

Quo Vadis, Slovenia? Between Framework Conditions and Internal Capabilities

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We consider the new EU member states as semi-peripheral countries standing at the development crossroads. We emphasize the socio-cultural factors of development, present a model for bringing together several cultural and social influences, and test its validity by applying a fuzzy-set methodology, a rather novel approach in social sciences. We augment our analysis of internal socio-cultural factors by considering the likely changes in the external framework conditions. Focusing on demography, technology, and global economic and political structures, we outline possible scenarios for European development that will certainly affect the chances of individual countries. As our contribution, we discuss the interplay between such framework conditions and internal development capabilities and draw some implication for the case of Slovenia.

Key Words: development, socio-cultural factors of development, long-run scenarios

JEL Classification: E66, O10, O20, Z13

Introduction: Standing at the Development Crossroads

Catching-up of transition countries with the old EU member states is mostly considered in terms of economic development, both in the sense of the target indicator (GDP per capita levels in terms of purchasing power parity) and the key development drivers (physical and human

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capital investment, technological innovation, economic reforms).¹ It is expected that real convergence, understood along the lines of Barro (1991), will inevitably take place once the proper policies and economic structures are in place. Dissenting views are rare. An interesting example is that of Cheshire and Magrini (2000), who analyze the evolution of regional per capita incomes on the basis of the empirical growth model combined with the Markov chain method. Their results point to an inherent trend of increasing divergence both within the group of poorer regions in Europe and, especially, between the poorer and richer regions.

In this paper, we take a broader perspective on transition countries' development. In our view, the new EU member states are standing at the development crossroads. They are considered as semi-peripheral countries, whose competitiveness hinges on infrastructure investment (in terms of material, institutional, and informational infrastructure), upgrading of production programmes and leadership of enterprises (Sofian 2001 as cited in Rončević 2007, 221). We add to this perspective the importance of socio-cultural development factors. We present a model bringing together several cultural and social influences and test its validity by applying a fuzzy-set methodology, a rather novel approach in social sciences.

Taking a broader perspective on convergence implies that one is necessarily dealing with long run issues. This takes us from the world of economic forecasting to the world of building long-run development scenarios. We therefore augment our analysis of internal socio-cultural factors by considering the likely changes in the external framework conditions. Focusing on demography, technology, and global economic and political structures, we outline possible scenarios for European development that will certainly affect the chances of individual countries. As our contribution, we discuss the interplay between such framework conditions and internal development capabilities.

When drawing the implications of our analysis, we focus on Slovenia as an example of a country to which our framework applies. Slovenia is generally considered as one of the success stories of transition. The country achieved one of the highest average growth rates among the EU accession candidates, and its economic growth was by far the least volatile among transition countries. Moreover, this stable and reasonably high growth rate was achieved without major macroeconomic imbalances. Regarding social and political developments, Slovenia's unemployment

TABLE 1 The official vision for the change in Slovenia's development model

Current Development Model	Vision of the New Social Development Model
Regulation and bureaucratisation of markets	Deregulation and liberalisation of markets
Restrictive business environment	Promoting enterprise creation and growth
Relatively closed financial markets	Open and competitive financial markets
Insufficient flexibility of the labour market	A more flexible labour market
Collective social security system	Individual needs and responsibility
Corporatism of large social partners	Open, broad-based partner co-operation
Bureaucratic, hierarchical public sector	Decentralisation, public private partnership
Focus on macroeconomic and social balances	Focus on sustainable development based on structural reforms and a dynamic society

NOTES Adapted from IMAD 2005.

and poverty rates were both below the EU average. Spending on social benefits, as a percentage of GDP, was also comparable to the EU average, indicating preservation of a rather generous welfare state. Comprehensive social partnership institutions also helped preventing social unrest.²

Widespread optimism regarding Slovenia's development has waned in recent years. A number of economists took the opinion that incomplete economic transition created significant structural inefficiencies with negative impact on the country's competitiveness. This was reflected in the slowdown of economic convergence, as compared to several other transition countries. Weakening economic competitiveness made it increasingly difficult to finance the welfare state and to provide workers with wages above subsistence.³ Such a critical view has been taken up in official documents. For example, Slovenia's Development Strategy (IMAD 2005)⁴ has set out a thorough change in the country's development model, as presented in table 1. Our approach in this paper will help us shed some light on the realism of such a target and the necessary conditions for achieving it.

In the next section, we present a theoretical model of internal socio-cultural development factors and test its validity by applying it to a set of European countries. We continue by considering different scenarios for broad framework conditions and conclude by drawing up the implications and conclusion of our analysis.

Internal Factors of Development

We understand internal development factors in terms of the capacities of a country to deal with challenges imposed by changes in external framework conditions. We focus on the less tangible socio-cultural factors of development, which were once ignored, but became popular after the 'cultural turn' at the end of the 1980s. At that time, and under the weight of empirical evidence, social scientists started to deal with the role of non-economic factors of development. These studies focused mostly on Japan and the four Asian tigers (South Korea, Hong Kong, Taiwan and Singapore). We examine in what way these factors play their role in achieving a development breakthrough and in what way we need to consider them in shaping development policies.⁵

THEORETICAL STARTING POINTS

The idea of socio-cultural factors of development is far from being new. Max Weber's well known *Protestant Ethics and the Spirit of Capitalism* (2001) emphasised the role of non-economic factors in economic development. The awareness of such a connection is also found among classical and neo-classical economists, starting with Adam Smith, and continuing with Alfred Marshall (Adam et al. 2005). We must also note the important role of Talcott Parsons, who partially followed Webber in shaping his ideas on cultural factors of social development.

