The transition from limited access orders to open access orders in the post-communist Europe

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ABSTRACT

This paper attempts to explain the process of institutional transition of post-communist countries applying conceptual framework proposed by D.C. North, J. J. Wallis, and B. R. Weingast. The first part of the article is devoted to outline the theory of North, Weingast, and Wallis. The second part the theory is used to analyze transformation processes in post-communist countries. An important conclusion of this paper is that cultural, religious and historical factors have crucial impact on formation of new coalitions of elites in the transitions countries. In the countries where Western values were present the transfer of the market and democratic formal institutions was easier. Also, the process of transformation was strongly influenced by external factors, especially the prospect of integration with the European Union, which encouraged elites to take action that benefited the opening of both political and economic markets. These observations suggest that, in general, the success of transformation in transition countries did not depend on the intentional actions of ruling elites.

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1. Introduction

Twenty five years after the fall of communism in Europe, we can observe that the implemented market and democratic reforms have not brought the expected effect in every post-communist state. In countries such as Poland, the Czech Republic, Slovakia, and the Baltic states, it has been possible to create the foundations of a liberal democracy and market economy, ensuring fairly stable and continuous economic development. The situation is completely different in the post-Soviet states, except the Baltics, in which the period of economic collapse was significantly longer, and the current economic development is transitory and mostly depends on the prices of natural resources such as natural gas and oil. Although democracy is the official system in most of these countries, in reality they are autocratic states where political freedom is still restricted. The war in Ukraine is the most dangerous sign of the instability of the political situation in the post-Soviet states and proves how complicated and unpredictable the process of transforming a political system could be.

The analysis of the transformation of post-communist states into market economies has been dominated by a dispute over the speed and scope of the implemented reforms. On the one hand, evidence has been provided that quick reforms involving broad deregulation and liberalization of the economy were necessary in post-communist countries (Balcerowicz, 1995; Sachs, 1993; Woo, 1994). On the other hand, some argue that gradual reforms involving a broad intervention of the state would have been more effective because they would have reduced negative social effects, ensuring a quicker economic upturn and
development (Koordok, 2009, 2000; McMillan and Naughton, 1992; Portes, 1991; Roland, 1990). Therefore, as in the majority of economic debates, the proponents of the market clashed with the proponents of state intervention. However, both parties of the dispute usually made the same mistake: they underestimated or did not fully understand the essence and complexity of the institutional aspects of economic development.

Currently, most economists agree that institutions are of key importance to economic development. There are many empirical studies that confirm the influence of the institutional system on economic growth (Acemoglu et al., 2001; Hall and Jones, 1999; Rodrik et al., 2002). There are also numerous case studies and comparative analyses indicating that the development of a fairly effective system of institutions is crucial for socio-economic development (North, 1990, 2005; Shirley, 2008; Greif, 2006). The subject literature contains analyses confirming how important institutional factors were in the transformation process of post-communist countries (Colombatto and Macey, 1997; Godlow-Legiedz, 2005; Kyriazis and Zouboulakis, 2005; Lissowska, 2004; Ovin, 2001; Piatkowski, 2018; Pejovich, 1997, 2003; Winiecki, 2004; Wojtyna, 2002; Zhang, 1993). Recently, D. C. North, J. Wallis, and B. Weingast (North et al., 2009) have developed an interesting new tool for analysing the process of institutional changes. This conceptual framework seems to be a powerful device for development politics and for political-economic analysis (North et al., 2013a; Legiedz, 2019; Young, 2018). The aim of this article is to apply this theory to investigate the process of socio-economic transformation of post-communist countries and examine if it helps to better understand why some transition economies succeed and other not. The first part of the article will outline the model of North, Wallis, and Weingast; the model will then be used in the second part of the article to analyse transformation processes in post-communist countries.

2. Violence and social order

Considerations about how societies cope with the issue of violence constitute the starting point of the concept developed by North, Wallis, and Weingast — in future referred as NWW (2009). In developing countries, individuals and organizations use violence or threaten to use it to acquire wealth and resources. However, reducing violence is the main condition that is needed for economic growth and development to occur. To solve the issue of violence, societies establish various forms of social order.

