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FROM CENTRAL PLANNING TO MARKET ECONOMIES: POST-1989 TRANSFORMATION IN CENTRAL AND EASTERN EUROPE

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Abstract: The collapse of centrally planned economies in 1989 triggered one of the most transformative socio-economic transitions in Central and Eastern Europe (CEE). This study examines the origins, assumptions and structural dynamics of post-communist transformation through the lens of Institutional Change theory. Adopting a qualitative comparative historical approach, it analyses policy reforms, market liberalisation and institutional restructuring in the shift to market economies. It also explores macro- and micro-level impacts, including social inequality, regional disparities, and changes in production systems, as well as the international dimension shaped by European Union integration, global markets and regional cooperation. By integrating institutional and historical perspectives, the study highlights the interaction between structure and agency, revealing both the gains and contradictions of market reforms. It concludes that while the transition improved integration and growth, it also entrenched uneven development and institutional dependency that continue to shape the region's long-term socio-economic and political trajectory.

Keywords: transition economies; Central and Eastern Europe; EU integration; socio-economic transformation, post-communism

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INTRODUCTION

After World War II, between 1945 and 1950, countries in Central and Eastern Europe (CEE) adopted centrally planned economies under Soviet influence to rebuild war-torn societies, promote rapid industrialisation and consolidate communist political control (Roland, 2000: 1–23). During this time, CEE remained largely closed to Western trade and investment due to state-controlled enterprises which isolated the region from global market dynamics (Healey, 1994). However, by the late 1980s, the collapse of Soviet authority, with its inherent contradictions such as economic inefficiency, weak institutions, macroeconomic imbalances, debt crises and political unrest, pushed these countries to abandon central planning in favour of market-oriented economies to pursue democratisation, economic efficiency and integration with Western Europe (Gelb and Gray, 1991: 1–20; Nhiem et al., 2006: 12–49). This development fundamentally reshaped both the political and economic landscape of the world (World Bank, 1996: 7–21).

But how does a society dismantle an entire economic order and rebuild another from its ruins? Should transformation follow a gradual path or adopt a radical ‘shock therapy’ approach, emphasising swift systemic change? (Åslund, 2018; Mikloš, 2021). These questions capture the magnitude of the transformations that swept across CEE after 1989.

Beyond the fall of authoritarian governments, the collapse of socialist regimes across CEE represented the end of a centrally planned economic system that had defined production, distribution and social welfare for over four decades. In its place emerged a complex and turbulent project of systemic reform, an effort to liberalise markets, democratise politics and integrate newly independent states into the global capitalist economy. The term “transition” or “transformation” sought to encapsulate this process (Offe, 1991; Berend, 2009: 134–173; Orenstein, 2021: 12–17). At its core, transition involved a reconfiguration of the political economy, from state command systems to market-oriented governance structures (Gelb and Gray, 1991: 1–75). In a word, it involves structural and institutional change (Rohác, 2013). Central planning was replaced with mechanisms of competition, private property and international trade (Turnock, 1997: 134–173). The disintegration of the Soviet Union and the collapse of the Council for Mutual Economic Assistance (CMEA) dismantled the institutional framework of the socialist bloc and forced successor states to confront challenges ranging from price liberalisation and privatisation to fiscal stabilisation and the creation of market institutions. Early theoretical models conceptualised transition as a linear, technocratic process (Kornai, 1992: 91–108; Sachs, 1994: 19–47), assuming that market reforms would produce convergence toward Western-style capitalism.

Yet, as experience has shown, transition was far from uniform or predictable. The depth and pace of institutional change were more complex than initially envisaged (Stark and Bruszt, 1998: 25–52; North, 2006: 103–126). The transformation unfolded unevenly across CEE countries, reflecting distinct historical legacies, varying institutional capacities and differing reform strategies (Mitra and Selowsky, 2002). For some countries, such as Poland and the Czech Republic, transition was marked by rapid liberalisation and early integration with Western Europe, while in others, such as Romania, the process was protracted and disrupted by instability (Spendzharova and Vachudova, 2012). This is because socio-economic transition is shaped by political contestation, path dependency and informal institutional legacies. In this sense, transition was not simply economic liberalisation but a multidimensional transformation involving social adaptation, institutional learning and cultural reorientation.