Among contemporary economists, a prominent role is that of Michael Porter who introduced the concept of competitive advantages of nations, pointing out that achieving competitiveness is a highly complex and localised process depending on many direct and indirect factors, such as economic structures, quality of governance, values, culture, and past development. In sociology, the focus shifted from simple to reflexive modernisation and new forms of societal coordination related to this shift. In the theories of Anthony Giddens, Ulrich Beck and Helmut Wilke a particular role is attributed to knowledge and forms of development coordination within extremely complex modern societies. Such approaches enable us to move beyond the old dilemmas of primacy of the free market versus the state (Adam et al. 2005).

Several studies consider successful cases of countries that achieved a development leap. They show that development processes can be speeded up by a number of factors, but that most of them are connected to a specific environment. We speak of contextual specific processes (Kim and Nelson 2000; O'Hearn 1998; Battel 2003; Walsh 1999; O'Riain 2000;

Castells and Himanen 2002). That is why it is very difficult to predict the long-term consequences (success) of specific policies.

What are these necessary conditions that enable countries or regions to respond to developmental challenges? Berend points to the importance of trans-nationalisation, connected with privatisation and marketisation, in his analysis of the recent Irish success story and of the Mediterranean ‘miracle’⁶ (Berend 2001). To focus on Ireland, we can say that the massive inflow of FDI – fostered by easy access to the EU market⁷ and a well-educated and relatively cheap labour force –, the know-how related to FDI, and the massive influx of money from EU Structural Funds played an important role (O’Hearn 1998). But had this FDI inflow not been accompanied with internal qualitative changes (increased education, institutional efficiency, etc.), it would only have served to consolidate the relatively unfavourable position of Ireland in the international division of labour. That would happen if the FDI were located primarily in the extraction sectors or if their primary purpose were to expand their own business and gain market shares in new, ‘virgin’ markets. The beneficial spillover effects are not possible without internal structural changes. Hence, we can argue that internationalisation and a massive influx of capital is a necessary condition. But it is not sufficient.⁸

In an earlier work on industrialisation and formation of the European periphery in the 19th century (Berend and Ranki 1982), Berend and his coauthor offered a much more refined, systematic and holistic analysis of development factors. They outlined socio-political prerequisites of change, human factors, the role of the state, the integration into the world market, foreign trade and export branches. These factors may be grouped as internal (the first three) and external (the last two). While it is clear that without external factors a country cannot succeed in joining the group of affluent, developed countries (unless it undertakes a long and uncertain process of own capital accumulation), their analysis makes a strong point that internal factors are crucial determinants of a country’s position in the international system.

Van Rossem also showed that development is not exclusively a consequence of the international environment, i. e. the positioning of a country towards others. Although the international environment imposes constraints on countries, especially on the economically backward ones, it does not solely determine the dependency and developmental performance of a country. His conclusion is that ‘internal social, economic, and political structures and actors become vital factors in development, and

can modify the effects of the international environment' (van Rossem 1996, 524). To put it simply, the basic preconditions for developmental performance are endogenous, but we should take the input from the environment into account. This is also the starting point of the model of socio-cultural factors presented in the next section.⁹

Despite lagging behind, Eastern European countries developed specific forms of modernisation. Its impulses were rarely endogenous. If it happened, modernisation was deformed or partial. Industrialisation was not promoted by a new capitalist social class, the bourgeoisie, but rather by the aristocracy as an attempt to preserve its privileged position. Consequently, processes of functional differentiation, with a specialised economic subsystem as a result, did not take place. Production processes were therefore less efficient and did not operate with the same logic as in the earliest industrialised countries.¹⁰ Partial forms of modernisation continued in the second half of the 20th century, which led to specific forms of modernisation, which only met some conditions of modernity. This is why some authors labelled them as 'by-modernity' (Bernik 1989) or 'deformed modernity' (Adam 1989).

A HEURISTIC MODEL OF SOCIO-CULTURAL FACTORS OF DEVELOPMENT

The importance of 'intangible' factors has been recognised for some time now.¹¹ They were mainly dealt with in a relatively intuitive way¹² or at a purely theoretical level (Swidler 1986). Some authors attempted at sophisticated calculations of relations between cultural and economic variables, but their conclusions were marked as preliminary (Granato Inglehart and Leblang 1996; Swank 1996). An integrated conceptual framework for comparative evaluation of specific development factors is still lacking.

In our own research, we have developed a robust and holistic model incorporating the socio-cultural factors into analysis of developmental performance (see Adam et al. 2005; Adam and Rončević 2004). The model has applied aspects as well, as it can point to specific factors that hinder development, thereby enabling the formulation of targeted policies for sustained development.

The model has three levels. The third level is developmental performance, which is a resultant of interaction between different factors and their mutual influence; in other words, it is a result of developmental processes. Definition and operationalisation of this level depends to

some extent on specific research interests or on social, political or strategic goals. As an example of politically defined strategic goals, we can imagine a semiperipheral East-Central Europe country setting itself the goal of achieving a developmental breakthrough and joining the group of core European countries.

Developmental performance depends on a group of factors, which constitute the first and the second level of our model. The first level is built on sedimentation of past developmental trajectories and experiences (history matters). We term this factor as *civilisational competence*.¹³ It is a 'latent structure of cognitive, normative, expressive and motivational elements which enable individuals and social communities to orient themselves in the different subsystems of modern (or modernising) societies' (Adam et al. 2005, 24). The concept of civilisational competence is based on two civilising principles, self-control (self-imposed discipline) and self-initiative (active participation) (Elias 1994).

The second and central part of the model consists of current and prospective factors of development. They are divided into internal and external ones. The former include *cognitive mobilisation*, *entrepreneurial spirit*, *quality of governance*, *social cohesion* and *social capital*. The latter include *openness* (internationalisation), implying both rational utilisation of foreign resources (such as foreign direct investments or structural funds) and active adaptation to the environment, which by definition is more complex than the system (society) itself (Heylighen 1992).

