Macedonia less attractive to FDIs (Arsov, 2004; Bartlett, 2000). FDIs were probably deterred also by relative political instability, due to the region, and the ethnic diversity



in the country, as well as endemically spread corruption (Bartlett, 2008). Additionally, as it was previously pointed out, existence of economic actors that could substantially influence government policies certainly also deterred FDIs.

However, some indications point out that the master variable which explains the low FDI is the insider method of privatization, since once the subsequent government changed the privatization law in 1999 in an FDI friendly manner, investments did increase as it can be seen on Table 5. Nonetheless, after the internal armed conflict in 2001, the inflow obviously stopped.

Table 6 Foreign Direct Investments net inflow as % of GDP<sup>25</sup>

1994	1995	1996	1997	1998	1999	2000	2001	2002
0.71	0.21	0.25	0.42	4.21	2.4	5.7	12.6	2.8

Moreover, restructuring of the companies was also not firmly implemented, making them less efficient (Zalduendo, 2003). One of the reasons behind this according to an IMF commissioned study was overemployment (Zalduendo, 2003). The already unfavorable situation in which the economy was due to cutting the traditional trade lines, and support from the Yugoslav federal budget, led to high unemployment rate, reaching around 35% in mid-nineties.<sup>26</sup> Therefore, the government had strong incentive not to press on restructuring of the companies, which might lead to even bigger unemployment. The minister of Privatization, Jane Miljoski, echoes this logic in his address to the Parliament in 1993.

“This is why we have decided to include elements [in the privatization process] that will shorten the process of restructuring, elements that will decrease the chances of unemployment, elements that will enable this radical change to be conducted as painlessly as possible” (Assembly of the Republic of Macedonia, 1993; p.4).

Protection of labor force, being inherited from Yugoslavia was relatively strong (Kljusev, 2002). However, it also gradually underwent deregulation, with piecemeal changes,

<sup>25</sup> Data is from the World Bank database (accessed on 16.5.2018: data.worldbank.org). Data is available starting from 1994.

<sup>26</sup> Data on unemployment from the database of the National Bank of Republic of Macedonia (Accessed on 5.20.2018: [http://www.nbrm.mk/osnovni\\_ekonomski\\_pokazateli-en.nsp](http://www.nbrm.mk/osnovni_ekonomski_pokazateli-en.nsp))

first in 1995 (Saveski, 2005), then two more amendments in 1997 and 1998 (Savevski et al., 2010).

Although some conditions for corporatism existed, such as high union density<sup>27</sup>, and mandatory membership in the Chamber of Commerce (Duvanova, 2013), it never really got properly integrated into the system. Tripartite deals were extensively used during the stabilization of the economy years (Kraft, 1995; Ivanovska, 2014; Slavevski, 1997; Kljusev, 2002), but these were only on an ad-hoc basis. There is also further evidence of cooperation between unions and government, for instance the unions stopped their actions against privatization in 1993, and got national and sectoral collective agreements, as well as guaranteed minimum wage on a national level in return (Ivanovska, 2014). However, institutionalization of the tripartite dialogue did not occur until 1996, and once it was established it suffered from low administrative capacities, as well as dysfunctionality (Ivanovska, 2014). In line with Bohle and Greskovits argument, corporatism was harder to sustain, than to establish, and especially it proved hard to sustain in countries with deficient state capacities (2012). After the nineties, the unions were continuously weakening as a result of fall in membership, so not even basic conditions for corporatism existed (Ivanovska, 2014).

At the same time state capacity remained weak. This can be traced due to several reasons. First, as Kitschelt et. al. would predict, the patrimonial communism produces weaker states (1999). Second, economic hardship compelled quick slashing of public spending. Third, and connected with the former, widespread corruption, which undermined the state authority. Fourth, the country was not even recognized by the European Community by 1995 (Jeffries, 2002), and after that it was very far from considering it for the enlargement process, therefore it benefitted little from the transformative power of the EU (Demetropoulou, 2002). In contrast

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<sup>27</sup> Researchers estimate is not below 40% density, see Chapter 1

to this for Slovenia the EU was a clear option, and the country was considered right at the outset for a viable candidate, giving more incentive to the political elites to implement reforms (Intonai and Stanovnik, 2004).