2.1. Types of social orders

According to NWW (2009, p. 2) three main types of social order can be distinguished. The hunter-gatherer society is a type of human society that dominated the Earth at the beginning of human history.

The next type of social order is the limited access order (LAO). In a LAO, the issue of violence is solved by creating economic rent. This order is a source of privileges for powerful individuals and organizations, and the privileges, for example, a monopoly on a given market, are a source of economic rent. Individuals and organizations may fight for privileges and, thus, for access to rent by using violence. However, the elites in a LAO, that is, the members of the dominant coalition in a given society, agree to mutually respect their privileges. This is because obtaining privileges and rent provides incentives for cooperation. Members of the dominant coalition are specialists from different fields: military men, politicians, clergymen, and businessmen. They are aware that violence may reduce rent, and they know that other members of the dominant coalition are also aware of it; this is why they decide to abstain from violence. Therefore, the LAO is based on a balance between the most powerful organizations. As long as individual members of the dominant coalition receive higher rents while abstaining from violence, the order will persist. Disturbing the balance may cause a given society to plunge into chaos and violence (North et al., 2009, p. 18; Weingast, 2011, p. 30). However, the paradox in the logic of how a LAO functions should be taken into account. On one hand, by reducing access to resources, elites secure rent for themselves and thus reduce violence and create conditions for economic growth. On the other hand, a lack of competition leads to an ineffective allocation of resources and prevents stable long-term growth. The Limited Access Orders are not static. It is highly prone to crises if, due to competition over rent, violence escalates temporarily. This is why countries with this social order usually experience periods of relatively high economic growth, as well as rapid and long-lasting crises. This ambiguous role of rent explains why the quality of life of all citizens in these countries does not improve in the long term (North et al., 2013a, p. 8). NWW refer to the LAO as the natural state because throughout almost the whole human history (and even in modern times), this has been the most common and “natural” type of social order within which humans have functioned (Weingast, 2011, p. 30).

The last type of social order, that is, the Open Access Order (OAO), is a relatively new social creation that a few societies managed to develop at the beginning of the 19th century. The basis of economic and political regulation in OAO states is competition and free access to economic and political markets. New organizations can be created freely, and individual members of the societies have the possibility to acquire economic rent. Personal relations of the market participants are less important because the existing laws are universal and apply to everyone equally. In OAOs, the state has the monopoly on using violence. A society can freely establish organizations, and in this way control the government and reduce excessive violence (North et al., 2013a, pp. 22–23).
2.2. The transition from limited to open access order

NWW (2009, p. XII) estimate that currently around 25 countries and 15% of the world’s population live in an OAO. The remaining 85% of the population live in an LAO. Among them are very poor countries (for example, the Democratic Republic of the Congo), as well as relatively rich countries which are close to developing an OAO, for example, Chile. Not only is there a huge disproportion in per capita income between these countries, but they also have very different institutional systems. Therefore, an obvious conclusion is that the limited access order takes many forms. NWW (North et al., 2009, p. 21) distinguish three basic types of LAOs: fragile, basic, and mature. Although the consecutive types of LAOs distinguished by NWW show the evolution of an institutional system, it should be stressed that history has seen many examples of regression occurring in a given society such as when a mature LAO transforms back into a basic LAO. The causes lie in the fact that a LAO is highly prone to external and internal shocks, which influence the value of rent, and thus the power balance, within a dominant coalition. However, in favourable circumstances, the evolution of the institutional system causes rent to increase. Consequently, the elites view such processes to be positive and refrain from using violence. The consecutive stages of the development of LAOs are considered by NWW to be a crucial element of the evolution of the institutional system towards economic development. Under the aegis of the state, organizations of elites will successfully create conditions for their own cooperation; they will be able to acquire a higher profit from existing resources.

According to NWW, there is a balance between the distribution and organization of potential violence and political power on one side and the distribution and organization of economic power on the other side. NWW (2009, p. 20) call this a double balance, because, in order for a society to remain stable, there has to be a balance in profits obtained by the elites, and political, economic, cultural, social, and military systems also have to contain compatible systems of stimuli regulating their functioning. The theory of the double balance suggests that economic and political systems usually function according to the same logic, either it is LAO or OAO. Therefore, a fundamental transformation in the functioning of an economy cannot occur without significant changes in the political system. Similarly, political systems cannot evolve without changes in the economic sphere (North et al., 2006, p. 20).