Despite more than three decades of reform, the transition experience across CEE remains ambivalent. On the one hand, the region has achieved macroeconomic growth, democratic consolidation and integration into global institutions such as the European Union and NATO; on the other hand, it has produced inequalities, regional disparities and institutional vulnerabilities that persist (Sandu, 2023). A second problem lies in the early policy assumption that transition could be universally applied. The "one-size-fits-all" approach neglected socio-political specificities and resulted in uneven development trajectories and institutional fragility (Roland, 2000: 1–23; Kornai, 2006). Consequently, while some states have become competitive market economies, others continue to struggle with governance crises, demographic decline and dependency on foreign capital.

While extensive scholarship exists on post-socialist transformation, much of it has focused narrowly on economic liberalisation and policy reform, often side-lining social and institutional dimensions (Sachs, 1994: 19–47; Balcerowicz, 1995: 166–185; Dąbrowski, 1996: 1–6). This technocratic bias has left gaps in the understanding of how the transition reshaped everyday life, regional structures, and social cohesion.

Furthermore, comparative analyses have tended to treat the CEE region as a homogenous bloc, overlooking divergent national pathways and long-term legacies of reform.

It is necessary to observe that the transition from central planning to market economies was not merely an economic adjustment but an institutional transformation requiring new systems of property rights, corporate governance and regulatory frameworks. Yet, institutions are historically conditioned and evolve over time (North, 1990: 109–118; Roland, 2000: 1–23). Against this backdrop, the success or failure of transition depended not only on the speed of reform but on the compatibility between new institutions and existing social norms. This study re-examines the post-1989 transformation by integrating historical interpretation with institutional analysis and addresses four interrelated dimensions: the theoretical and institutional foundations of transition, the macroeconomic and social effects of reform, the regional disparities produced by divergent pathways and the international dimension, including European Union integration and global market forces.

By examining these dimensions, this study argues that while transition dismantled the institutional architecture of socialism and facilitated integration into the global capitalist order, it also generated new forms of dependency and political reactions (Epstein and Sedelmeier, 2013; Börzel and Schimmelfennig, 2017). The study contributes to understanding how political economy, institutional design and global integration intersect in shaping post-socialist societies. It also reflects on the long-term legacies of reform and shows that transition remains an ongoing historical process with implications for governance, inequality and regional cohesion in contemporary CEE.

The study is organised into seven sections. Following this introduction, Section 2 reviews the existing literature on the dynamics, theoretical foundations and institutional dimensions of socio-economic transition in CEE since 1989. Section 3 applies Institutional Change Theory to analyse the dynamics of transition, while Section 4 outlines the research methodology and the use of Qualitative Comparative Historical Analysis (QCHA). Section 5 discusses four major themes that emerged from the qualitative data while Section 6 presents a comparative analysis of divergent reform outcomes and enduring challenges of transition, and Section 7 concludes with reflections on the lasting legacies of reform and prospects for inclusive in the region.

LITERATURE REVIEW

Theoretical and Institutional Explanations of Economic Transition

The transition from centrally planned to market-oriented economies in CEE after 1989 has been one of the most widely analysed phenomena in comparative economic history (Gelb and Gray, 1991: 1–20; Turnock, 1997: 134–173; Roland, 2000: 1–23; Blanchard et al., 2008: 1–18; Jefferies, 2025). The early theoretical foundation of this transition was rooted in neoclassical economics, which posited that liberalisation, privatisation and deregulation would naturally lead to market efficiency and growth once state interference was removed (Sachs, 1994: 19–47; Balcerowicz, 1995: 166–185). This view, often termed the "Washington Consensus", underpinned the "shock therapy" reforms implemented in several post-socialist states, particularly Poland, the Czech Republic and the Baltic countries (Marangos, 2008: 229–236). However, successful transformation requires more than price liberalisation and privatisation. Ness and Cope (2022: 523–535) argue that the integration of Eastern Europe into Western economic systems finds its theoretical foundation in orthodox international trade theory and neoclassical growth theory, while also recognising that diminishing returns on capital and structural asymmetries can limit convergence.

