THE PROCESSES OF ECONOMIC CONSOLIDATION IN COUNTRIES OF FORMER YUGOSLAVIA

Simona KUKOVIČ and Miro HAČEK[1]

Before we can even discuss democratic consolidation, at least three minimal conditions must be fulfilled. Besides, those consolidated democracies should also fulfil several other conditions[2] that have not attracted such attention of scientific analyses, as have the three minimum conditions, among which Linz and Stepan specifically stress the importance of economic consolidation.[3] This article analyses the processes of democratic consolidation in the former Yugoslav republics. It is clearly evident from various democratic consolidation measurements that most former Yugoslav republics have not yet reached the level of consolidated democracies; authors test the thesis that one of the reasons for that is also the unsuccessful economic consolidation.

Key words: democracy, economy, consolidation, former Yugoslavia, Slovenia.

1 DEMOCRATIC CONSOLIDATION IN COUNTRIES OF FORMER YUGOSLAVIA

Before we can even discuss democratic consolidation, at least three minimal conditions must be fulfilled. The first is the existence of a state because otherwise there can be no free elections or human rights. The second condition is that no democracy can be consolidated before the process of democratic transition has ended. A necessary but not also a sufficient prerequisite to finish the democratic transition is free, general and democratic elections. In many cases of free, general and democratic elections it became obvious that governments *de facto* lacked real decision-making power, which in spite of the institute of democratic elections

[1] Simona Kukovič is research assistant at the Faculty of Social Sciences, University of Ljubljana. Miro Haček is associate professor at the Faculty of Social Sciences, University of Ljubljana.

[2] Linz and Stepan speak of five additional conditions for achieving a consolidated democracy, as follows: economic consolidation, the rule of law, the existence of an organised civil society, an efficient state bureaucracy and a relative autonomy of political society. See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 14–18.

[3] Linz and Stepan also use the term economic society when speaking of consolidating the economic sphere. See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 15–16.

remained in the hands of the former rulers or other powers. The third condition of democratic consolidation is therefore the necessity of democratic rule. If democratically elected authorities violate the constitution, restrict human rights, interfere with the work of other independent authorities and do not govern within the limits of the rule of law, then we cannot talk of a democratic regime. It may be concluded that only democracies can be consolidated democracies.[4] If we are to talk about a consolidated democracy, then we must also fulfil other conditions than those mentioned above. Linz and Stepan list five more interlinked prerequisites: economic consolidation, the rule of law, the existence of an organised civil society, an efficient state bureaucracy and the relative autonomy of political society.[5]

We can measure the success of democratic transition and democratic consolidation through various indexes. The most frequently used index is the Human Development Index (HDI), which is composed of various economical, social, demographic and other indicators. The precision and ability to determine any country's stage of development of the HDI is much greater than any other composite index or statistical indicator. The Human Development Index marks some of the fundamental achievements in a certain society, such as the average length of life, dissemination of knowledge, economic development and certain life standards. The Human Development Index is a more profound indicator than for example revenue per capita, because the latter is only one of the many means of human development but not also its final result.

Table 1 shows values of the HDI index in four different time periods, from 1995 to 2012. Besides the actual value of the index, it also gives two kinds of information. The first one regards the stage of development a specific country has achieved, whereas the second one shows the country's position in the world ranking. The results mentioned are entirely congruent with frequently published economic indicators – Slovenia scored best among the former socialist countries in all time periods between 1995 and 2012. In the last available period, 2012, Slovenia actually overtook three old EU Member States – Portugal, Greece and Italy – and nearly caught up with Austria. Between 1995 and 2012 all former socialist countries advanced in their world rankings, but their progress is very diverse; Slovenia for instance gained 16 places, Latvia even 48, but on the other hand, the FYR Macedonia only gained two places. The fastest advancing former socialist countries are Baltic States, which all gained between 38 and 48 places. It is also visible that all Central and Eastern European countries lowered their score from 2005 to 2012 due to the impact of world economic crisis.

[4] See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 16.
[5] Ibid.

TABLE 1: HUMAN DEVELOPMENT INDEX (HDI)* IN FORMER SOCIALIST COUNTRIES IN 1995–2012

COUNTRY	1995**	2000**	2005**	2012**	RANKING 1995***	RANKING 2012***
SLOVENIA	0.887; HD-37	0.884	0.917	0.892; VHD-21	1.	1.
CROATIA	0.759; MD-76	0.826	0.850	0.805; VHD-47	8.	9.
MONTENEGRO	-	-	-	0.791; HD-52	-	10.
BOSNIA AND	-	-	0.803	0.735; HD-81	-	15.
SERBIA	-	-	-	0.769; HD-64	-	13.
FYR MACEDONIA	0.749; MD-80	0.772	0.801	0.740; HD-78	11.	14.
ROMANIA	0.767; MD-74	0.773	0.813	0.786; HD-56	7.	11.
BULGARIA	0.789; MD-67	0.795	0.824	0.784; HD-57	6.	12.
HUNGARY	0.857; HD-47	0.843	0.874	0.831; VHD-37	4.	5.
CZECH REPUBLIC	0.884; HD-39	0.857	0.891	0.873; VHD-28	2.	2.
SLOVAKIA	0.875; HD-42	0.835	0.863	0.840; VHD-35	3.	4.
POLAND	0.851; HD-52	0.845	0.870	0.821; VHD-39	5.	6.
LITHUANIA	0.750; MD-79	0.828	0.862	0.818; VHD-41	10.	7.
LATVIA	0.704; MD-92	0.812	0.855	0.814; VHD-44	12.	8.
ESTONIA	0.758; MD-77	0.833	0.860	0.846; VHD-33	9.	3.