If a given society is able to develop a fragile LAO and then evolves toward the next, more advanced stages of the order, this is a sign of economic development. The process of the evolution of an LAO and its subsequent transformation into an OAO is extremely important for understanding many of the current issues of economic development. The shape of social order is influenced by the method a society uses to create organizational institutions, particularly by the method of restricting and allowing the access of individuals to these organizations. The methods used by societies to reduce violence and control organizations vary. Consequently, people behave differently depending on the social order they function in. Violence, organizations, institutions, rent, and beliefs are the main elements of NWW’s theory (2009, p. 2). For a state to join the group of the richest countries, and for economic development to be stable, an LAO has to transform into an OAO.

NWW (North et al., 2009, p. 26) distinguish three doorstep conditions for this process to begin: (1) Rule of law for elites. (2) Perpetually lived forms of public and private elite organizations, including the state itself. (3) Consolidated political control of the military. The transition begins in the LAO and must therefore be consistent with LAO logic. The rule of law for elites means that laws are defined and courts exist in order to enforce the rules. Perpetually lived organizations are a source of even higher rent, which is given to an even higher number of individuals, and thus becomes the source of power decentralization. On the other hand, control over violence drastically reduces the risk that circumstances occur in which violence is used. The three conditions occur simultaneously to create an opportunity for impersonal relationships to develop between elites and for privileges to be extended to all members of society. The logic of an OAO is completely different than that of an LAO, because, once a given society successfully goes through the transformation, the risk of a drastic inhibition to development is very slight. As NWW stress, there is no country in history that has experienced regression from an OAO to a LAO.1

3. Limited access order in communist states

Economic and political reforms in transition countries took place in LAO conditions. Single-party political systems in communist countries are viewed as examples of a basic LAOs (North et al., 2013b, p. 12). As Richard Connolly (2013, p. 28) pointed out, unlike most contemporary examples of limited-access orders, the economy of the communist state was to all intents and purposes dominated by the party state with almost all independent private economic organizations suppressed. Some, however, consider the development of communist countries to be more advanced. A. Yakovlev (2012), giving the USSR as an example, writes that many features of the communist system had the hallmarks of a mature LAO, and he even claims that the conditions necessary for transformation into OAO were present. Therefore, the transition to OAO supposedly could have taken place within the functioning of the communist system. According to Yakovlev (2012, p. 212), the main reason for the dissolution of the USSR and the unsuccessful transformation of the society into an OAO within the functioning of centrally planned economy was the erosion of socialist ideals, first among the elites, and then among the rest of the society. This opinion is based on the false belief that the central planning system could have functioned effectively if the majority of society had believed in communism. In reality, the main reason for the downfall of the communist countries was the

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1 However A. Reckendrees (2015) argues that The Weimar Republic could be an example of the OAO that regressed to the LAO.
institutional inefficiency of a centrally planned economy resulting from causes that were the subject of a socialist calculation debate (Balcerowicz, 1995, p. 35).

3.1. The role of a communist ideology

Although Yakovlev’s statement is naive, the role of ideology in shaping a communist society should certainly be considered when analysing transition countries. The new institutional economy stresses that institutions should include norms and beliefs reflecting cognitive models and knowledge that humans have gained during the historical process of interpersonal interaction, socialization, learning, and experimentation (Aoki, 2007; Greif, 2006; Kyriazis and Zouboulakis, 2005, pp. 111–113). North et al (2007, p. 27) also hold the opinion that beliefs and ideology have an important role in shaping social order.

Ideology played a crucial role in the way that communist countries functioned because ideology was the main influencing factor on the shape of the dominant coalition. The Bolsheviks came to power in Russia propagating a program to end social exploitation, advocating social equality and justice and creating a classless society based on social ownership of the means of production and fair distribution of goods. According to Marx and Engels’ concept, the transition to communism was to take place through revolution and a dictatorship of the proletariat. Through the communist revolution, social classes that were previously abused by the bourgeoisie were to enjoy a greater freedom and have a chance to improve their life. Because the resistance of the bourgeoisie was unavoidable, this transformation was to be carried out through violence and terror aimed at those who opposed the communist ideology. This is why the communist regime created an advanced apparatus of oppression and propaganda with the main aim of ensuring ideological purity. The communist ideals were implemented by completely transforming the economic system, that is, nationalizing property and establishing a central planning system. Initially, the establishment of the communist system enabled social advancement for a huge part of society and provided easier access to education and health care, thus increasing economic potential.