Institutional economists emphasise that markets cannot function effectively without strong formal institutions, such as property rights, independent judiciaries and regulatory frameworks (Roland, 2000: 1–23). The Theory of Institutional Change posits that transitions are inherently path-dependent, in that historical legacies and informal norms shape how new systems evolve (Stark and Bruszt, 1998: 25–52; Hodgson, 2006). This marked a shift from a technocratic to an institutional understanding of transition. Rather than a uniform convergence toward Western capitalism, transition is increasingly viewed as a context-specific negotiation between inherited socialist institutions and emergent market structures. Scholars such as Kornai (2006) and Ekiert and Hanson (2003) note that the state retained a vital role in creating institutional scaffolding for markets, even as its direct control over production diminished. Thus, divergence in outcomes reflects differences in reform strategies, institutional quality, governance capacity and social trust. Together, these perspectives form the analytical basis for understanding post-socialist transition and integration, explaining expected growth through trade and investment while also recognising persistent disparities and dependency dynamics within the Western-led global economy.

Transition is not a simple, one-directional shift but a complex restructuring of social relations shaped by the effort to build capitalism upon the remnants of the communist order (Pickles and Smith, 2005: 1–20). This accounts for why some countries achieved stable transformation while others did not. It also challenges early 1990s assumptions about democratisation and the "victory" of market capitalism, revealing more intricate realities than conventional theories anticipated.

The contrasting experiences of the Czech Republic and Vietnam illustrate this complexity. Vietnam's transformation from a neo-Stalinist centrally planned system to a "Vietnamese-style" market economy has been widely analysed (Fforde, 2019: 1–18). Examining its northern model before 1975 and its colonial and precolonial roots clarifies these dynamics (Luong, 2010: 1–12). Vietnam's reform process was largely bottom-up and gradual, allowing the political economy to adjust to new realities (Nhiem et al., 2006: 12–49). This gradualism helped explain its rapid shift toward a high-growth, export-oriented trajectory in the early 1990s, despite the withdrawal of Soviet support and the delayed arrival of Western assistance until 1992–1993 (Nhiem et al., 2006: 12–49).

Macroeconomic and Social Effects of Reform

The macroeconomic literature on post-communist transition is dominated by analyses of stabilisation, liberalisation and structural adjustment (Dąbrowski, 1996: 1–6; Fischer et al., 1996). In the early 1990s, most CEE countries experienced a severe *transitional recession* as GDP contracted, inflation soared and unemployment rose sharply. Poland's GDP declined by almost 18 per cent between 1989 and 1991, whereas in Russia and Ukraine the contraction was over 40 per cent (Dąbrowski, 1996: 1–6). The literature attributes these downturns to the rapid withdrawal of state subsidies, loss of Soviet markets and institutional dislocation caused by abrupt liberalisation (Fisher et al., 1996). According to Healey (1994), between 1945 and the late 1980s, Eastern Europe remained largely closed to Western commercial engagement. This was because its centrally planned economies and state-controlled enterprises effectively excluded Western investors.

However, the post-1989 transition toward market capitalism transformed the region into a new frontier of economic opportunity and offered significant long-term growth potential for Western partners. It is necessary to observe that this transformation has not been without challenges. In other words, persistent issues such as inflation, heavy indebtedness, low productivity and societal resistance to change, continue to pose serious risks to the socio-political and economic stability of CEE (Kornai, 2006; EBRD, 2014: 5–8). Turnock (1997: 134–173) examined the impact of communism and transition from communist to free-market economies both within and between the states of Eastern Europe and found that decades of communist rule shaped economic structures, regional disparities and patterns of industrialisation across Eastern Europe.