In this period compensation for the large social dislocation caused by marketization was scarce, resulting with the SDUM decisively losing the next election in 1998. In line with the Polanyian conclusion of Bohle and Greskovits, building a liberal economic, socially unprotective, and democratic regime (in this example partially democratic) was not sustainable (2012).

The Macedonian case portrays a picture in which nearly all external and internal factors conspired against a balanced transformation. While the government did not seek a sharp break with the past, being in a difficult economic and weak state capacity situation, as well as the existence of economic actors that could impose their views on the government, in combination with widespread corruption were hardly suitable circumstances in which a hegemonic ideology could be built. Moreover, crises and uncertainties more than anything else characterized the overall transformation, as it was shown, a series of exogenous and endogenous shocks occurred in this period. Finally, the dependence on the IFIs, made this particular international factor able to impose much of their views on the transformation path, this trend as it will be seen in the subsequent part intensifies. EU's influence was still limited at this point. All in all, this led to the wild capitalist model, which was portrayed in the first chapter.

### **3.3.2 Crisis management and Foreign-led neoliberalism**

The new government was formed from the VMRO-DPMNE and Democratic Alternative (DA) in coalition with the Democratic Party of Albanians (Bideleux and Jeffries, 2006). The VMRO-DPMNE moderated its nationalist tone, and together with DA was running on a pro-business platform, primarily focused on criticizing the SDUM economic decisions

and implementation of privatization (Szajkowski, 2000; Cekic, 2011). However, in reality the weak state persisted, and corruption exacerbated further (ICG, 2002).

Some reforms regarding marketization were promulgated, such as bankruptcy procedures (EBRD, 2001), and major restructuring in the banking sectors was also conducted (Bishev and Petkovski, 2004). Moreover, as already mentioned the privatization process was continued, under a more FDI friendly tone, attracting some FDIs, but no significant greenfield investments (Gligorov and Mojsoska, 2005).

On the other hand, regarding welfare reforms, two arrangements were made with the World Bank, one connected with social sector adjustment and the other with pension reforms (Stambolieva, 2016). Both were aiming at creating an efficient social safety net out of the welfare system (Stambolieva, 2016). Although the unions opted to stop the pension reforms, objecting that there is “lack of economic preconditions” such as underdeveloped capital market, in the end they were implemented (Gerovska Mitev, 2007). The unions were unsuccessful in changing the track, because the protest rallies that they organized failed to pose a more serious challenge, whereas the government explicitly pointed out to them that the reforms had to be done due to the arrangements with the World Bank (Gerovska Mitev, 2007).

The economy started slowly to grow, mostly due to improved exports, reaching growth level of 4.3% and 4.5% in 1999 and 2000 (EBRD, 2002). However, in 2001 another shock struck the Macedonian state, this time an internal armed insurgency by an armed Albanian guerilla group (Pond, 2006). The conflict was resolved with the EU and US mediated Ohrid Framework Agreement, which envisaged incorporating elements of power sharing in the political system (Bieber, 2005). Regarding the economy the conflict resulted with larger fiscal deficits and inflationary pressure in 2001 and 2002, as well as GDP contraction in 2001

(Gligorov and Mojsoska, 2005). In these circumstances the government easily lost the elections in 2002.

The new 2002 government was led by the center left SDUM, in coalition with a new Albanian political party the Democratic Union for Integration (DUI), which grew out of the guerilla group that has started the internal conflict. Their mandate was mostly focused on implementation of the Ohrid Framework Agreement reforms, which were largely unpopular with the ethnic Macedonians. In combination with this the government got itself under strong pressure from the IFIs to implement many unpopular economic reforms such as increasing the VAT tax (Mojsoska, 2005), slashing public administration employment for 5% (Bideleux and Jeffries, 2006), implementing more structural reforms in the welfare sector (Stambolieva, 2016), and further liberalization of the labor market (Gerovska Mitev, 2007). As Stambolieva argues this made a double damage, it did not increase unemployment, which stayed above 30% throughout, while decreasing protection of those that are employed (2016). At the same time also further residualizing the welfare state (Bornarova, 2011). In addition to this trade protectionism was decreased as well, as the country joined the World Trade Organization in 2003 (Bishev and Petkovski, 2004).