* The Human Development Index is measured on a 0 to 1 interval, where 1 represents a fully developed country and 0 represents a completely undeveloped country.
** Countries are divided into three groups: high human development (marked HD), medium human development (MD) and low human development (LD). In 2010 there was also a fourth group added, very high human development (VHD), for the most developed countries in the world. Next to this mark we placed information about the individual countries' places in the world ranking.
*** Ranking among listed former socialist countries.
Source: Human Development Report; available at http://hdr.undp.org/en/reports/global/hdr 2013/ (25 June 2013).

Very similar to the Human Development Index is the Democracy Index, measured annually by an organisation called *Freedom House* and presented in a special report – *Nations in Transit*. The Democracy Index is composed of seven indicators. It includes evaluations of election systems, civil society, free media, democratic government (national and local levels), independence of the judiciary, and the spread of corruption. Every indicator is measured on a scale from 1 to 7, where 1 represents the highest level of the democratic process and 7 represents the lowest level. *Nations in Transit* encompasses all former socialist countries including the successor states to the Soviet Union. These countries are divided into five groups. The highest group includes countries with the best ratings in the Democracy Index, i.e. consolidated democracies. In the 2006 Report[6] countries assigned to this group were Slovenia, Estonia, Slovakia, Hungary, Latvia, Poland, Lithuania, Czech Republic and Bulgaria, and in 2012 all previously stated except Bulgaria.

If we compare reports of 2006 and 2012, the most noticeable characteristics are the regression of several counties in the regions in terms of their democratic consolidation, most noticeably of Bulgaria and Albania in terms of reassignment to lower groups, and regression in the grades of several other countries, most noticeably in Hungary, Slovakia, but also in Slovenia. There are also few cases of progress (Estonia, Czech Republic), but the differences between 2006 and 2012 grades are insignificant. We can also notice that all other former Yugoslav republics are listed in the second group of countries, among semi-consolidated democracies, making only small progress between 2006 and 2012. Almost all those countries received especially concerning low scores in the fields of independent media, spread of corruption and judicial framework and independence.

[6] See Freedom House, available at http://www.freedomhouse.org (25 June 2013).

TABLE 2: DEMOCRACY INDEX 2006 AND 2012

	2006	2012
CONSOLIDATED DEMOCRACIES		
SLOVENIA	1.75	1.89
ESTONIA	1.96	1.93
SLOVAKIA	1.96	2.50
HUNGARY	2.00	2.86
LATVIA	2.07	2.11
POLAND	2.14	2.14
LITHUANIA	2.21	2.29
CZECH REPUBLIC	2.25	2.18
BULGARIA	2.93	-
SEMI-CONSOLIDATED DEMOCRACIES		
BULGARIA	-	3.14
ROMANIA	3.39	3.43
CROATIA	3.71	3.61
SERBIA	3.71	3.64
ALBANIA	3.79	-
FYR MACEDONIA	3.82	3.89
MONTENEGRO	3.89	3.82
TRANSITIONAL GOVERNMENTS OR HYBRID REGIMES		
ALBANIA	-	4.14
BOSNIA AND HERZEGOVINA	4.07	4.36
UKRAINE	4.21	4.82
GEORGIA	4.86	4.82
MOLDOVA	4.96	4.89
SEMI-CONSOLIDATED AUTHORITARIAN REGIMES		
ARMENIA	5.14	5.43
KOSOVO	5.36	5.39
KYRGYZSTAN	5.64	-
RUSSIA	5.75	-
TAJIKISTAN	5.93	-
AZERBAIJAN	5.93	-
CONSOLIDATED AUTHORITARIAN REGIMES		
KYRGYZSTAN	-	6.00
RUSSIA	-	6.14
TAJIKISTAN	-	6.18
AZERBAIJAN	-	6.57
KAZAKHSTAN	6.39	6.54
BELARUS	6.71	6.68
UZBEKISTAN	6.82	6.93
TURKMENISTAN	6.96	6.93

Source: Freedom House, Nations in Transit; available at http://www.freedomhouse.org (25 June 2013).

2 THE NOTION OF ECONOMIC CONSOLIDATION

The process of consolidation within the economic sphere of society is only one of the conditions leading to the consolidated democracy. Even the most economically consolidated and successful society would be but a pale reflection of democracy if it lacked the institutes of civil society or the rule of law. Linz and Stepan[7] claim that a consolidated modern democracy requires a set of socio-political norms, institutions and arrangements in the sphere of economy – they term this set “economic society” – which is situated between the state and the market. Namely, democracy can be consolidated neither in the context of planned economy nor under the circumstances of a pure market economy.

We can ask ourselves why a completely free market cannot coexist with a modern consolidated democracy. In recent years, all sound studies of modern policies have empirically confirmed the existence of important degrees of state interventions into the market and state ownership in all

[7] Ibid., 21.

consolidated democracies.[8] Theoretically speaking, there are at least three arguments in support of such empirical findings and their validity. The first one stresses that, in spite of neoliberalistic claims of market's self-sufficiency, pure market economies cannot exist without a certain degree of state regulation. Namely, the market requires legislative enforcement of contracts and obligations, protection of investments and money, regulatory standards and protection of private as well as public property. Because of all this, the state has to undertake certain actions in the market.[9] The second argument is the fact that even the most developed markets requires certain corrections by the state if the market is to yield optimum performance.[10] The last and the most important reason, which supports the market intervention and state ownership in consolidated democracy, is the public character of government priorities and policies. If a democracy fails to implement policies whose direct result is the production of public goods in the domains of education, healthcare and transportation or the creation of social security network intended to alleviate social inequalities, then democracy as such cannot exist. Therefore, were a democracy to be born in a pure market economy it would, already by its own operation, transform such an economic system from a pure market economy into a mixed-type economy or a consolidated economic sphere, i.e., something Linz and Stepan[11] call "economic society".