Additionally, historical legacies, institutional weaknesses, differing reform strategies and uneven transition to market economies after 1989 produced varied outcomes both within and among Eastern European states (Turnock, 1997: 134–173). Over time, however, many CEE economies recovered and achieved sustained growth through foreign investment, export diversification and fiscal discipline (EBRD, 2014: 5–8). Poland, the Czech Republic and Slovakia are often cited as relative success stories, having demonstrated that rapid reform can yield long-term benefits when combined with effective governance. Yet, these macroeconomic gains were accompanied by profound social costs. The erosion of welfare systems, growing income inequality and labour market insecurity produced widespread "transition fatigue", particularly among the working class and older populations (Milanović, 2019: 1–12; Stiglitz, 2002).

Social stratification emerged as one of the most enduring legacies of reform (Večerník, 2022: 11–15). In most cases, transition redefined class structures by rewarding entrepreneurial and managerial skills while marginalising those dependent on the socialist welfare state. This resulted in inequality (Perugini and Pompei, 2015: 93). The weakening of labour unions and the commodification of public goods such as health, housing and education, exacerbated social exclusion. These dynamics have been linked to the rise of populism and illiberal politics in several CEE states, as citizens channelled their discontent into anti-establishment movements (Bohle and Greskovits, 2007; 2012; Inglehart and Norris, 2016). In a word, while economic liberalisation delivered growth, it also fragmented the social fabric that had underpinned socialist solidarity.

Regional and Spatial Disparities Produced by Divergent Pathways

The historical transformation of CEE represented the only instance of a comprehensive systemic change achieved peacefully and at a remarkable speed, largely aligning with the economic and political trajectory of Western civilization (Dębski, 2020). Scholars are often surprised at how quickly the system collapsed and how little resistance Moscow and its allies (or vassals) in the communist bloc offered to the transfer of power. Moscow was expected to attempt to negotiate some form of compromise, such as a 'socialism with a human face' (Mikloš, 2021). From this broader historical standpoint, it stands as an exceptional success story. However, as Dębski and Hamilton (2019: 343) succinctly put it, thirty years on, this transition is still unfulfilled. A new divide has emerged in Europe between two competing development models: a democratic path grounded in European and transatlantic integration, and an oligarchic, quasi-autocratic path characterised by deep entanglement among political, business and criminal interests. Russia's aggression against Georgia in 2008 and against Ukraine beginning in 2014, persistent challenges across the Eastern Partnership (EP) countries and the Western Balkans, as well as destabilising political trends in several Central and Western European states, continue to put President Bush's vision for Europe's future to the test (Dębski and Hamilton, 2019: 343).

Similarly, when viewed from the perspective of ordinary citizens, the picture is more complex in that significant segments of the population continue to grapple with deep economic hardship and social insecurity (Kornai, 2006). Fiscal decentralisation reforms in CEE demonstrate how disparities in local fiscal capacity and administrative efficiency can undermine equal service provision across regions (Plaček et al., 2020: 1–3). Spatial inequality was also a defining feature of post-transition development, with benefits of reform unevenly distributed across regions. Capital cities and industrial hubs integrated rapidly into the global economy, while peripheral rural areas lagged behind (Sandu, 2023). Thus, agglomeration processes, where investment, infrastructure and skilled labour concentrate in metropolitan areas, created a dual economy characterised by modern, export-oriented sectors alongside stagnant local economies (Horváth and Lux, 2017: 15–28).

In other words, the adoption of a neo-liberal capitalist model in CEE evolved into what Nölke and Vliegenthart (2009) term a "dependent market economy," producing a dual dependency shaping the region's development. First, CEE states became reliant on Western multinational corporations, which control major industries, concentrate strategic decision-making abroad and confine local operations to lower-value production (Horváth and Lux, 2017: 15–28). Second, public-sector development grew dependent on EU structural and investment funds, whose strict rules limit national discretion and align domestic priorities with EU objectives. Together, these corporate and institutional dependencies restrict economic autonomy and reinforce a structurally subordinate position within Europe (Nölke and Vliegenthart, 2009).