Internal current and prospective factors of development are in the focus of our research, as these are 'the most easily' influenced by specific policies. The concept of *cognitive competences* was developed to take into account the strategic role of knowledge for systemic competitiveness, as emphasized by the literature on human resources and human capital. The importance of *entrepreneurial spirit* in development is also well-recognised. Some aspects of this subject have already been studied by Max Weber. We developed our concept to take into account relevant conditions for the creation of new opportunities or even to anticipate these opportunities and react to changes in the business environment.

Moreover, one has to take into account the regulatory framework, as institutions affect enterprise performance (de Soto 2000). *Quality of governance* is hence an important factor of development. It can be expressed in a variety of ways, e.g. as protection of property rights, the administrative burden, the coordinative role of the state, support for consensus-building and its implementation through democratic proce-

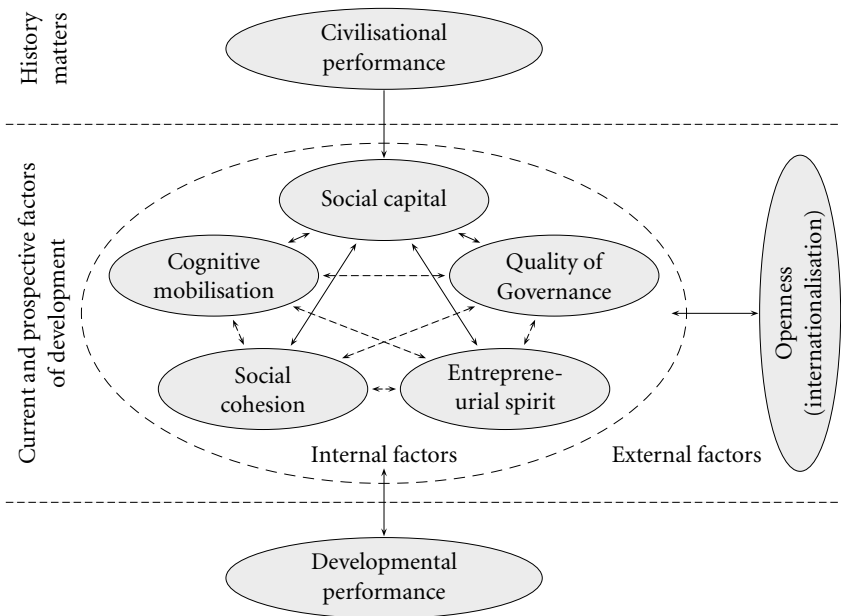


FIGURE 1 The heuristic model of socio-cultural factors of developmental performance (adapted from Adam et al. 2005)

dures, contextual intervention, regulation. *Social cohesion*, as another important factor of development (Ritzen and Woolcock 2000), does not imply a monolithic and undifferentiated society. Instead, it implies solidarity, meaningful identities and participation. It enables mobilisation and utilisation of broader potentials and contributes to consensus building, which is difficult in a society with a high level of social exclusion, extreme inequalities and anomie. Highly cohesive societies are more prone to sustained development.

The role of current and prospective factors of development depends on the organisation and utilisation of synergetic potentials. This is why social capital holds the central position within the model. We have to be careful when applying this concept (see Adam and Rončević 2003), but it can be effectively used in analysis of coordination and consensus building, reduction in transaction costs etc. It enables synergies of other current and prospective factors.

VERIFYING THE MODEL: A FUZZY-SET ANALYSIS

We shall attempt to verify the model by applying the fuzzy-set methodology for social sciences as developed by Charles Ragin (2000). This

method is widely applied in hard sciences when dealing with problems of engineering in face of ambiguity and complexity. One can hardly dispute that the problems we are dealing with in many social sciences are anything but ambiguous and complex, including the analysis of the factors of development of societies. The application of this analytical approach would seem appropriate from this perspective.

Furthermore, it is important that fuzzy-set methodology provides the researcher with 'interpretative algebra,' an approach that takes both conceptual and mathematical-analytical aspects into account, thus enabling social scientists to employ a dialogue between ideas and empirical evidence, the much-desired systematic interplay between theory and data. According to Ragin (2000, 5–6), it is possible to become involved in a much richer dialogue with fuzzy-set analysis than with 'conventional' analytical procedures for three reasons. Firstly, with fuzzy sets one can avoid problems with the usual homogenising assumptions in the analysis of large populations, and this allows for an analysis of smaller populations, such as ours (27 countries). Secondly, fuzzy sets can be used to enhance diversity-oriented research. This is potentially important in the context of our analysis, due to the fact that 'each latecomer has its own story' on the specific form of its development. Were there a different combination of necessary conditions, it would be important for our analysis to point to them. Finally, fuzzy sets can be carefully tailored to fit theoretical concepts. This is again an important aspect of our analysis.

To start the analysis we must first specify the relevant domains. These would have to be theoretically justified in certain cases, but in our analysis domains are determined by our research interest and the focus of our analysis. We have 27 relevant domains, namely the EU member states (excluding Luxembourg, Cyprus and Malta), two EFTA countries (Switzerland and Norway) and Russia.