First and foremost, the consolidation of democracy requires the institutionalisation of a politically regulated market. This, in turn, demands "economic society", which, however, can only operate efficiently under the conditions of efficient state mechanisms, intended for monitoring developments in the market. A frequent objective of states that underwent a transition into a new political and economic system in the late 1980s or early 1990s has been the project of privatisation of once socially owned business enterprises. Even such a goal, whose primary aim is to reduce the share of public property, is much easier to achieve if state mechanisms are efficient and strong enough. Economic deterioration, which is caused by the inability of state to exercise its regulatory functions, significantly contributes towards the problem of economic reform and democratisation.[12]

A modern consolidated democracy can be conceived of as a notion, which comprises five mutually, interlinked arenas,[13] whereby each of them has to adhere to its own organisational principle. Democracy is more than a form of rule – it is a system of mutual interaction.[14] None of these arenas can work

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[8] See, e.g., John R. Freeman, *Democracies and Market: The Politics of Mixed Economies* (Ithaca, New York, Cornell University Press, 1989).

[9] See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 18–24.

[10] Peter Murrell, "Can Neoclassical Economics Underpin the Reform of Centrally Planned Economies?" *Journal of Economic Perspectives*, 5, 4 (1991), 59–76.

[11] See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 18.

[12] In post-communist Europe, the Czech Republic, Hungary and Slovenia have been on the way (or have already achieved this stage) towards an institutionalised economic society. This, however, cannot be said of Russia and Ukraine where the power and the capability of state to operate in the market still remain negligible. The consequences of inexistence of economic society are evident everywhere – let us only look at the case of Russia, whose population is 15 times that of Hungary and which has incomparably greater raw material reserves (especially crude oil and ores), yet in 1993, it only received 3.6 billion U.S. dollars worth of foreign investments, whereas in that same period, 9 billion dollars were invested into Hungary. See Richard Rose and Christian Haeffer, *New Democracies Barometer III: Learning from What is Happening. Series Studies of Public Policy, 230* (Glasgow: University of Strathclyd, 1994), 32–33.

[13] This pertains to a developed civil society, the rule of law, institutionalised economic society, an efficient and modern state bureaucracy and, last but not least, a relatively autonomous political society. See Juan Linz and Alfred Stepan, "Toward Consolidated Democracy," *Journal of Democracy*, 7, 2 (1996), 17.

[14] Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 39.

properly without the support of other arenas. Hence, e.g., civil society cannot exist without the rule of law that would guarantee the citizens' rights and freedoms. Furthermore, each of these interlinked arenas exercises a certain amount of influence over others. Therefore, the arena, which is of greatest importance to our contribution, also significantly affects others and we dare say that one cannot even speak of a modern consolidated democracy without economic consolidation.

3 ECONOMIC INDICATORS AND THE PROCESS OF DEMOCRATIC CONSOLIDATION IN COUNTRIES OF FORMER YUGOSLAVIA

Let us ask which factors influence a certain country at a given moment so that it will achieve and maintain the status of a consolidated democracy. This question is answered by Adam Przeworski, Michael Alvarez, Jose Antonio Cheibub and Fernando Limongi[15] in a very large-scale project, which was presented for the first time in 1995 at a conference, entitled "Consolidating Third Wave Democracies" in Taiwan and published the following year in the Journal of Democracy magazine. The abovementioned researchers claim that these factors are democracy, state-owned assets, economic growth with moderate inflation rates, reduction of inequalities, a favourable international atmosphere and, last but not least, parliamentarian institutions. Their entire research project is based on data acquired in 135 countries during the period of 1950–1994.[16] In this period, they identify 224 different governments, of these 101 cases of democratic rule and 123 various cases of undemocratic rule, which are not of such importance to our contribution. During the time of their research, 50 cases of transition in the direction of democracy and 40 cases of transition in the opposite direction were recorded.

In certain intellectual and political science circles (especially in the USA) a claim has been surfacing ever since the 1950s that democracy is a cyclical phenomenon. In this context, two statements have been made, which directly refer to economic consolidation. The first one says that various forms of undemocratic rules are more suited to achieving economic development in poorer countries; and the second one maintains that, the moment a once poor country achieves a certain degree of development, the rule of democracy obtains.[17] However, both the research project of the previously mentioned team of researchers and the results of our analysis indicate that these two theses do not withstand critical judgement. In their project, the research team thus claim that there is no basis for a greater probability of achieving higher economic growth rates under undemocratic forms of rule.[18] 56 states with various forms of undemocratic regimes had less than 1,000 U.S. dollars of Gross Domestic Product (GDP) per capita at the beginning of research.[19] By the project's conclusion, only 18 of the countries had

[15] Ibid., 39–55.
[16] The year in which an individual state achieved independence or, alternatively, the year in which certain data was first available is considered as the year in which data gathering began.
[17] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 40.
[18] For more on relationships between economic growth ant the form of political rule see John F. Halliwell, "Empirical Linkages Between Democracy and Economic Growth," *British Journal of Political Science*, 24 (1993), 225–248.
[19] Gross Domestic Product (the GDP) is the most frequently mentioned and applied economic indicator, which shows the developmental phase of a certain state. Comparative analyses most often apply the GDP per capita, expressed in market prices (current prices according to the current exchange rate) or the GDP per capita, expressed in purchasing power parity. In former socialist states, it is especially problematic to monitor the private sector, primarily as regards informal economic activities, which is therefore to a greater extent done on the basis of more or less accurate estimates provided either by central statistical offices of individual states or by international organisations. The latter is especially

managed to pass the threshold of 1,000 U.S. dollars of GDP per capita, only 6 managed to exceed the limit of 2,000 U.S. dollars of GDP per capita and only 3 had crossed the 3,000 U.S. dollars line. The other 29 countries even experienced economic setback during that same period.