The collapse of communism and the shift to a market economy introduced complex challenges that reshaped the urban landscape of CEE (Stanilov, 2007: 3–17). Regional divergence is partly rooted in pre-transition industrial geography and partly in post-transition policy choices. Warsaw, Prague, and Budapest benefited from high human capital and pre-existing administrative capacity to attract foreign direct investment (FDI) and EU cohesion funds. In contrast, regions in Romania, Bulgaria and eastern Poland faced structural disadvantages such as weak infrastructure, limited innovation capacity and high outmigration (Medve-Bálint, 2024). Moreover, although intended to empower local governance, decentralisation reforms introduced in the 2000s often reinforced inequality due to disparities in fiscal capacity and administrative efficiency (OECD, 2019: 107–109). Lack of administrative, technical or strategic capacity remains a major challenge in decentralisation.

The spatial outcomes of transition are therefore not merely economic but deeply political, continuing to influence electoral behaviour, social identity and regional autonomy movements. These findings show that transition must be understood as a geographically uneven process shaped by both national and transnational forces.

The International Dimension: EU Integration and Global Market Adaptation

No analysis of post-1989 transition is complete without considering its international dimension, especially the central role the European Union (EU) played as both an external anchor and a driver of domestic reform. The EU accession conditionality process required individual states to adopt the *acquis communautaire* which is a comprehensive legal and institutional harmonisation with EU standards (Sadurski, 2012: 24; Epstein and Sedelmeier, 2013; Noortmann, 2016: 148; Naert and Czuczai, 2017:

145–150). This process incentivised reforms in public administration, fiscal policy and judicial independence and effectively externalised governance norms into domestic policy (Grabbe, 2001). Since the 2008 global financial crisis, the European Union has remained in a near-constant state of crisis management (Creel, 2018). Growing internal differentiation among member states has become increasingly evident, while the migration crisis has revealed a significant shift within CEE countries (Arnull, 2017: 112–126; Zupančič et al., 2023: 1). This demonstrates that these states are gradually moving from being largely passive recipients of EU policies to emerging as active participants in shaping the Union's governance and policy agenda (Kornai, 2006; Schweiger and Visvizi, 2018).

Beyond the EU, global market adaptation brought both opportunities and vulnerabilities. The influx of foreign direct investment facilitated modernisation but also exposed local industries to competitive pressures and financial volatility (Nölke and Vliegenthart, 2009). The 2008 global financial crisis revealed these dependencies: while CEE economies had achieved integration, they lacked sufficient institutional resilience to absorb external shocks (Lane and Milesi-Ferretti, 2011). The literature therefore suggests that the international dimension of transition produced a "paradox of integration": while EU accession accelerated institutional modernisation and economic growth, it also entrenched asymmetric interdependence, constraining autonomous policy-making and deepening regional inequality (Marangos, 2008: 240–242). Similarly, across these four dimensions—theoretical, macroeconomic reforms, spatial disparity and international (EU) dimension, the literature converges on a central insight: transition was not a uniform or linear process of convergence toward Western capitalism. Instead, it represented a complex negotiation between inherited socialist institutions, new market norms and international pressures. The diversity of outcomes across the CEE region reflects varying state capacities and institutional legacies. While transition achieved remarkable integration into the global economy, it also produced enduring inequalities and institutional dependencies that continue to define the socio-economic landscape of CEE countries.

THEORETICAL FRAMEWORK

The analytical foundation of this study draws from Institutional Change Theory (ICT), which, according to Coccia (2018), refers to the transformation of the formal and informal rules, norms and expectations that shape human interactions and influence a society's developmental trajectory. Institutions encompass a broad spectrum of human-designed mechanisms for social coordination, ranging from state bureaucracies, judicial systems and law enforcement agencies to religious organisations, tribal authorities and networks of patronage (Bourguignon and Platteau, 2023: 14). They also include informal arrangements such as social norms, customs, contracts, mutual aid groups and community associations. As North (1990: 109–118) argues, individual expectations play a crucial role in shaping and sustaining these institutions. The effectiveness of market systems and state interventions is largely determined by the strength and quality of institutional frameworks, while weak institutions contribute to underdevelopment and persistent poverty. In many contexts, existing institutions have proven ill-suited to the demands of modern economic transformation. This was evident during the initial years of post-communist transition in CEE, where reforming deeply embedded institutional structures proved complex.