The two effects, on the one hand unpopular policies from the point of view of identity, sluggish economic growth, and dis-embedding of the markets, provided a weak basis for legitimization, and unsurprisingly the SDUM lost the 2006 elections. Nonetheless, during this period the influence of the EU started to penetrate more in the country, as Macedonia became a candidate country in 2005 (EEAS, n.d.). This presupposed a series of reforms regarding good governance, which can at least partially explain the relative improvement of the Worldwide Governance Indicators, shown in the first chapter.

Overall this period was characterized with largely IFIs led reforms, which further disembedded the market, leaving the governments without materialist legitimation mechanisms, whereas the complex multiethnic situation left it without identity legitimation mechanisms. The IFIs were quite influential from mid-nineties, until the end of this period. The government faced a difficult fiscal situation, and the IFIs help was in dire need for all of the three governments. However, it came at the cost of the conditionality of these institutions, which effectively imposed its policies on the Macedonian governments. In contrast to this the Slovenian initial government did not need such extensive IFI interference and was much more stable politically.

### **3.3.3 Neoliberalism, Nationalism and Authoritarian Tendencies**

The 2006 elections were decisively won by the reformed IMRO-DPMNU led by the relatively young Nikola Gruevski, in a coalition with the DPA, until 2008, and after that with the DUI. IMRO-DPMNU came to power with a strong neoliberal rhetoric and a promise for more markets, and less ethnic identity politics (Cekic, 2011). The emphasize of their program was on improving the investment climate, increasing FDIs, decreasing the role of the state in the economy and decreasing public expenditure, increase flexibility of the labor market, slashing 500-700 “anti-market” regulations, introduction of flat taxes, promise for more active policies for employment instead of increase of welfare provisions because “work is the best welfare” (VMRO-DPMNE, 2006).

For the first-time a government came in power in a relatively stable economic situation, as the growth was picking up, but also politically stable, with a candidate status with the EU, and expected NATO membership by 2008.

The government started with introduction of measures such as the flat tax, in hand with an increase in the prudency of tax collection which led to a total increase in state revenues

(Stambolieva, 2016), but also a decrease in the shadow economy, albeit it still remained high (Nenovski, 2012). Furthermore, building on previous efforts, the government sought to improve the environment for investment, and provided generous FDI attracting measures like tax exemptions, but also subsidies for investments, often cloaked in lack of transparent criteria (Garvanlieva Andonova et. al., 2016). Moreover, serious regulatory changes were made especially in the initial years, which is reflected in the Doing Business index ranking.<sup>28</sup> This index ranked Macedonia on the 92<sup>nd</sup> place in 2006 (Doing Business, 2007), in 2009 it became 32<sup>nd</sup> (Doing business, 2010), whereas already by 2015 it became 12<sup>th</sup> (Doing Business, 2016). In addition, improvement in competition policy is present as well, from the score of 2, it went up to 2.3 in 2007, and 2.7 in 2011.<sup>29</sup>

At the same time this government proceeded with dismantling mechanisms of decommodification such as welfare provisions and labor protection. The social security contributions were decreased, and social protection spending was reduced (Stambolieva, 2016). Healthcare spending was especially decreased to 6.6% of GDP in 2010, from previous average of around 8.5% (Stambolieva, 2016). Multiple changes to the labor code were approved as well, four changes from 2006 to 2009 were made (Savevski et al. 2010), and fifteen more changes until 2014 (Kraljevski, Lutovski and Kostovski, 2015). Most of the changes went in the direction of making the labor market more flexible (Stambolieva, 2016). Inequality also proceeded to increase in this period. Until 2003 the average Gini index was 31.2, with each year gradually increasing, after 2006 this continued reaching stability at around 36.<sup>30</sup>

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<sup>28</sup> This index measures the difficulty of doing business in terms of unfavorable regulations in the country

<sup>29</sup> Data from EBRD database on indicators for transition economies (accessed on 20.5.2018, <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecasts-macro-data-transition-indicators.html>)

<sup>30</sup> Data from Solt (2016)

While reforms proceeded in the direction of commodification, the government extensively used selective state intervention to maintain its dominance. For instance, the employment in public sector was increased from 105 000 in 2006 to 123 000 in 2012, and 129 600 in 2015 (Gocevski and Maleska Sachmaroska, 2017), researchers pointed out that these employments have been often used by the ruling parties for strengthening clientelist relations with their voters (Dehnert, 2010). Second, increased the subsidies for agriculture (Stambolieva, 2016). Also, specific measures for pensioners (Stambolieva, 2016).