As regards the data on GDP per capita during the period of 1991–2011 (Table 3) gathered in countries that were established in the territory of former Yugoslavia, it is evident that, in 1995, only Bosnia and Herzegovina was part of the group of states with less than 1,000 U.S. dollars of GDP per capita; during the period of 1991–1999, the group of states that had between 1,000 and 2,000 U.S. dollars of GDP per capita included (in addition to Bosnia and Herzegovina) Serbia, Montenegro and the FYR Macedonia. Among all six countries that were created in the ex-Yugoslav area, two groups of states can be clearly defined according to one of the key economic indicators –GDP per capita.

In the first group of countries, comprising Serbia, Montenegro, the FYR Macedonia and Bosnia and Herzegovina, the influence of political and economic change, which occurred during the transition into a democratic system at the end of the 1980s and the beginning of the 1990s, is reflected in the reduction of GDP per capita during the 1991–1999 period, by over 68 per cent on average. Another important characteristic of this group of states is a fairly high rate of growth in GDP per capita between 1999 and 2011, namely 387 per cent in Serbia and 369 in Bosnia and Herzegovina, respectively. On the basis of these data we may conclude that, in the analysed period, the GDP per capita at first decreased quite a lot due to an exceptionally difficult phase in democratic transition and then, as the actual preconditions for the beginning of the process of democratic consolidation were met, it rose sharply, thereby in 2011 greatly exceeding the 1991 values. This fact is one of the significant indicators of a distinctive two-stage character of processes of democratic transition and consolidation in the states belonging to this group.

In the second group of countries, including only Slovenia and Croatia from the territory of ex-Yugoslavia, the influence of political and economic change that occurred in the late 1980s and the early 1990s during the transition into a democratic system did not manifest itself in a long-term decrease in the GDP per capita. The value of GDP per capita as a primary indicator of a country's economic success[20] was steadily increasing in Slovenia and Croatia (if the period from 1991 to 2011 is considered). Thus, between 1991 and 2011, the GDP per capita in Croatia increased by 73 per cent despite the war that took place during this period; during the same period, GDP in Slovenia increased by 64 per cent, but the outset value of Slovenian GDP per capita in 1991 was 133 per cent that of Croatia.

So, what is the position of Slovenia in the group of states of the ex-Yugoslav area, especially if we compare it to the most successful former socialist states in Central and Eastern Europe as well as with certain European Union Member States? As the Table 3 shows, Slovenian GDP per capita, expressed in current prices was much higher in all three analysed time periods, both in comparison with the most successful Central and Eastern European states and with the states created in the territory of Former

characteristic of states that were established in the territory of the former Soviet Union, therefore data from this geographical region tend to be somewhat less reliable.

[20] See Thomas Nowotny, *Economic Transition, Democratic Consolidation and the Integration of Central Eastern European Countries into European Structures.* NATO Economic Colloquium 1997. Available at htpp://www.nato.int/docu/colloq/1997/97-4-2.html (25 June 2013).

Yugoslavia. On the other hand, in all the analysed time periods, Slovenian GDP per capita was much lower, primarily relative to Austria and Italy, whereas in 2011, Slovenian GDP per capita almost reached that of Greece. A significant advantage of Slovenian GDP, which had been equal to at least two times the GDP of former socialist states in 1991, somewhat decreased in 2011, as the closest pursuer – Czech Republic – was only 4,102 U.S. dollars short of Slovenian GDP per capita, or, in other words – the Czech Republic had only achieved 41 per cent of Slovenian GDP per capita in 1991, whereas in 2011, the respective figure was already 83 per cent.[21]

TABLE 3: GDP PER CAPITA AT CURRENT PRICES (IN U.S. DOLLARS) IN DIFFERENT TIME PERIODS

COUNTRY	1991	1995	1999	2003	2007	2011
A.						
SLOVENIA	6,850	10,651	11,254	14,617	23,528	24,709
B.						
CROATIA	2,938	4,733	5,083	7,661	13,406	14,217
BOSNIA AND HERZEGOVINA	1,471	595	1,301	2,241	4,044	4,807
FYR MACEDONIA	1,441	2,279	1,836	2,345	3,984	4,925
SERBIA	3,898	2,294	1,440	2,614	5,277	5,579
MONTENEGRO	2,842	1,889	1,316	2,716	5,842	7,196
C.						
HUNGARY	3,292	4,411	4,714	8,243	13,553	13,919
CZECH REPUBLIC	2,783	5,600	6,059	9,343	17,499	20,607
POLAND	2,193	3,622	4,377	5,676	11,132	13,424
SLOVAKIA	2,179	3,648	3,790	6,151	13,803	17,545
D.						
AUSTRIA	22,282	30,064	26,588	31,218	45,133	49,686
ITALY	21,124	19,867	21,243	26,172	35,754	36,124
GREECE	9,784	12,231	12,742	17,356	27,088	26,251

Source: United Nations Statistic Division; available at http://data.un.org/Data.aspx?d=SNAAMA&f=grID%3a101%3bcurrID%3aUSD%3bpcFlag%3a1 (28 June 2013).