In the post-1989 context, Institutional Change Theory helps explain why similar market reforms yielded different outcomes across CEE. It suggests that the effectiveness of liberalisation and privatisation depended not only on economic design but also on pre-existing institutional capacities, social norms and political cultures inherited from socialism. The institutional approach complements and challenges the shock therapy model, which prioritised rapid market liberalisation (Marangos, 2005). Proponents of ICT argue that enduring transformation requires institutional sequencing, including the gradual development of credible enforcement mechanisms, property rights and regulatory systems before full-scale privatisation (Roland, 2000: 1–23). Institutional change also reflects path dependency, meaning that initial institutional configurations shape future choices. For instance, the Czech Republic moved relatively smoothly toward liberalisation due to stronger pre-existing state capacity (Winiecki, 1997; Romaniuk and Sznajderska, 2013), whereas countries such as Romania and Bulgaria struggled with corruption, rent-seeking and weak institutional coherence (Spendzharova and Vachudova, 2012; Dincă et al., 2021).

Similarly, while Poland's transition is often celebrated as a success, Winiecki (1997) provides a more nuanced assessment by examining financial and labour markets, competition, state intervention, social security systems and property rights, and concluded that Poland's transformation remains incomplete. Conversely, Hungary's early adoption of legal and fiscal reforms, despite initial economic constraints, facilitated investor confidence and relative stability (Forthun and Hagemann, 2010: 2). The financial liberalisation accompanying transition involved the privatisation of state-owned banks and the establishment of new private financial institutions (Colombo and Stanca, 2006: 35–43).

In contrast, Ukraine's experience illustrates the consequences of weak institutional capacity. External interference, inconsistent enforcement of property rights and weak regulatory frameworks hindered fair competition and reinforced oligarchic dominance (Babie, 2016). Similarly, Russia's attempts to integrate into the global economic system have been undermined by internal constraints and resistance to Western economic frameworks (Worth, 2017: 93–98). The rapid dismantling of state structures without adequate institutional safeguards resulted in asset concentration, economic volatility, and weak property rights enforcement, producing oligarchic outcomes (Fortescue, 2006: 8–10; Osipian, 2019: 71–88).

There are essential preconditions for institutional change, and these differ across countries. The transition from planned to market economies depends not only on democratisation but also on the capacity of states to adapt to their specific institutional and structural conditions (Parker et al., 1997: 1–20). Consequently, each country must adopt a transition strategy aligned with its historical and institutional context (Sjöstrand, 1993: 139). Property rights are central to this process, as they define ownership, control and access to productive assets, making their reform fundamental to restructuring planned economies. Research on economic transition highlights that institutional effectiveness depends on initial conditions and sustained political commitment (Roland, 2000: 1–23). Institutional strength therefore determines whether post-socialist transitions evolve into stable market economies or remain characterised by reform failure and fragility.

This theoretical lens enables a nuanced understanding of transition as both an economic and socio-political process shaped by the interaction of historical legacies, political agency and structural constraints.

METHODOLOGY

This research adopts a qualitative comparative historical analysis (QCHA) to examine socio-economic transition in CEE. The QCHA focuses on sequences of events rather than on some single past (or current) occurrence that might have influenced an outcome in the past (Schutt, 2009: 437–439). The four stages involved in comparative historical analysis are the specification of theoretical framework and identification of key concepts or events that should be examined to explain a phenomenon, the selection of cases, the identification of similarities and differences between cases and based on the information gathered, propose a causal explanation for the historical phenomenon (Schutt, 2009: 437–439).

The Comparative Historical Analysis (CHA) approach emphasises long-term, large-scale and complex outcomes, firmly grounded in empirical evidence through detailed, case-based investigations and pays close attention to the temporal dimensions and evolving processes of political change (Rueschemeyer and Mahoney, 2003: 6–16).