In Adam et al. (2005), fuzzy sets have been precisely defined as different socio-cultural factors and developmental performance. Each country was assigned membership in each set. This membership is anywhere between 1 (indicating full membership in a set of e. g. developed countries) and 0 (indicating non-membership in the set). One can also decide on a certain number of anchors and thus limit available membership scores. We have decided to opt for three anchors. In addition to full membership and non-membership we also assigned partial membership (value 0.5). We used the following sets of data to assign membership scores to individual countries:

- civilisational competence was measured on the basis of the level of modernisation (this refers to political, economic and social changes occurring since the 19th century) and the geo-political position, with highly modernised countries named as core countries and the rest determined regarding their geo-political position and borders;
- entrepreneurial spirit was evaluated on the basis of the Total entrepreneur activity index, Cluster innovation environment index, Business R&D intensity, and Index of economic freedom;
- quality of governance was evaluated regarding Political rights and civil liberties ratings, the Voice and accountability index, Political stability index, Government stability index, Rule of law index, and the Corruption perception index;
- social cohesion was evaluated on the basis of Share of income and consumption, Solidarity index, and Number of suicides per 100.000 people;
- evaluation of the level of social capital was undertaken by comparing Generalized trust, Active involvement in voluntary associations and Spending time in clubs and associations;
- internationalisation was scored by taking into account Inward foreign direct investments in GDP and External trade ratios to GDP.¹⁴

On the basis of this procedure, we were able to assemble the data for fuzzy-set analysis in a spreadsheet presented in table 2.

RESULTS OF THE FUZZY-SET ANALYSIS¹⁵

After having formed the fuzzy set spreadsheet, we can attempt an empirical verification of the model of socio-cultural factors of developmental performance. We can test relationships between the three levels of the model. First is the impact of the level ‘history matters’ on the level of current and prospective factors. If our model is correct, the analysis would have to show that civilisational competence is a necessary cause of other factors.

According to the results of regression analysis, as presented in table 3, civilisational competence is usually the necessary cause of other factors of developmental performance, with the exception of the quality of governance. Looking at the data in table 2, we can see why this is the case. Across a range of countries, membership in the fuzzy-set ‘quality of governance’ exceeds their membership in the set of ‘civilisational competence.’ This is a consequence of democratisation in a number of

TABLE 2 Fuzzy-set spreadsheet

Country	DP	CC	SC	CM	QG	ES	COH	OP
Belgium	1	1	1	1	1	1	1	1
Denmark	1	1	1	1	1	1	1	1
Finland	1	1	1	1	1	1	1	1
Netherlands	1	1	1	1	1	1	1	1
Norway	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1
Austria	1	1	1	1	1	1	0.5	1
Germany	1	1	1	1	1	1	0.5	1
Switzerland	1	1	1	1	1	1	0.5	1
UK	1	1	1	1	1	1	0.5	1
Ireland	1	0.5	1	1	1	1	0.5	1
France	1	1	0.5	1	1	1	0.5	0.5
Italy	1	1	0.5	0.5	0.5	1	0.5	0.5
Spain	0.5	0.5	0.5	0.5	1	0.5	0.5	0.5
Portugal	0.5	0.5	0	0.5	1	0.5	0.5	0.5
Czech R.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Slovenia	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Estonia	0.5	0	0.5	0.5	0.5	0.5	0	0.5
Hungary	0.5	0.5	0	0.5	0.5	0.5	0	0.5
Greece	0.5	0.5	0.5	0.5	0.5	0	0.5	0.5
Slovakia	0.5	0.5	0.5	0	0.5	0.5	1	0.5
Poland	0	0	0	0.5	0.5	0	0	0
Latvia	0	0	0	0	0.5	0	0	0.5
Lithuania	0	0	0	0	0.5	0	0	0
Bulgaria	0	0	0	0	0	0	0	0
Romania	0	0	0	0	0	0	0	0
Russia	0	0	0	0	0	0	0	0

NOTES Abbreviations: DP – developmental performance, CC – civilisational competence, SC – social capital, CM – cognitive mobilisation, QG – quality of governance, ES – entrepreneurial spirit, COH – social cohesion, OP – openness. Adapted from Adam et al. 2005, 208.

countries with lower levels of civilisational competence that took sway in the past few decades. Interesting examples are Spain and Portugal, which have improved their quality of governance significantly since the 1970s,

TABLE 3 Relationship between civilisational competence and other development factors

Dependent factor	<i>p</i> -value
SC	0.017*
CM	0.033*
QG	0.358
ES	0.012*
COH	0.003*
OP	0.025*

NOTES * Denotes significance at 10 per cent level.

TABLE 4 Relationship between socio-cultural factors and developmental performance

Cause variable	Observed outcome**	Binominal prop.	<i>p</i> -value
CC	19	0.90	0.009*
SC	17	0.81	0.092*
CM	19	0.90	0.009*
QG	20	0.95	0.001*
ES	20	0.95	0.001*
COH	12	0.57	Not significant
OP	19	0.90	0.009*

NOTES * Denotes significance at 10 per cent level. ** The size of our sample is 27 countries, but only 21 were included in the analysis. This is due to the specifics of the fuzzy-set analysis of sufficient conditions. Namely, including cases where the outcome is 0 would positively bias the results towards verification of the researcher's hypothesis. Those cases where the cause (individual factors of development) has a higher or equal fuzzy-set membership than the outcome (developmental performance) confirm that a specific factor is a sufficient cause. Hence, the column 'Observed outcome' shows the number of cases where this is the case. The logic is: the higher the 'observed outcome,' the higher the 'binominal proportion.' The final row shows the calculated statistical significance.

especially as a consequence of the accession to the EU. Special cases are the post-socialist countries, where significant improvements also took place as part of democratisation in the 1990s, although of the quality of governance is still not the highest quality.