Additionally, it kept legitimizing its rule by using nationalist rhetoric, culminating with the huge construction project called “Skopje 2014” aiming at a complete remake of the capital by evoking nationalism with construction of monuments of historical figures and various buildings (Vangeli, 2011).

In first part of this period Macedonia advanced towards the EU, getting the positive recommendation for initiating negotiations in 2009. At the same time although regulations were adopted with faulty implementation, which points out to the problem of limited statehood (Börzel, 2011), still the worldwide governance indicators show that especially in the indicators “government effectiveness” and “regulatory quality”, the performance of the country has improved signifying the effect of EU approximation. However, in 2008 Greece blocked Macedonian entrance in the NATO, and in 2009 blocked the positive recommendation from translating into negotiations (Vachudova and Spendzharova, 2014). Without a credible membership opportunity for Macedonia, the transformative power of the EU significantly decreased, as it would be predicted by the scholars of Europeanization.

Eventually the country especially after 2010 started to indicate an increasing authoritarian tendency. The “Nations of Transit” reports show that until 2010 the country was experiencing a steady improvement of the quality of democracy, while after this the country



continuously experienced democratic backsliding (Freedom House, 2016). Macedonia had a score of 3.79, labeled semi-consolidated democracy in 2010. While, by 2016 the country transformed to a hybrid regime with a score of 4.26 (Freedom House, 2016). This trend was altered in 2017 with the change of the government after a long political crisis (Freedom House, 2018).

The international factor that characterized the previous period, that of the IFIs, was no longer so prevalent in the post-2006 era. While at the initial point in this period the EU increased its influence, it plummeted as well after membership was no longer attainable. On the other hand, the contextual constraints such as economic and political instability were no longer so prevalent as well. Therefore, the government had a more stable situation than previous governments. This IMRO-DPMNU government, promoted an ideological mix of neoliberal economic policies with nationalist identity politics, and led a further transformation towards a more neoliberal economic setting. This “post-transition period”, an attempt for a hegemonic ideological coalition was made, with a strong renouncing of the “transition” legacy, which was negatively perceived by almost all of the citizens. However, this path was proved unsustainable, as neither the government capacities significantly improved, nor democracy was improved, on the contrary the latter noted backsliding.

### ***3.4 Comparative Perspective***

The two countries widely differ, in Slovenia the neocorporatist version of capitalism prevailed, whereas in Macedonia in the unfavorable political and economic circumstances wild capitalism prevailed, which soon started to converge to the neoliberal model. This section, by using the analytical framework of Bohle and Greskovits, will contrast their trajectories, through the challenges they faced, as well as through the key factors and actors that influenced the transformation and the final outcome.

The first key divergence is the structural factors, consisted in the economic and social legacy. Slovenia has experienced industrialization much earlier, and already before the Second World War it had certain industrial development, as opposed to the Macedonian case which was industrialized only as part of Yugoslavia. Moreover, this difference was exacerbated by the Yugoslav development strategy. Once the Yugoslavia dissolved, Slovenia was in a position to further strengthen its trade with the western countries in addition to the positive fiscal effect by cutting the contributions to the federal budget, whereas Macedonia was unable to reorient itself as its economy was fully into function of the Yugoslav system, in addition to a negative fiscal effect due to the federal contribution in the Macedonian budget. Moreover, Macedonia faced a series of exogenous crises. This is the first key factor which makes the difference in the trajectory of the two regime types.

Largely connected with this is the varied influence of the international factor, more specifically the influence of the IFIs. The Macedonian situation at the outset was characterized with huge budget deficits, due to losing Yugoslav transfers and markets, this in turn left the political elite with a choice to cut budget spending and led it straight to the doorstep of the IFIs. Therefore, the IFIs with their conditionality and advice were a decisive factor in Macedonia, and effectively led many of the reforms which represent a defining characteristic of the Macedonian capitalism. Whereas, in Slovenia, IFIs played a much less influential role, the country was stable economically, and did not need as much assistance.