The team of researchers[22] further claims that it is the economic development, which importantly affects the percentage of probability of survival of a democratic rule. Democracies that are severely underdeveloped in economic terms and have a GDP per capita of less than 1,000 dollars have thus a 12 per cent probability of being overthrown in the next twelve months. This percentage decreases to 6 per cent for democracies with a GDP per capita between 1,000 and 2,000 U.S. dollars,[23] to 3 per cent for democracies with a GDP per capita ranging from 2,000 to 4,000 U.S. dollars and to one per cent for democracies having a GDP per capita in the 4,000 to 6,000 U.S. dollars range.[24] Considering these observations and if we once again take a look at our data on states created in the territory of the former Yugoslavia (Table 3) we can infer that, from the aspect of economic underdevelopment, political systems in Bosnia and Herzegovina and in the FYR Macedonia are the most compromised, as their economies had just below 5,000 U.S. dollars of GDP per capita in 2011, which does not take into account the effects of global economic crisis that were manifested in 2012 and 2013. Hereby, it needs to be stressed that the level of economic development is but one of many factors influencing the survival or demise of a democracy and that the abovementioned percentages of probability are by no means to be

[21] Also, the distance to the closest pursuer within the group of former Yugoslav republics, i.e., to Croatia, decreased between 191 and 2011. In 1991, Croatia achieved only 43 per cent of Slovenian GDP per capita, whereas in 2011, it was at 58 per cent.

[22] The research project undertaken by Adam Przeworski, Michael Alvarez, Jose Antonio Cheibub and Fernando Limongi, which has already been mentioned several times. See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 39–55.

[23] This, in other words, means that the expected lifespan of a democracy under such conditions is 17 years.

[24] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 39–55.

considered as absolute. Democracies in states with a GDP per capita exceeding 6,000 U.S. dollars are invincible according to the level of economic development. Never has it happened so far that a democratic system would fall in a state whose GDP per capita has been higher than 6,055 U.S. dollars,[25] so in this respect, Slovenian, Croatian and Montenegrin democracies are perfectly safe. Thus, proceeding from the data provided by foreign researchers and those of our own research project, we can conclude that the degree of economic development is an important (but, of course, far from being the only one) factor that influences the survival and consolidation of democracy. Or, if we summarize Martin Lipset, "the more a state is developed in economic terms, the greater is the probability of its democratic rule's survival".[26] The question why democracies tend to be more stable in economically more developed countries has been attracting extensive debates. One of the reasons also mentioned by Martin Lipset[27] stresses the fact that the intensity of distributive conflicts tends to be lesser in countries, which have achieved a higher degree of economic development.

One of the key economic indicators contributing towards democratic consolidation is the economic growth accompanied by a moderate inflation rate. The research team[28] state that, contrary to Martin Lipset's[29] and Mancur Olson's[30] arguments,[31] rapid economic growth[32] does not contribute towards the destabilisation of democracy. According to them, only the opposite can be true: democratic rule has a greater probability of consolidation and survival if annual GDP[33] growth is about five per cent or higher. The team of researchers further establish that negative economic growth rates are one of the most important reasons for destabilisation.

With respect to these findings, a methodological error has to be emphasised, which frequently occurs in scientific literature: authors often neglect the starting and the finishing positions of countries – i.e., their situations at the beginning and the end of a research period, respectively. It is by no means possible to equate the degree of economic growth in Slovenia, which had had a stable economic growth all the way between 1991 and 2009 when negative impacts of global economic crisis hit it, with a state in which the process of democratic transition has barely begun for whatever reason. Thus, Slovenia's 5.3 per cent and Bosnia and Herzegovina's 9.6 per cent of annual GDP growth in 1999 can by no means be interpreted as a sign of Bosnia and Herzegovina been twice as successful as Slovenia, because such a piece of data also requires at least the consideration of data on growth rates for the preceding years and the data on absolute values of GDP per capita in the same year, respectively. In the selected case, a rate of 5.3 per cent of annual GDP growth in Slovenia equalled just over 400 U.S. dollars per capita, whereas a rate of 9.6 per cent of annual GDP equalled

[25] Argentinean rate of GDP per capita in 1976 (in 1995 international dollars).
[26] Lipset, Martin. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy." *American Political Science Review*, 53, 1 (1959): 69.
[27] See Martin Lipset, *Political Man: The Social Bases of Politics* (Baltimore: John Hopkins University Press, 1981), 27–63.
[28] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 39–55.
[29] See Martin Lipset, *Political Man: The Social Bases of Politics* (Baltimore: John Hopkins University Press, 1981).
[30] See Mancur Olson, *The economics of the wartime shortage* (Durham: Duke University Press, 1963).
[31] In their works, these two authors warn of a greater probability that a democratic rule may become destabilised under circumstances of rapid economic growth (they define it as an annual GDP growth rate exceeding 5 per cent).
[32] Rapid economic growth is also defined as exceeding a 5 per cent annual rate of increase in GDP by the group of authors whose research we refer to.
[33] Average annual GDP growth rate is an important indicator of economic trends within a national economy and tells us by how much per cent the GDP of a certain state increases in an observed year.

"only" slightly less than 100 U.S. dollars per capita. During the period between the acquisition of independence and the year 2008, only Slovenia was experiencing permanent and positive economic growth among all the countries in the territory of former Yugoslavia, whereas other states were experiencing more or less intensive rises and falls, which became more distinct especially during the 2008–2011 period, which witnessed the negative effects of global economic crisis in all six states that are successors to the former Yugoslavia.