The second is the relationship between the two levels of socio-cultural factors and developmental performance. The model is considered as empirically verified if the factors are statistically significant necessary conditions for developmental performance:

The results show that civilisational competence, social capital, cog-

nitive mobilisation, quality of governance, entrepreneurial spirit and openness of societies are necessary conditions for developmental performance. The only factor that is not statistically significant is the level of social cohesion. However, we can note that no country with high levels of developmental performance has a low level of social cohesion, and only two countries with medium developmental performance (Hungary and Estonia) have low levels of social cohesion. Moreover, all countries with a low level of developmental performance have low social cohesion. We have therefore conducted another analysis, where we tested a different relation, namely, the relation between a poor level of social cohesion as a necessary cause of poor developmental performance. In this case the relationship was statistically significant: a low social cohesion is usually a necessary cause for a low developmental performance. But it is not a sufficient one, meaning that some other negative conditions have to be fulfilled as well.

The analysis also showed that a combination of all necessary factors is a statistically significant sufficient condition of developmental performance. This result has important implications: a country can embark on a positive development path only if all factors are present simultaneously. There has to be a cumulative effect and synergy among factors.

FRAMEWORK CONDITIONS FOR FUTURE DEVELOPMENT

Having demonstrated the importance of internal socio-cultural factors of development, we now turn to considering framework conditions that will constrain or enhance the opportunities for countries to realize their development potential. The most important, but certainly not exclusive, framework conditions are – in our view – economic structure of the world, political structure of the EU, demographic trends and technological developments. We do not separately consider factors such as climate change or availability of energy, as they will impact on each of the four areas that we address.

ECONOMIC STRUCTURE OF THE WORLD

Globalisation, of course, is the main feature of economic developments in the 21st Century. The important point here is that globalisation has now enabled fast development not only of the traditional ‘tigers,’ which were as a rule rather small countries, but also of some ‘giants,’ whose economic size, by current rates of growth, may in a decade or so equal the economic size of the EU.

Such developments may create serious tensions on at least three accounts:

- *New global geography of economic activity, where new centres of economic power, but also human, financial and information capital, would reach critical mass so as to challenge the competitive capacity of the 'western' world.* This is an overly pessimistic perspective, as growth of the emerging economies also promotes growth in the now developed world. The latter, however, is increasingly forced into structural reforms, which enable opportunities to dominate over threats. If, however, modern western world economies would be unwilling or unable to adapt its working and living practices to the new global circumstances, then the new economies could become a serious challenge for the preservation of the present standard of living in the western world.
- *Unprecedented increase in demand for raw materials and energy, and the corresponding increase in pressures on the natural environment.* The new 'giants' (China, India) would, at the time when the size of their GDP equals that of the EU, create equally strong demand on the world markets as the EU does. However, as their GDP per capita would still be much lower than that of the EU, the structure of their demand will be relatively more directed towards energy, raw materials and industrial inputs. At this time, there is no clear solution for these problems. If a solution is not found, we may increasingly face rising raw-material prices, energy shortages, climate change effects etc.
- *Pressures for a different political division of the world.* The new giants will demand an equal role in the processes and institutions that govern global economic order. Given their lesser economic development (in terms of GDP per capita), and consequently a more energy and environment intensive pattern of growth, this change in balance may also imply a change in priorities on the international agenda. The stronger the shortage of the raw-materials and energy will become, the more likely it is that this process of political 'rebalancing' may involve serious conflicts, including military ones.

There are, in principle, three possible outcomes (scenarios):

- *Emergence of a new leading world power.* It may be said that in the past there was usually one super-power dominating the rest of the world in both economic and political terms. After the industrial rev-

olution, this had been the UK, and since the World War II, it is the USA. One possible outcome of current tensions is that there will emerge a new economic and political super-power. However, there seems to be no clear and easily acceptable candidate for such a leading role. Moreover, if the global political game becomes one of fighting for a dominant position, it is very likely that its outcome will be determined only through military conflict of a global dimension;

- *Emergence of a multi-polar world.* Rather than one super-power being replaced by a new one, it is possible that a balance will emerge between several economic and political blocks. One of them could still be the USA (with NAFTA?), another a much more federatively organized EU, the third one China, the fourth one East-Asia (Japan with the 'old' Asian tigers), etc. The global political game would then be one of balancing or finding a stable equilibrium between these different poles. Such a game is more likely to be solved in a non-violent way;
- *Emergence of a highly decentralized world,* with many centres of development, resembling a world of city-states and prosperous regions. Especially if a stable equilibrium between a limited number of 'poles' proves hard to establish, the process of global decentralisation may continue, leading to multiple small centres of economic development, with international political institutions and powers becoming less important.

The European Commission seems to believe in the second of the three scenarios. In its communication to Heads of States and governments (Commission of the European Communities 2007), it stresses the importance of 'Europe' speaking with one voice in the world. This communication, which is formally the Commission's interim report on the Lisbon Strategy for Growth and Jobs, is almost entirely devoted to the challenges of globalisation and to the so-called 'external dimension' of the strategy. It builds its argument on the notion of the European interest, which has to be 'specifically defined, strongly articulated, stoutly defended, and vigorously promoted,' and claims the EU to be 'the best tool to enable Europeans to shape globalisation.'

In our view, the first of the three possible outcomes (a new super-power) is the least likely, especially as development and technological differences in the world are diminishing. In the medium term, therefore, the scenario of a multi-polar world (with three or four poles) seems to

be the most natural outcome of current developments. However, it also seems at least possible, if not probable, that in the long-run (some 50 years) the multi-polar world would decentralise further in direction of the third scenario.

POLITICAL STRUCTURE OF THE EU

The big issue here is whether Europe will, in time, develop into a federation in the sense of a ‘United States of Europe,’ or will perhaps devolve into a more decentralised organisation. One obvious line of argument says that Europe must become more capable of acting as one entity in the world, and that to achieve this, it must also become capable of more efficient decision making internally (EC 2007). On the political level, there seems to be a lot of at least declarative support for a more federative Europe.