The central planning system proved to be effective in some areas, for example, during the war and during the post-war rebuilding period. Because of the allocation of resources in the fields that were crucial to the regime, the communist bloc was able to compete with the West in their armed forces, space conquest, and other areas for decades. However, an increase in the production of the heavy industry sector, which the communists traditionally considered to be the most important element of the economy, was achieved at the cost of the quality of life of ordinary citizens. The central planning system was not able to ensure the same living standards and consumption level as market economies in capitalist countries. Over the subsequent decades, it became progressively clearer that the system of a centrally planned economy is, in practice, ineffective and propaganda with the main aim of ensuring ideological purity. The communist ideals were implemented by completely transforming the economic system, that is, nationalizing property and establishing a central planning system. Initially, the establishment of the communist system enabled social advancement for a huge part of society and provided easier access to education and health care, thus increasing economic potential.

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3.2. The fall of communism

Therefore, a direct result of the communist ideology was the establishment of a centrally planned economy. The ineffectiveness of this economy caused the rivalry over economic rent to become a constant- or minus-sum game. In these circumstances, there was a continuous conflict between organizations (formal and informal) existing on different levels of central planning (Kornai, 1980). When rents decrease, transformation into an OAO is impossible. In fact, to maintain their position, elites create even stronger barriers blocking free access to political and economic markets.

In the case of communist countries, through the evolution of the socio-economic system, all communist states developed the nomenklatura, that is, the class of party officials who are privileged at the expense of the rest of society. Such a social division was entirely at odds with the communist ideology; therefore, the erosion of socialist beliefs was unavoidable. Consequently, the individual called homo sovieticus was created as a result of the communist ideology (Zinoviev, 1985; Tverdohleb, 2012). Due to the inefficient economic system, the communist bloc was no longer able to compete with the West militarily. Additionally, natural resources such as oil and natural gas, the prices of which were at a record low on international markets in the 1980s, were a significant source of economic rent in the USSR. In addition to the growing costs of the war in Afghanistan (December 1979–February 1989), the rent was not enough to even maintain the composition of the dominant coalition in its previous form. Economic and political reforms, advocated by more liberal fractions of the communist party, were essential for the elites to survive.

This is how Gorbachev, who initiated the policy of glasnost (openness) and perestroika (restructuring), came to power in the USSR. These reforms were not enough to significantly change the logic of the central planning system and thus increase its efficiency; however, part of the nomenklatura considered these policies to be the final approval for activities completely at

\[2\] The New Economic Policy in Russia and the changes implemented in economic policy in China after the Great Leap Forward may be an example.
odds with the previous ideology. This resulted in the enfranchisement of part of the former elites in the communist countries, and consequently, in the consolidation of a new dominant coalition, unrestricted by the ideology of communism.

4. Formation of the dominant coalition in post-communist states

It appears that the conditions and the manner in which the new elites and the dominant coalition emerged were the key factors that influenced the efficiency of the reforms, and, consequently, the later economic growth and development and the process of democratization.

Generally, there were two paths of development. In some communist states, the new dominant coalition mostly comprised members of former elites. Post-communists kept their political power and acquired the dominant position in the newly created market economy mostly by taking over state enterprises and privileged positions in new private enterprises. Such a situation favoured the development of autocratic and oligarchic regimes and took place in such countries as Russia, Ukraine, and Belarus. The reforms were significantly more successful in countries where the dominant coalition comprised not only the previous elites, but also the members of other circles, especially of the democratic opposition. In these countries, the post-communists also took part in new power structures. Simultaneously, however, the political and economic markets were opening, which ensured a long-lasting balance between political powers and decreased the scope of abuses that were occurring during economic transformation. The impact of the political competition on transition process in the post-communist countries has been the subject of many studies focused on patterns of state-building (Grzymala-Busse, Haughton, 2008; O’Dwyer, 2006).