TABLE 4: GDP GROWTH (ANNUAL)[34] IN FORMER YUGOSLAV REPUBLICS IN DIFFERENT TIME PERIODS (PER CENT)

COUNTRY	1993	1996	1999	2002	2005	2008	2011
A. States with a GDP beyond 6,000							
SLOVENIA	2.8	3.6	5.3	3.8	4.0	3.6	-0.2
CROATIA	8.3	5.9	-1.0	4.9	4.3	2.1	0.0
MONTENEGRO	-45.3	-27.5	-9.6	1.9	4.2	6.9	3.2
B. States with a GDP below 6,000							
BOSNIA AND HERZEGOVINA	-23.4	8.9	9.6	5.3	5.0	5.4	1.7
FYR MACEDONIA	-7.5	1.2	4.3	0.9	4.4	5.0	2.8
SERBIA	-30.5	7.8	-11.2	4.1	5.4	3.8	2.0

Source: World Bank, available at http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries (30 June 2013). For Bosnia and Herzegovina, Monte Negro and Croatia in 1993, see World Macroeconomic Research, available at http://kushnirs.org/macroeconomics/gdp/gdp_bosnia_herzegovina.html #t1 (27 June 2013).

States that were established in the territory of former Yugoslavia can be distributed into two groups according to the levels of GDP per capita growth (Table 3). Between 1987 and 1990, when they were still federate republics of the former Yugoslavia, all of them had negative annual GDP growth rates,[35] which was a direct consequence of exacerbated crisis in the then Yugoslavia plus the beginning of the end of the socialist system and the onset of democratic transition. In all the states (except Slovenia), this negative impact was even enhanced in the second measurement period (1990–1993). Slovenia was the only state from the area of former Yugoslavia that had positive annual GDP growth rates already in 1993, whereas in other states, this effect was visible only after 1996 and even later in some countries. The decade between 1990 and 2000 was also characterised by gross oscillations in economic growth rates; so in case of Montenegro, the GDP decreased by incredible 45 per cent in 1993 relative to the year before, whereas in 1995, the GDP increased by equally astounding 40 per cent over the preceding year.[36] The data in Table 4 allows us to confirm without any reservation the interdependence of both economic indicators – the GDP per capita and annual rates of GDP growth. Slovenia, being the only state with a relatively high GDP[37] per capita, had also been achieving stable positive annual GDP per capita growth rates up until the period of global economic crisis, which had only further increased the gap between Slovenia and other ex-Yugoslav countries.

[34] Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2,000 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

[35] See Miro Haček, *Razvojni indikatorji držav na območju bivše Jugoslavije (Development indicators of former Yugoslav Republics).* Ljubljana: Research Team of the Centre for Political Science Research, Institute of Social Sciences, 2000a.

[36] See *World Macroeconomic Research*, available at http://kushnirs.org/macroeconomics/gdp/gdp_montenegro.html (27 June 2013).

[37] Of course in relation to other states in the territory of former Yugoslavia and also to other Central and Eastern European states.

Surprisingly, the research team[38] find out that a moderate inflation rate has a greater contribution towards democratic consolidation than a very low rate of inflation.[39] It is necessary to mention here that these finding supports the hypothesis of Albert Hirschman made in 1981, which also claimed that "a moderate inflation rate strengthens a democracy's stability".[40]

Data in Table 5 allow us to conclude that a majority of states from the territory of former Yugoslavia, with the exception of Serbia and Montenegro, had managed to curb inflation by 1999. In some of the states, inflation even decreased by over a hundred times over the 1993–2011 period. In Slovenia, inflation rate decreased by over 20 times during that same period, falling from 32.9 per cent in 1993 to 1.8 per cent in 2011. Characteristic of the analysed group of states were also extraordinarily high 1990–1996 inflation rates, which was undoubtedly affected by general political and economic conditions in each of the studied countries. If our findings are compared to those of the research team, a conclusion can be made that none of the post socialist states from the former Yugoslav area has exceeded a 30-per-cent annual inflation rate since 2002, a limit that the foreign research team's research project defines as the threshold at which inflation may contribute towards the destabilisation of a democracy.[41]

TABLE 5: INFLATION IN FORMER YUGOSLAV REPUBLICS IN DIFFERENT TIME PERIODS (CUSTOMER PRICE INDEX; ANNUAL; PER CENT)[42]

COUNTRY	1993	1996	1999	2002	2005	2008	2011
SLOVENIA	32.9	9.8	6.1	7.5	2.5	5.7	1.8
CROATIA	1500.0	4.3	4.0	1.7	3.3	6.1	2.3
BOSNIA AND HERZEGOVINA	na	na	na	na	na	7.4	3.7
FYR MACEDONIA	na	2.5	-1.3	2.3	0.2	8.3	3.9
SERBIA	na	95.6	42.5	19.5	16.1	12.4	11.1
MONTENEGRO	na	na	na	na	na	8.8	3.2

Source: World Bank, available at http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries?page=3 (30 June 2013).

The next economic indicator that can importantly influence the (de)stabilisation and the process of democratic consolidation is the unemployment rate,[43] which, however, poses the biggest problems for comparative analysis due to methodological reasons. Namely, in centrally planned economies, unemployment rate was not among the officially recorded statistics. All post socialist European countries now do have employment offices, which provide information on the numbers of officially registered employment seekers, but we have found out that the official data on unemployment rates published by either national statistical bureaus or employment offices is unrealistic, which is especially the case with most of the countries in the territory of former Yugoslavia. The reason for grossly

[38] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 39–55.

[39] According to the claims made by them, even higher degrees of democratic consolidation can be expected in states experiencing annual inflation rates between 6 and 30 per cent than in those with annual inflation rates below 6 per cent.

[40] Albert Hirschman, *The Social and Political Matrix of Inflation: Elaboration's on the Latin America* (New York: Cambridge University Press, 1981), 177–202.