This argument seems so obvious to many precisely because the current decision-making procedures in the EU are complicated and often even very simple decision (such as establishing an EU-wide patent office) take several years. There seem to be two reasons for this. One is that, even in the areas where decisions are taken at the EU level, this decision-making still often involves complicated negotiations between representatives of government, plagued with perverse systematic incentives and often dealing with details that would normally be left to the executive discretion. The other is that, also in the areas where there is no genuine EU sovereignty, complicated processes of the ‘open-method of coordination’ have been introduced, de facto hampering the autonomy of member states and increasing the cost of decision-making.

While it is clear that the decision-making efficiency has to be greatly improved in the EU, there are at least two ways to do so:

- *The United States of Europe.* Sovereignty over an increasing number of policy areas would be transferred to the EU level. Decision making at the EU level would be simplified and would increasingly resemble that of a common representative democracy. Legislative decisions would be taken by the European parliament alone on a simple majority vote, probably subject to a veto by a senate, representing nation states or regions. The Commission would be substituted by an executive body with much broader competences. The scope for intergovernmental negotiations would be reduced to the most basic political decisions, perhaps only to agreeing on changes in the European constitution.

- *A decentralised federation.* The decision procedures at the EU level would be simplified similarly as in the previous scenario. However, much fewer issues would be transferred into the sovereign responsibility of the EU. On the other hand, for those issues over which member states would retain sovereignty, the formal coordination procedures would be radically streamlined, if not abandoned.

It is important to understand that the choice of the EU political structure is not entirely voluntary. We do not believe such a decision can be taken in top-down manner, implying that the politicians should first decide on the political structure of the EU, and then all other policies scenarios could be worked out accordingly. We believe that the decision on the structure of the EU will depend on external factors (the shape of globalisation, security and energy issues, strengths and policies of emerging 'giants' and the currently dominant US, etc.) and also on some internal political factors.

The current state of affairs in Europe does not enable us to expect any significant political changes in the short run. The reformed EU treaty, which was put in the place of the failed constitution, makes some steps towards the federative direction, but they are rather modest and actually pre-empt a more thorough discussion. The EU budget is also set until 2013, and for now it seems rather unlikely for the next financial perspective (up to 2018 or 2020) that any significant structural changes could emerge. Indeed some proposals are being put forward that could noticeably improve the present state of play, thus also improving the decision-making efficiency of the EU as a whole (see Wostner 2007), nevertheless more profound changes could only be expected after 2020.

Despite these obstacles, most current discussions point towards the direction of the United States of Europe scenario. In our view, such a scenario is only possible in the long run with increased mobility inside the Union and with radically changed citizen's perception of the Union as one home entity. With time, also the pressures of the global economic competition and insecurity may become strong enough that the political opposition to a federative Europe would lose ground. On the other hand, it may also happen that in 2020 Europe would decide to move towards the direction of a 'the decentralised federation.' It may prove a good working compromise between demands for a more effective federation and the opposition to transferring more and more competencies to the 'federal level.'

DEMOGRAPHIC TRENDS

The European demographic problem is well known. Demographic projections for the EU member states are provided by the Eurostat every few years. Detailed projections of the impact of the ageing populations on the public budgets are available for all member states in regular reports (EC 2009b). However, the possible social implications of ageing populations are less researched.

It is important to understand that the projections were prepared not with the intention of predicting the future as accurately as possible, but with the aim of highlighting the dimension and structure of the 'ageing problem.' Accordingly, projections are prepared on the assumption of no policy change and on current trends in employment and productivity. No rapid change in technology is envisaged, as projections work on the assumption of a decreasing contribution of total factor productivity to growth. Such an approach is very logical in the framework of a 'warning signal' analysis, but in order to incorporate them into overall development scenarios, some assumptions on the likely policy change should be included.

TECHNOLOGICAL DEVELOPMENT

From Malthus to the Club of Rome, economic science has predicted many dismal scenarios, but none has yet materialised. The main reason why the dismal predictions were avoided lies in the technological progress, which always succeeded in creating new opportunities and solutions at the right time to avoid a catastrophe. Indeed, in the long run, technological progress seems to be the main determinant of our well-being, both in the sense of what we can achieve and in the sense of how productive we are.

Technological progress may determine the solutions we will be able to adopt with respect to the previous issues. The increasing energy and environmental scarcity can hardly be addressed without a serious technological breakthrough. The same goes for ageing – new technologies may facilitate older people to at least partially remain in paid activity after reaching the pension age. Notwithstanding some technological foresight studies and studies on the likely social consequences of technological change, technological scenarios are inherently hard to build. Technology is based on innovation, and innovation, if it is really an unprecedented novelty, is by definition hard to predict or even to imagine in advance.

BRINGING THE ELEMENTS TOGETHER

While it is hard enough to develop plausible scenarios for individual development areas, the real challenge is to bring them together in a compelling and comprehensive development vision. Here we present three attempts that we consider as important steps towards this goal.

In 1999, the Forward Studies Unit of the European Commission outlined five possible scenarios for Europe in the year 2010 (Bertrand, Michalski and Pench 1999):

- *Triumphant markets*: increasing globalisation and prevalence of the 'American economic model' (deregulation, lower taxes, entrepreneurship, downsizing of the public sector); weakening of EU common policies, integration focused on the Single Market; stronger role of regions due to a more decentralized economy;
- *The hundred flowers*: increasing economic globalisation with serious risks for political stability, crime, environment; weakening of EU common policies and withdrawal of some member states; devolution of large organizations and nation states, development of city states; public functions performed by local governments, associations and private organisations;
- *Shared responsibilities*: increasing globalisation with greater international policy coordination, led by the EU; increasing the role of EU policy coordination in education, R&D, security and justice, increasing the budget; stakeholder model of enterprise and competitive corporatism; modernisation of the public sector governance;
- *Creative societies*: slowdown in globalisation due to public discontent; strong development of common EU policies in the areas of social protection, environment, economic stabilisation; cooperative enterprises, importance of the non-profit sector;
- *Turbulent neighbourhoods*: slowdown in globalisation, developing of closed regional blocks; security concern dominating EU common policies and public opinion, rise of intolerance, increased role of the state and authoritarianism.