4.1. The role of culture, religious, and historical circumstances

Undoubtedly, whether the opening of new political and economic markets took place or not, depended on cultural, religious, and historical circumstances. These factors had an influence on the attitudes and behaviour of authorities, both during the period of communism and afterwards, during the transformation.

Generally, apart from Russia, communism in Europe was forced upon individual countries from the outside, usually against the will of the vast majority of society. It can be assumed that in all likelihood had Poles, Czechs, Slovaks, and Hungarians been left to themselves after World War II, they would have developed a form of government that over a few consecutive decades would have evolved into an OAO, just as West European countries had. 4 If not for the intervention of the USSR in the majority of the countries in Central and Eastern Europe, communist governments would not have been created. Davies (2001, p. 2) writes that in Poland, at that time, the number of communists was not high enough to run a factory, let alone to rule a nation of almost 30 million people. The situation was similar in other countries in the region. Kornai (2006, p. 215) is of the opinion that communist rule threw the countries of Central and Eastern Europe off a path of development that was similar to the one adopted by the West. 5 Up until the 1980s, that is, until Gorbachev’s rise to power in the USSR, the political system in the satellite states was under strict control of the Kremlin, and the governments of these countries could not make any important decisions without the approval of the Soviet leaders.

Limited sovereignty and externally enforced communism caused social objection and led to the establishment of the opposition. However, the extent of this objection was different in each communist state and in each Soviet republic. This divergence may stem precisely from cultural, religious, and historical differences. Researchers point out that, in this respect, the post-communist states of Central and Eastern Europe are fairly clearly divided into two groups (Huntington, 1993; Panther, 1997; Pejovich, 2003; Wallace and Haerpfer, 1998; Winiecki, 2004). The first group includes Poland, the Czech Republic, Slovakia, Hungary, Croatia, Slovenia, and the Baltic states. There the dominant religions are Catholicism and Protestantism; these countries constitute a part of Western civilization. The second group comprises Russia, Ukraine, Belarus, Bulgaria, Romania, Serbia, and Montenegro, that is, countries belonging to the Orthodox civilization where most people follow Orthodox Christianity.

Cultural and religious factors influence the shape of informal institutions which can cooperate with formal institutions to a different extent. Zweynert and Goldschmidt (2005, p. 21) are of the opinion that formal institutions that were created and enforced by communists shared a good portion of their interests with the informal institutions of Orthodox countries. On the other hand, in states that considered themselves to be a part of the West, the existing informal institutions were not compatible with Soviet institutions. This incompatibility between formal and informal institutions affected the behaviour of society and often caused people to protest against the communist rule. This forced a change in the behaviour of the elites, which was becoming progressively more visible as individual satellite states gained independence in conducting their internal policies. In the case of transformation, the issue of the incompatibility of formal and informal institutions is brought up in the context of difficulties with ‘transplanting’ formal institutions of the market economy from the West. Because informal

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4 In fact, it is very difficult to predict, what would have happened if communism were not imposed on the countries of Central and Eastern Europe. For example, M. Piatkowski (2018, p.106–107) argues that, in case of Poland, communism helped destroy the old social structures of an extractive society that would otherwise not have fallen. According to Piatkowski (2018 p.107): “Communism boosted social mobility, promoted egalitarianism, and secured good quality of education for all. These elements proved indispensable in 1989 and helped Poland succeed”.

5 To be more precise, he means the post-communist countries that joined the EU in 2004 (Kornai, 2006).
institutions in transition countries were significantly different from those in wealthier countries, the result of the reforms was different from expected (Gruszewska, 2012; Winiecki, 2004). However, the cultural background caused occidentalization in Poland and other transition countries connected to Western civilization to progress more quickly than in Russia and other countries of the Orthodox civilization (Klimczak and Klimczak, 2009; Zweynert and Goldschmidt, 2005). These cultural differences clearly affected the actions of the elites. In countries culturally close to the West, the democratic opposition was stronger; therefore, it became an important player during the consolidation of the new dominant coalition. In the countries of Orthodox civilization, post-communist parties were not under so much pressure to undergo reforms because the opposition was much weaker; therefore, the political system remained closed.

