Looking Back to Convergence Trends and Inequality Developments in Central- and Eastern Europe: Almost Three Decades After the Transition

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The paper looks at trends in Central and Eastern European countries, exploring both convergence between these countries and the centre of the EU on the one hand and comparative inequality trends within some of the central/eastern European economies on the other. The region covered includes the three Baltic States (Estonia, Latvia and Lithuania), the four Visegrad countries (Czech Republic, Hungary, Poland, Slovakia), in addition to Slovenia, Romania and Bulgaria. For time series data the period covered stretches from the beginning of the '90s until the most recent available year). The aim is to answer the following questions:

- What patterns of income convergence and inequality developments can be identified for CEE countries that experienced a transition from non-democratic regimes and centrally planned economies to competitive markets and representative democracies?
- What kind of similarities and dissimilarities can be identified among these developments?
- Do the observed countries form a homogenous country grouping at any part of our observation period?
- What kind of similarities and dissimilarities can we identify with regard to the drivers behind societal changes in these countries?
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The historic and social development of the countries studied in this paper show important similarities. They have in common, for example, the socialist legacy, two or three waves of institutional adaptation processes and three major economic shocks for most of them.

As a first institutional change, the transition from command to market economy and from dictatorship to liberal democracy shall have to be mentioned. The second large institutional adaptation process was linked to the accession to the EU. The Central European transition countries (Poland, The Czech Republic, Slovakia, Hungary and Slovenia) and the three Baltic States (Estonia, Lithuania and Latvia) became members of the EU in 2004, while Bulgaria and Romania in 2007. Within this process a great deal of legal harmonization to the EU acquis had to be completed, implying similar procedures but varying extent of harmonization for the various countries and various fields. Three countries, Slovenia, Slovakia and Estonia have also joined the Eurozone, making a large step towards a more complete integration of their economy into the EU (the third type of institutional shocks).

The transition paths have also displayed important differences that had a deep impact on the outcomes in terms of income growth and inequality. The first to be mentioned is the historical heritage these countries brought with themselves into the process. And there were important differences in the transition process itself. In some of the countries the reforms have been faster, while other countries have adopted a more gradual approach. The privatisation strategies adopted also varied. Overall, within the broad similarities between institutional structures of liberal democracy and market economy, the chosen economic and social policies and institutions adopted in CEE countries differed to a significant extent. In addition, as a recent development, one can also observe a diversion from the general European path (into which all the above types can still broadly fit) in case of at least two countries (Hungary and Poland experimenting with "illiberal" political regimes and more centralized economic systems.
The paper compares developments in these countries by focussing on economic convergence to EU15 member state, on distributional issues and on well-being and satisfaction of the population.