Thirdly, building a viable democracy was not a challenge for Slovenia. Its strong economy, ethnically homogenous country, and cleavages that are closer to the western democracies at the time gave way to the democratic order. On the other hand, in Macedonia economic scarcity, in combination with deep ethnic, but also inter-ethnic divisions, made building democracy difficult. As for the external factors, the influence of the EU which was limited at best in Macedonia at the outset, whereas in Slovenia it gave further impetus for democratization.

Similarly, building state capacities did not pose a challenge for Slovenia, whereas Macedonia is suffering from weak capacities throughout, as well as widespread corruption.

The political elites of the two countries were obviously in a different context in the period when the initial choices were made. In Slovenia the elites could legitimate themselves easily, in the particular case they were strongly building on the socialist legacy, and initiated a gradual but decisive transformation, although an opposite ideological camp was present as well. This coalition led the country to the regime type represented on Figure 1, in the first chapter. Their initial choices strayed away from the neoliberal path. Whereas in Macedonia, legitimization was difficult, and instead of a firm pathway, the country was hesitant in implementing marketization reforms, with multiple problems in state capacity and economy, producing a wild form of capitalism as it was represented on Figure 1, in the first chapter. In this initial period, hegemonic ideas for the economic transformation did not emerge in the given circumstances, and most of the fundamental economic reforms until 2006 were completely driven from the IFIs, that is the international factor. All in all, these difficult circumstances gave way to an unstable political situation.

As already said, the marketization in both countries went relatively slow, but in Macedonia this was a result of hesitance, whereas in Slovenia it was a result of a gradual strategy. The structure of market correcting mechanisms greatly differed as well. In Slovenia the retained corporatist structures concentrated around the export led industry were keeping perils from marketization at bay, in combination with a strong welfare state. Whereas in Macedonia the corporatist structures inherited from Yugoslavia quickly dissolved, although the unions were relatively influential and could impose some protections of labor, the social partners did not find a common language. While the welfare state largely under pressure from the IFIs was dissolving, leaving the state with no mechanisms to mitigate the perilous effect from the markets. This left the political elites with hesitance and the only protection mechanisms that were used were trade

protectionism, low level of restructuring of firms, and hesitant implementation of privatization, which in turn caused double damage, on the one hand social dislocation effects from the marketization that was implemented was not mitigated, that is a manifestation of one of the Polanyian perils of capitalism, on the other hand too little marketization was endangering the economic development.

In what can be called “post-transition” period, arriving at the figure 2 in the first chapter, the divergent pathways were largely sustained. In Macedonia further erosion of the welfare state and labor protection happened, semi domestically led, semi foreign led. While in Slovenia some erosion of the neocorporatist model occurred. One commonality is that both countries had a domestic drive towards liberalization, in Slovenia this was led by the 2004 Jansa government, but also by the post 2008 governments, whereas in Macedonia it was the 2006 Gruevski government. In Slovenia this trend was in the context of a corporatist regime, with strong social partners, and strong welfare mechanisms supported by the general public. Whereas in Macedonia the context was the wild capitalism produced by weak economic circumstances, weak state, and weak market correcting mechanisms, along with the neoliberal tendencies which were initiated by the IFIs. This made Macedonia a much more fertile ground for neoliberal reforms, than Slovenia, in which many challenges were posed for the domestic neoliberals.

Another point is that Macedonia did not manage to build a fully democratic society even in the “post-transition” period. The internal political and economic situation contributed to this, but also the fact that the conditionality power of the EU, as one of the most important international factors, significantly weakened since the membership goal became virtually unreachable for Macedonia. Thus, the country underwent democratic backsliding after 2010. Additionally, the state capacities were only mildly boosted according to some indicators, but overall dysfunctionality is still prevalent.

Therefore, the initial path dependence despite the liberalization trend in the two cases, and the failure to build a stable democratic system in Macedonia sustained the divergent paths of the two countries. Although neocorporatism weakened in Slovenia, there is continuity, whereas in Macedonia although greater convergence towards neoliberal model of capitalism is undergoing, it still retains many elements of the wild form of capitalism.