4.2. The integration with the West

The process of forming the new dominant coalition was also significantly influenced by external factors, such as the prospect of integration with the West. Some post-communist countries received an opportunity for political and economic integration with Western countries. Due to social expectations, the authorities of these countries fairly explicitly strived to join NATO and the European Union. For many post-communist parties, manifesting support for European integration became both a means to demonstrate that they had completely broken with the past and a chance to receive greater social support in elections (Kubicek, 2005; Marks et al., 2006, p. 168; Pienkos, 2003).

However, from the perspective of NWW's theory, integration with the European Union and NATO became a source of potentially high economic rent for the elites of post-communist countries. This is why integration with the EU and accession to NATO were among the main goals of newly established governments, regardless of whether these authorities were post-communist or originated from the opposition. The influence of external factors on the evolution of institutional systems is clearly visible especially in the case of Bulgaria and Romania. These countries received a chance to integrate with the West, which positively affected the behaviour of the elites despite a weak opposition in the days of communism. This caused political markets to open. This process, however, took much longer because it was not until the second half of the 1990s that significant reforms occurred in these countries (Vachudova and Hooghe, 2009, p. 199). The process of integration with the European Union forced the authorities of these transition states to conduct institutional changes which ensured a greater openness of political and economic markets. According to Raasto Ovin (2001, p. 143), Dean of the Business School in Slovenia, the European integration processes serve as an anchor helping the domestic government in introducing the institutions of the market economy. Roland (2002, p. 30) notes that in the case of the rest of the communist countries, such positive stimuli did not exist.

However, in the same countries, the external factors had a significant influence on the process of transformation. The vast majority of the economies of post-communist states plunged into crisis due to the collapse of central planning, which resulted in these countries racking up an enormous amount of debt. The situation required help from the outside, and it was granted, mainly by the International Monetary Fund. The IMF, however, imposed conditions on the help, mostly requiring the implementation of numerous structural reforms, generally aiming for liberalization, deregulation, and privatization. This meant establishing formal institutions modelled on those in capitalist states. From the perspective of NWW's concept, this meant creating institutions characteristic for an OAO under the LAO that was still in force. According to NWW's double balance theory, the economic results of such actions depended on the degree of parallelism between reforms opening the access to economic and political markets. For this reason, in transition states that were undergoing significant political transformations involving the opposition being part of government, the results of economic reforms were much better than in countries in which the political scene changed only slightly.

4.3. Post-communist countries: an open access order?

In former communist states, the new dominant coalition comprised post-communists and members of the opposition. In states where the opposition played a marginal role, political competition did not really exist. The political systems remained closed. Therefore, in practice, the downfall of the central planning system and communist regime only meant the transformation of the former social order into a new and sometimes equally repressive form of LAO. Because political markets continued to be closed, economic reforms did not improve the economic situation of the population. Instead, the new/old elites kept acquiring enormous wealth, and the gap between the richest and poorest members of society began to increase drastically.

On the other hand, in countries where the members of the opposition constituted a significant share of the new coalition, the political system began to open. In such conditions, there was a greater chance for political reforms to succeed and the economic system to be successfully opened. The expansion of political and economic freedom meant that political and economic markets became accessible to a greater part of society. Consequently, in these states, the end of communism meant not only the development of a mature LAO, but also the fulfilment of the doorstep conditions enabling the transformation into an OAO. A smaller number of members of the communist regime in the new dominant coalition meant greater chances for successful economic reform and democratization. However, the total elimination of communist elites from the governments of communist states could have had an equally negative result. Former elites are unlikely to allow or encourage change. Thus, the economic and political systems would not open at all. Therefore, it seems that the enfranchisement of the nomenklatura, which occurred in all transition states, was an unavoidable price that society had to pay in order to transform into an OAO.
Information listed in Table 1 may help to define the type of social order existing now in post-communist states. Due to weakness of the NWW’s conceptual framework, it is hard to define when the transition to OAO is completed. NWW (North et al., 2009, pp. 22–24) characterize an OAO by necessary condition but, in practice, the boundary between the mature LAO and OAO is fuzzy and seems to change over time. For example, according to NWW (2009, p. 213) the three major economies of the USA, the UK, and France completed the transition from LAO to OAO in the nineteenth century. However the shape of OAO of societies in these countries has evolved since then significantly. Moreover, the political and economic systems of nineteenth century USA, UK, and France definitely were not more open than present societies of Poland, Czech Republic or Slovakia. Nevertheless, none of post-communist states are considered by NWW as Open Access Orders (Weingast, 2011, p. 33).