[41] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 42.

[42] Inflation measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, e.g., on a yearly basis.

[43] The team of researchers merely mention unemployment rate as one of the factors that influence the (de)stabilisation and the process of democratic consolidation. See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 35–45.

underestimated rates of actual unemployment is in part also the shortage of reasons (motivations) for registration. Namely, in these states, there are much higher unemployment rates than those official statistics record, as the latter only account for registered and active job seekers. Certainly, this problem is present in developed market economies as well, yet its scale is not as large as in states undergoing transition. In a range of transition economies, there is also the so-called grey employment market, unrecorded by official statistics, yet offering occasional employment to a multitude of officially unemployed people. Data presented in the Table 6 is official data of World Bank, collected through the application of the same methodology in all the states included, which on the one hand enables comparability, yet on the other hand, precisely due to methodology's strictness, results in a lot of missing data for individual time periods.

In comparison with some other former socialist states, Slovenian unemployment rate was somewhat high[44] throughout the entire analysed period; on the other hand, we can see that Slovenia is the only state belonging to the group of countries created in the area of former Yugoslavia that has had its unemployment rates constantly below 15 per cent for the last twenty years, as well as it is the only state that had been witnessing slowly decreasing unemployment rates after 1993, of course, with the exception of the most recent period marked by global economic crisis whose effects have been exceptionally evident through this indicator. In the remaining ex-Yugoslav states, it is still impossible to trace any explicitly positive employment trends, with some of the states still experiencing unemployment rates close to 30 per cent, even exceeding this figure. Probably, high unemployment rates have become a mainstay of these states' economic development and will only slowly decrease. Hereby, it is interesting to stress that unemployment has been one of the most salient issues in the European Union as well, becoming all the more visible in the recent years because of negative effects of global economic crisis. Therefore, unemployment rate is one of those indicators exhibiting the lowest or even inexistent differences between post socialist states and European Union Member States. In the European Union, even higher unemployment rates can be found in certain, especially southern EU Member States (Greece, Spain, Portugal, France and Italy) than are some of the values in the Table 6, whereas unemployment rates are somewhat lower in western and northern EU Member States.

TABLE 6: UNEMPLOYMENT IN FORMER YUGOSLAV REPUBLICS IN DIFFERENT TIME PERIODS (PER CENT OF TOTAL LABOUR FORCE)[45]

COUNTRY	1991	1993	1996	1999	2002	2005	2008	2011
SLOVENIA	7.1	8.7	6.9	7.3	6.3	6.5	4.4	8.2
CROATIA	11.1	na	10.0	13.5	15.1	12.6	8.4	13.4
BOSNIA AND HERZEGOVINA	17.6	na	na	na	na	na	23.9	27.6
FYR MACEDONIA	na	na	na	32.4	31.9	37.3	33.8	31.4
SERBIA	na	na	na	na	na	20.8	13.6	na
MONTENEGRO	na	na	na	na	na	30.3	16.8	19.7

[44] On the one hand because of lax criteria of registering unemployment and on the other (according to the International Monetary Fund) due to too generous social benefits for those registered as unemployed. See *International Monetary Fund,* available at http://www.imf.org/January 2001 (28 June 2013). See also Miro Haček, "Proces ekonomske konsolidacije v državah Srednje in Vzhodne Evrope (Process of Economic Consolidation in CEE)," in *Demokratični prehodi I. (Democratic Transition I.),* eds. Danica Fink Hafner and Miro Haček (Ljubljana: Faculty of Social Sciences, 2000b), 59–77.

[45] Unemployment refers to the share of the labour force that is without work but available and seeking employment.

Source: World Bank, available at http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS/countries (30 June 2013).

One of the most important economic indicators, which also describes the (un)successfulness of a national economy, are certainly the external debt stocks of a state. External debt stocks include the sum of principal debt returns repayable in foreign currency, goods or services plus interests owed to international financial institutions or other sovereign states. Table 7 shows external debt stocks as a percentage of GDP, which gives quite a realistic depiction of certain state's indebtedness and its ability to repay the borrowed funds.

The first finding evident from the data is the growth of real debt in all the countries created in the territory of the former Yugoslavia, with the only exceptions of Slovenia, the FYR Macedonia and Bosnia and Herzegovina, whose debts decreased somewhat in the period of 2005–2008, only to increase substantially in the following period of 2008–2011. In all the states established in the ex-Yugoslav area, real debt increased during the 1999–2011 period, with Croatia leading (119.1 per cent increase), followed by Slovenia (94.1 per cent increase) and Macedonia (57.4 per cent increase), whereas Serbia was the last (15.4 per cent increase). Slovenia and Montenegro are also the only two of all the former Yugoslav countries whose external debt stocks were less than one half of their GDP in 2001, respectively.

TABLE 7: EXTERNAL DEBT STOCKS (PER CENT OF GDP/GNI[46]) IN DIFFERENT TIME PERIODS

COUNTRY	1999		2002		2005		2008		2011	
	% GNI	% GDP	% GNI	% GDP	% GNI	% GDP	% GNI	% GDP	% GNI	% GDP
SLOVENIA	na	24.1	na	27.8	na	26.7	na	22.0	na	46.9
CROATIA	na	47.0	na	53.9	na	72.1	na	85.4	na	103.0
BOSNIA AND HERCEGOVINA	44.4	na	44.2	na	55.9	na	51.1	na	58.8	na
FYR MACEDONIA	39.9	na	45.3	na	50.8	na	48.3	na	62.8	na
SERBIA	62.2	na	76.5	na	64.9	na	65.7	na	71.8	na
MONTENEGRO	na	na	na	na	na	na	32.7	na	45.8	na

Sources: Statistical office of the Republic of Slovenia, available at http://www.stat.si/indikatorji.asp?id=28&zacobd=1-1995 (30 June 2013); World Bank, http://data.worldbank.org/indicator/DT.DOD.DECT.CD (30 June 2013); World Bank, http://data.worldbank.org/indicator/DT.DOD.DECT.GN.ZS (30 June 2013); Osnovne informacije o Hrvatskoj, available at http://www.hnb.hr/statistika/h_ekonomski_indikatori.pdf (27 June 2013); Ekonomski indikatori, http://www.hnb.hr/ statistika/h-ekonomski_indikatori.htm (25 June 2013).