Braunerhjelm et al. (2000) developed three scenarios, dealing with the economic perspective of individual regions within the EU:

- Scenario of a balanced distribution of economic activity, based on substantially increased specialization of particular regions, with each of the regions finding its own market niche;

- A strong concentration of economic activity, enabled by increased labour mobility, resulting in depopulation of some areas, but without strong unemployment problems;
- A permanent polarization, dividing Europe into efficient, high income, low unemployment regions on one side, and lagging-behind regions with low income and high unemployment on the other. This scenario is likely if the increased global competition is not met by structural reforms of the EU economies.

The most extensive work in terms of future scenarios for Europe and their regions was, to our knowledge, performed in the framework of the ESPON network (www.espon.eu), where numbers of studies, usually with the perspective until the year 2030, have been performed. They are focused on particular themes (e. g. polycentricism, enlargement, transport, information society, natural hazards) as well as on impacts of particular policies (e. g. transport, R&D, CAP, energy, cohesion policy). Particularly relevant is ESPON project 3.2. ‘Spatial Scenarios and Orientations in relation to the ESDP and Cohesion Policy’, which includes a quantitative macroeconomic, sectoral, social and territorial model. Apart from the baseline scenario, which takes account of what we called framework conditions, they also develop a ‘cohesion-oriented prospective scenario’ and a ‘competitiveness-oriented prospective scenario.’ Depending on the policy choices by the EU and the Member States, they find significant differences in terms of concentration of economic activity in the European core, major cities, peripheral and rural areas and consequently their welfare levels. On this basis they propose the ‘proactive scenario,’ which aspires to put forward the right balance of policies based broadly on the Scandinavian development model.

Discussion and Conclusion: Some Tentative Implications for Slovenia’s Alternative Scenarios

We began our paper by asserting that, in order to meaningfully discuss the possibilities of development catch-up, one must consider both the external framework conditions and the internal development capabilities. Success in dealing with the four big challenges stemming from changes in global economic structure, European political structure, demographic trends and technological development, is always a resultant of external forces that shape the conditions and internal processes and adaptations.

One way to analyze the interplay between framework conditions and internal capabilities is to ask whether a given framework scenario would increase the autonomy of regions and individual countries, or diminish it? In case of increased autonomy, we should focus on country-specific development assets (strengths and weaknesses). In case of decreasing autonomy, we should however expect that individual countries will broadly share the fortunes of the EU as a whole, although they may have some means to improve their relative position even in such a context. Among the scenarios outlined in the third section, we see as 'autonomy enhancing' the economic scenario of a more decentralised world and the political scenario of a more decentralised European Union. Technological progress facilitating transfer of information, decentralised organisation and 'distance work,' would also facilitate autonomy.

When asking about future trends of a country like Slovenia, one needs to consider whether it is realistic to expect that any of the post-socialist countries could in the foreseeable future be able to achieve developmental breakthrough and so to join the exclusive club of the rich countries of the European core? This would in fact be a remarkable achievement, having in mind the historically poor economic development performance. In contrast to approaches based on extrapolation of current trends, we embarked on searching for the answer to this question rather differently. We were interested to see whether these states have developed the necessary conditions for faster development.

Based on our analysis, we conclude that only some of the semi-peripheral countries have a realistic possibility to become members of the group of most developed European societies. We limit our optimism to those which were classified as countries with a medium level of developmental performance (Czech Republic, Slovenia, Estonia, Hungary and Slovakia). That means that their economies are already at the investment-driven stage of development and are capable of building capacities to improve the imported and assimilated technology and production methods, and to manage the complex transition to innovation-driven development.

The obvious question is: can what specific societies do to enhance their developmental performance? Implications of our results for shaping holistic strategies of sustainable economic development confirm some previous findings (Messner 1997; Mayntz 1987), that developmental policy makers must consider a series of structural limitations arising from their own environment. Therefore, it is not realistic to expect that simple direct interventions like increase in financial investment into spe-

cific resource or infrastructure will considerably affect developmental performance. Hierarchic or 'top-down' approaches cannot give satisfactory results. The post-socialist societies of Central and Eastern Europe need to work their way towards establishing the right preconditions for developmental performance. Successful strategies need to use sophisticated mechanisms of contextual interventions to establish the conditions where different intangible factors of development develop simultaneously.

Obviously, no clear-cut prescriptions or recipes are possible, such as those persistently advocated by numerous international institutions and scientists in the course of the past decade. If there is something that one can learn from past examples of successful transitions from the semi-periphery to the core, it is that no country did so by imitating some other country or by following such prescriptions. It needs to be clear that social scientists are not able to generate solutions in the form of 'pure' prescriptions and 'categorical imperatives'; they can at best produce hypothetical solutions in the form of scenarios, multiple options and cost-benefit or SWOT analyses. They can be very helpful by indicating and evaluating the side effects and potential risks of certain decisions and policies. And, perhaps most importantly, they can attempt to trace the necessary conditions for favourable outcomes. In the paper, we tried to establish these 'intangibles' by using a heuristic model of socio-cultural factors of developmental performance and with application of 'fuzzy-set' analysis.

Focusing on Slovenia, it scored as middle ground in all dimensions of our fuzzy-set analysis. The implication is that, in order to achieve the developmental breakthrough, the country must work simultaneously on improving all internal factors of development. For 'active societies' (Etzioni 1968) such insights can be a useful tool for self-reflection, learning and adaptation of developmental policies. But, as argued elsewhere (Rončević 2008), Slovenia today cannot be considered as an 'active society.' One can therefore question the current ability to learn from such findings.