We can assume that transformation to OAO began in countries that managed to join the European Union. The process of transition to OAO is advanced in Poland, Czech Republic, Slovakia, Hungary and Baltic States. Romania and Bulgaria are examples of states where transition has just begun recently. However, in the case of Hungary, where the controversial constitutional changes has taken place a few years ago, we can risk the statement that the process has stopped or even reversed. Recently Poland has had similar problems with a rule of law as the reforms implemented by the new ruling party lead to the constitutional crisis. Poland’s transition to the market economy is generally regarded as one of the most successful transitions of all post-communist that is why the recent situation is a big surprise to many scholars. It turns out that although the degree of openness of political and economic system in the post-communist countries that joined the EU is much higher than in the days of communism it is still possible that parties that openly undermine democracy and the rule of law could come to power. However, the civil society seems to remain quite strong in Poland as massive protests against unconstitutional reforms of new ruling party are constantly held. Nevertheless, the case of Poland, as well as that of Hungary, needs a deeper analysis.

The situation is much more complicated in Russia, Belarus and Ukraine. It is hard to imagine that the transition to the OAO in these states will start soon. It should be stressed that although thanks to the conceptual framework of NWW we can better understand the process of institutional change in post-communist countries, it is still hard to develop some guidelines for policy that could help support the transition to the OAO. The European Union had encouraged democratic and economic

### Table 1
Types of social orders in selected post-communist countries.

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<tbody>
<tr>
<td>Belarus</td>
<td>8523 16742 3,13</td>
<td>Not Free</td>
<td>57,9</td>
<td>CIS, EAEU</td>
<td>basic/mature LAO</td>
<td>process of transition to OAO began advanced process of transition to OAO</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10327 17709 7,03</td>
<td>Free</td>
<td>69</td>
<td>NATO 2004, EU 2007</td>
<td>advanced process of transition to OAO</td>
<td>process of transition to OAO</td>
</tr>
<tr>
<td>Czech Rep. Estonia</td>
<td>20560 31072 7,69</td>
<td>Free</td>
<td>73,7</td>
<td>NATO 1999, EU 2004</td>
<td>advanced process of transition to OAO</td>
<td>process of transition to OAO</td>
</tr>
<tr>
<td>Hungary</td>
<td>18253 25381 6,63</td>
<td>Partly Free</td>
<td>65</td>
<td>NATO 1999, EU 2004</td>
<td>advanced process of transition to OAO</td>
<td>process of transition to OAO</td>
</tr>
<tr>
<td>Latvia</td>
<td>14751 23712 7,38</td>
<td>Free</td>
<td>70,4</td>
<td>NATO 2004, EU 2004</td>
<td>advanced process of transition to OAO</td>
<td>process of transition to OAO</td>
</tr>
<tr>
<td>Lithuania</td>
<td>16266 27904 7,50</td>
<td>Free</td>
<td>74,2</td>
<td>NATO 2004, EU 2004</td>
<td>advanced process of transition to OAO</td>
<td>basic/mature LAO</td>
</tr>
<tr>
<td>Moldova</td>
<td>6666 4944 5,85</td>
<td>Partly Free</td>
<td>59,1</td>
<td>CIS, EU Association Agreement</td>
<td>basic/mature LAO</td>
<td>process of transition to OAO</td>
</tr>
<tr>
<td>Poland</td>
<td>11418 26003 6,77</td>
<td>Free</td>
<td>67,8</td>
<td>NATO 1999, EU 2004</td>
<td>advanced process of transition to OAO</td>
<td>advanced process of transition to OAO</td>
</tr>
<tr>
<td>Romania</td>
<td>12906 21648 6,38</td>
<td>Free</td>
<td>68,6</td>
<td>NATO 2004, EU 2007</td>
<td>advanced process of transition to OAO</td>
<td>advanced process of transition to OAO</td>
</tr>
<tr>
<td>Russia</td>
<td>21215 24026 2,94</td>
<td>Not Free</td>
<td>58,9</td>
<td>CIS, EAEU</td>
<td>basic/mature LAO</td>
<td>advanced process of transition to OAO</td>
</tr>
<tr>
<td>Slovakia</td>
<td>15146 29156 7,10</td>
<td>Free</td>
<td>65</td>
<td>NATO 2004, EU 2004</td>
<td>basic/mature LAO</td>
<td>advanced process of transition to OAO</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10746 7668 5,69</td>
<td>Partly Free</td>
<td>52,3</td>
<td>‘Associate Member’ of CIS 1993–2018, EU Association Agreement</td>
<td>basic/mature LAO</td>
<td>(East Ukraine - fragile LAO)</td>
</tr>
</tbody>
</table>