3 CONCLUSIONS

The findings provided by our short research study perfectly match those of the research team,[47] which emphasise the importance of economic factors in democratic consolidation. Hence, we corroborate the claims made by Martin

[46] Total external debt stocks to gross national income. Total external debt is debt owed to non-residents repayable in foreign currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of the IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest in arrears on long-term debt. GNI (formerly the GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad.

[47] See Adam Przeworski et al, "What makes democracies endure?," *Journal of Democracy*, 7, 1 (1996), 49.

Lipset[48] stating that a democratic rule has better chances at consolidating in economically more successful states. Of course, this is by no means to say that other factors, such as the setting up of democratic institutions, the rule of law, the guaranteeing of human rights and fundamental freedoms are not of key importance to democratic consolidation. Our statement refers solely to the fact that a democratic rule has a greater possibility of consolidation in an economically more successful state. It is true, though, that economic consolidation cannot be achieved without prior or at least parallel political consolidation. Democracy may even be consolidated in poor countries, yet these are faced with a need to accelerate economic development, reduce inequalities, manage inflation, not to mention the existence of democratic institutions, the guaranteeing of human rights, the rule of law, etc. The research team correctly establishes that poverty and economic stagnation are the major obstacles in the way towards democratic consolidation.

The second finding refers to the situation of economic (democratic) consolidation of the states created in the territory of the foreign common state of Yugoslavia. A democracy becomes consolidated when the rate of risk[49] decreases in proportion to its age.[50] Dahl further claims that the probability of attaining democratic consolidation is greater when democracies “operate” successfully during a given time span in political, social, economic and other terms. On the basis of our research project and other similar ones, we can confirm this claim at least from the economic aspect. Democratic rule has a greater chance of survival and consolidation in economically more successful states.[51] After several years of economic progress, the risk rates diminish enough to allow us to speak of economic democracy. Hereby, the level of GDP a state achieves is not that much important for democratic consolidation as are stability, straightness and sufficient speed of economic development.

Considering all this, it seems justified to claim that the only two states from among the ex-Yugoslav countries that can be counted – though with certain reservations mentioned above – as belonging to the group of not only politically but also economically consolidated democracies are Slovenia and Croatia, whereas the remaining four countries in the territory of former Yugoslavia – Macedonia, Montenegro, Bosnia and Herzegovina and Serbia – have a long and difficult path still ahead of them. Namely, the secret to the resilience of a democracy is hidden in economic development – not only, as some theories claimed back in the 1960s,[52] in various forms of undemocratic rule, but in a democracy built upon democratic institutions, respect for human rights and fundamental freedoms plus the rule of law.

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[48] See Martin Lipset, *Political Man: The Social Bases of Politics* (Baltimore: John Hopkins University Press, 1981).

[49] The rate of risk stands for the probability that a democratic rule will transform into some other form of rule, but with undemocratic properties. This rate is higher for states that have only recently become democratic systems, for states that can be defined as economically underdeveloped, yet with existing and operational democratic institutions, etc. See Adam Przeworski et al, “What makes democracies endure?,” *Journal of Democracy*, 7, 1 (1996), 35–52.

[50] Robert A. Dahl, *Transition to Democracy. Address delivered to the symposium on “Voices of Democracy”*, University of Dayton, Centre for International Studies, March 1990, available at http://www.freedomhouse.com (28 June 2013), 16–17.

[51] See Adam Przeworski et al, “What makes democracies endure?,” *Journal of Democracy*, 7, 1 (1996), 50.

[52] Martin Lipset, “Some Social Requisites of Democracy: Economic Development and Political Legitimacy,” *American Political Science Review*, 53, 1 (1959), 69–105.

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THE PROCESSES OF ECONOMIC CONSOLIDATION IN COUNTRIES OF FORMER YUGOSLAVIA

PROCESI EKONOMSKE KONSOLIDACIJE V DRŽAVAH NEKDANJE JUGOSLAVIJE

Simona KUKOVIČ in Miro HAČEK

Preden sploh lahko razpravljamo o demokratični konsolidaciji, morajo biti izpolnjeni vsaj trije temeljni minimalni pogoji. Poleg tega morajo konsolidirane demokracije izpolnjevati še nekaj dodatnih pogojev, ki nikoli niso pritegnili veliko pozornosti v znanstvenih analizah; med njimi Linz in Stepan še posebej poudarjata pomen ekonomske konsolidacije. Pričujoči prispevek analizira procese demokratične konsolidacije v nekdanjih jugoslovanskih republikah. Avtorja na podlagi več indikatorjev ugotavljata, da večina nekdanjih jugoslovanskih republik (še) ni dosegla ravni konsolidiranih demokracij; avtorja testirata tezo, da je eden od temeljnih razlogov za to tudi neuspeli proces ekonomske konsolidacije.

Ključne besede: demokracija, ekonomija, konsolidacija, nekdanja Jugoslavija, Slovenija.