## Conclusion

This study contrasts the two trajectories of capitalist transformation in Slovenia and Macedonia, and demonstrates which factors led to the outcomes in the two cases. In order to do this the study is situated in the Polanyian framework of comparative capitalism. Furthermore, it is relying on process tracing as a methodological approach.

The pattern that led to the Slovenian neocorporatism is well known, as concluded by scholars (Stanojevic 2012; Stanojevic and Crowley 2011; Bohle and Greskovits 2012). Key factors include an export-oriented industry, strong unions that factorized themselves in the initial period, also social partners with converged interests represented by centralized organizations, then relative continuation of the elites in order to retain the networks of the previous system. This was further underpinned by the strong state capacities, high quality of democracy, stable welfare state, and good economic circumstances, as Krašovec and Johannsen conclude (2017) neocorporatism thrives more in economically better situations. The possibility to resist IFI influence, which otherwise were critical of many of the aspects of the Slovenian system is worth mentioning as well. From the point of view of politics, a ruling elite which had a strong hegemonic position for a longer period and was strongly relying on the assets of the former socialist system was crucial.

Although the system is still surviving, it shows significant weakening after worsened economic circumstances (post-2008), decreased competitiveness (post-EMU), change of political elites (post-2004), and less representative and less willing social partners.

In Macedonia although there was a certain legacy of corporatism from Yugoslavia, continuation of elites and retaining of some of the networks from the former system, initial ad-hoc cooperation in tripartite arrangements, as well as organizations of employers and employees that were centralized and with relatively large density, corporatism did not emerge.

The weak state capacities could not institutionalize and even less sustain corporatist arrangements. In addition to that, the economic circumstances present in Slovenia such as export-led industry sector and thriving economy, were completely absent from Macedonia. Moreover, some of the corporatist institutions such as the second chamber were dissolved early on. Finally, the IFI dependence would hardly allow the political trade-offs required for sustaining corporatism as in Slovenia.

The contextual constraints, manifested in the adverse economic circumstances, as well as the continuous crises in which the country found itself, was hardly a good opportunity for the political entrepreneurs. Therefore, no hegemonic ideological coalition emerged as in Slovenia. This very same circumstances in combination with the weakened welfare state contributed to the elite's choice to pursue a hesitant approach to marketization as well. The weak economic situation led the country to the dependency on IFIs, which as an international factor were leading the economic reforms for a large period of time in a neoliberal direction, dismantling decommodification mechanisms. Thereafter the inability of the society, in combination with a lack of international incentives to build a sustainable democracy, as well as a capable state, were also crucial. Overall this configuration of factors made the wild capitalism in Macedonia described in the first chapter. Since 2006, the neoliberal turn was further exacerbated by domestic actors and their choices as well. Macedonia closely follows the pattern of Romania and Bulgaria as suggested by Bohle and Greskovits (2012), that is out of the chaotic transformation, a neoliberal regime seems to emerge. In this case the neoliberal regime is the result of both international influence through the IFIs and domestically led neoliberalism. However, the problems with the weak state and fragile democracy are still not completely addressed, leaving the country still in the wild capitalism.

Furthermore, Bohle and Greskovits point out to trade-offs between welfare, identity, democracy, and the market. These patterns of transformation have also been confirmed in this

study. In the Macedonian case, clearly in the nineties, absence of welfare mechanisms, as well as identity legitimization mechanism was in parallel with staggering marketization, as the government had no way of legitimizing the transformation, which as a rule produced social dislocation. Whereas later on, after 2006, the firmer marketization efforts were implemented in combination with curtailing welfare, but it was also paralleled with democratic backsliding, and in combination with selective compensatory mechanisms and identity politics. This largely supports the conclusion that building marketization, while having a democratic order, albeit flawed in the Macedonian case, without compensations is difficult to sustain.

Finally, Macedonia shares many similarities with the rest of the western Balkan countries. Both economically and politically. Therefore, the illuminated pattern of development as well as configuration of factors at play in the Macedonian case can be expected to have had a similar effect in these countries as well. Further studies may test this expectation.



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