Notes: CIS - Commonwealth of Independent States; EAEU - Eurasian Economic Union; NATO - North Atlantic Treaty Organization; European Union - EU. Sources: Economist (2019); Freedom House (2019); Miller et al. (2019); http://www.gapminder.org/data/.
development in a number of post-communist states but recent events in Ukraine demonstrates that such policy could not be successful in certain circumstances. In this case, the contradictory interests of the two dominant groups of Ukrainian elites have led to conflicts and outbreak of violence.

5. Conclusions

The new model created by North, Wallis, and Weinagast is an interesting tool for researching institutional transformations, including the process of transformation in post-communist states. An analysis of social and economic changes that took place in transition countries reveals a few significant conclusions.

First, internal factors, that is, cultural, religious, and historical conditions, had a crucial influence on the effect of reforms. They were of significant importance for the behaviour of elites and the formation of the opposition and, consequently, for the opening of political markets. A greater openness of the political system enabled the liberalization of economic markets, which improved the efficiency of newly established economic institutions. This is why Poland and other transition states culturally close to the West experienced a smaller economic crisis due to the downfall of the centrally planned economy and entered the path to growth and economic development fairly quickly. These countries fulfilled the conditions that enabled them to transform from an LAO into an OAO, although it is still too risky to claim that the final transformation has been completed. The situation was completely different in the states belonging to the so-called Orthodox civilization with its deeply root values and where the communist regime was much more repressive, the opposition much weaker, and where, even with the downfall of communism, the political system remained closed. This is why economic reforms, instead of making the economy more open, led to the development of an oligarchic system in which a few people held the majority of political and economic power. This system is unstable and may cause violence to escalate, as is the case today in Ukraine. As it turns out, these countries are not ready for Western institutions because their societies function on a completely different basis.

Second, the process of transformation was strongly influenced by external factors, especially the prospect of integration with the European Union, which encouraged elites to take action that benefited the opening of both political and economic markets. This is why it was possible for Bulgaria and Romania to enter an effective development path, although the level of development of their economic and political markets is still lower than in other transition countries that have joined the EU.

However, external factors also had a negative influence on the political and economic systems of transition countries. Under the influence of international organizations such as the IMF, reforms were carried out that some transition countries were not ready for. The current events in Ukraine may also be considered a result of outside interference.

These observations suggest that, in general, the success of transformations in transition countries did not depend on the intentional actions of ruling elites. The downfall of central planning and the liberation of societies in Central and Eastern Europe from communist rule allowed some countries to get back on the path of development that the developed countries of Europe followed earlier due to more favourable external and internal factors. Because a favourable set of circumstances did not occur in all transition countries, the evolution to an OAO did not happen everywhere. Further conclusions require a deeper analysis of transformations in individual countries, and NWW’s model is a useful tool for conducting such an analysis.

References


5 A wave of demonstration and civil unrest started in Ukraine in November 2013. The protests were caused by the Ukrainian government’s decision to suspend the signing of an association agreement with the European Union, instead choosing closer ties to Russia. The consequence of the protests was the change of government in Ukraine and the outbreak of war between Russia and Ukraine.
Woo, W., 1994. The art of reforming centrally planned economies: comparing China, Poland, and Russia. J. Comp. Econ. 18, 276–308.