Hence, it would make sense to predict two broad and quite distinct scenarios for the future. The main difference between these two scenarios should be the (in)ability to make a strategic shift in several very important fields at the same time. The new development model should combine positive characteristics of the more liberal economy with a European model of a partner-state, the latter nicely fitting Slovenia in terms

of its development capabilities and values. On the other hand, inability to break with the existing model would continue Slovenia's path dependency and semi-peripheral position.

As a small country, Slovenia should be naturally inclined to oppose tendencies of political centralisation in the EU and of establishing a new single global economic super-power. The rationale for this is that Slovenia would have a comparatively small influence on centralised decision-making in the EU and that it would be highly risky to depend on only one major economic partner. We should therefore consider autonomy-enhancing framework scenarios as more beneficial. However, there are areas where working together with – or simply leaning on – the EU institutions may help the country to develop its own internal capabilities. The dimensions of governance and openness, but also of cognitive mobilisation and entrepreneurial spirit, are those where adopting best practices from other member states, or relying on common policies and the pressures of the common market, may prove highly stimulative for internal development processes.

Notes

- 1 A good example of a detailed analysis along such lines is the European Commission study on 'five years of enlargement' (EC 2009a).
- 2 For a thorough review of Slovenia's transition, see Mrak, Rojec and Silva-Jauregui (2004).
- 3 See Šušteršič (2009) for an overview of the arguments involved.
- 4 This strategic document sets out the vision and objectives of Slovenia's development until 2013 and includes five developmental priorities with corresponding action plans. In order for Slovenia to achieve these goals it needs to prepare and deliver sweeping structural reforms and change its existing development pattern.
- 5 It needs to be emphasised that our focus on 'intangibles' does not render unimportant more 'tangible' factors like macroeconomic stability. But we argue that it is not a factor which could explain the differences between highly developed and less developed countries. Stabilisation of the macroeconomic framework is only a part of systemic competitiveness genesis (Esser et al. 1996).
- 6 In Berend's opinion, the Mediterranean EU member states are a success story when compared to post-socialist countries. By employing long-term data on GDP, he describes a 'dramatic departure from their previously similar growth patterns' (Berend 2001, 258). But on the basis of data indicating the position in the international division of labour and GDP, we

would hesitate to talk about a success story. The substantial increase in differences between Mediterranean countries and post-socialist countries was primarily caused by a rupture of growth rates of the latter and is not evidence of the developmental performance of the former.

- 7 Most FDI came from the USA (O'Hearn 1998).
- 8 Experts put forward different views on the causes of Ireland's sudden economic growth. Some conclude that it was a consequence of a series of reasons, being present far before anything happened (Walsh 1999; Battel 2003). Elsewhere a thesis was put forward that systemic discourse, institutionalised in a long-term social partnership with strong spill-over effects, was the catalyser of existing development factors (Rončević 2008).
- 9 The case of Czechoslovakia is telling. Between the world wars, it was the only industrialised and developed Central European country. This was at least to some extent the consequence of successful national confrontation with the German speaking population. 'After the 1840s, the Czech lands were caught up in rivalry for economic dominance where on both sides (German and Czech) the frenzy for education, culture, journals, clubs and entrepreneurship became paramount' (Benaček 2001, 137). The Czechs were able to respond to the challenges of the industrial revolution. This was not an enforced process; it was spontaneous and highly motivated. Data on the density of industrial sites show that the country was the most industrialised part of the monarchy. In 1914, Austria had 60 factories per 100,000 population. Czech lands had 94, while the central part of today's Slovenia had only 29 (Hočevár 1965, 45).
- 10 In Schöpflin's (2000, 60) words: 'In Central and South-Eastern Europe, domestic models of modernity [...] were weak and not based very directly on local socio-economic patterns, but were imported from outside, often as a response to the intrusion of a power that was perceived as alien, and as a defence against that intrusion. This process of importation inevitably distorted the nature of modernity as it had evolved in the West, because the domestic context was different and the aspects of modernity that were taken over were inevitably partial. Technology has a cultural context, and the reception of technology without its enveloping culture changes its impact. Hence the repeated attempts to make 'a forced march through history' and to catch up with Europe never achieved their objective.
- 11 In the 1940s and 1950s, there had been much interest in studying the role of culture as a key element for understanding societies and analysing their economic and political development (e. g. by Margaret Mead, Ruth Benedict, Davis McClelland, Edward Banfield, Alex Inkeles, Lucien Pye). In the 60s, the interest dropped rapidly.
- 12 A good example is the yearbook *Culture Matters*, where these factors were

- discussed by authors from fields of sociology, political science, anthropology and economics (Harrison and Huntington 2000).
- 13 This concept was developed by Sztompka to explain differences between developed West European and underdeveloped East European societies. We significantly changed his formulation in an attempt to improve it to observe the differences between East European societies.
 - 14 To illustrate, let us take the example of the fuzzy – set ‘developmental performance.’ On the basis of Porter’s definition of successful economic development as ‘a process of successful upgrading, in which the business environment in a nation evolves to support and encourage increasingly sophisticated ways of competing’ (Porter, in World Economic Forum 2002, 57), we defined the concept, three anchors, and their verbal labels. We then used various statistical data on patents (innovativeness and new knowledge), GDP (PPP), overall productivity and total hourly compensation for manufacturing workers, to classify the countries into three groups, and then assigned membership scores for each country (1 = high developmental performance, 0.5 = medium developmental performance, 0 = low developmental performance).
 - 15 We analysed the data with computer programme FS/QCA, version 0.963.

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