Thus, this method integrates historical interpretation, document analysis and thematic synthesis of secondary data drawn from World Bank reports, IMF publications, EU integration records and peer-reviewed literature from 1990 to 2025. Data collected from these and other archival policy documents and historical economic indicators were reviewed to trace transition and reform trajectories across the Czech Republic, Poland, Romania, Bulgaria, Ukraine and others. Using thematic Analysis (Braun and Clarke, 2012), patterns that emerged from the data were organised under four major themes—Institutional Transformation and Policy Design, Macroeconomic Stabilisation and Social Disruption, Spatial and Regional Disparities and International Integration and Legacy. With comparative synthesis, convergence and divergence among case countries were identified. This revealed the interplay between domestic institutions and international forces in shaping reform outcomes.

ANALYSIS AND DISCUSSION

Institutional Transformation and Policy Design

The transition from planned to market economies required a comprehensive restructuring of ownership, governance, and policy regimes. Privatisation emerged as the core reform mechanism, yet its implementation diverged sharply across CEE states. Poland and the Czech Republic adopted mixed models combining voucher schemes with targeted state oversight (Romaniuk and Sznajderska, 2013), while Romania and Bulgaria relied heavily on insider privatisation, which perpetuated elite capture and inequality. To put it in historical perspective, in 1992, Russia's first post-communist government introduced a sweeping economic reform programme aimed at transforming the former Soviet command system into a market-oriented economy, with privatisation as a central pillar (McFaul and Perlmutter, 1995: 223–225). However, within two years, the initiative had largely failed to establish genuine private property rights. The creation of market institutions lagged significantly, as the specific configuration of post-Soviet political institutions constrained progress toward genuine private ownership and economic liberalisation (McFaul, 2002; Bowker and Ross, 2014: 27–33). In other words, the tensions between economic liberalisation, democracy and order remain unresolved in post-communist Russia, illustrating the perils of premature liberalisation (Sakwa, 2002: 34–39; Worth, 2017: 93–98). Although there is no consensus on the precise nature of Russia's transition, Åslund (1995: 26–52) argues that the country's shift from a socialist to a market economy represents one of the most consequential transformations of the modern era.

The Czech Republic's transition was initially hailed as a model of successful reform having been marked by rapid privatisation, low unemployment and swift westernisation (Pickles and Smith, 2005: 1–20). However, despite these achievements, the transition exposed structural weaknesses, as neoliberal policies promoted by leaders like Václav Klaus failed to fully address the enduring legacies of state socialism (Stark and Bruszt, 1998: 25–52). Consequently, the so-called "Czech crisis" (Pickles and Smith, 2005: 1–20) revealed the limits of the best-practice liberal model and underscored that rather than being a uniform process, transition was a complex reworking of old institutional and social relations. And that the success or failure of these reforms hinged on institutional credibility. Poland's transformation was shaped by both positive and negative starting conditions (Kowalski, 2009). On the one hand is a robust tradition of social self-organisation and social capital development, on the other hand is severe economic stagnation and structural weaknesses. By the late 1990s, Poland had implemented comprehensive innovative reforms in education, pensions, healthcare and decentralisation of state functions, resulting in relative success (Rapacki and Blazyca, 2001: 15–52). Poland's success, according to Rapacki and Blazyca (2001: 15–52), stemmed from broad elite consensus and rapid market liberalisation under the "shock therapy" model, supported by strong civil society and external assistance. As countries with stronger legal enforcement mechanisms and lower corruption exhibited faster growth and smoother integration into global markets, weak institutional design fostered rent-seeking behaviour and public disillusionment with democracy in other countries. In a word, the divergent reform outcomes in Poland, Hungary and the Czech Republic illustrate how variations in political leadership, institutional capacity and social consensus shape post-communist transformation.

Macroeconomic Stabilisation and Social Disruption

The macroeconomic effects of transition were initially severe and deeply disruptive across CEE. The early 1990s were marked by double-and triple-digit inflation, soaring unemployment rates and sharp GDP contractions as centrally planned systems were dismantled almost overnight (Mangaros, 2008). These economic shocks reflected the painful process of liberalisation, price deregulation and privatisation that accompanied the shift to market economies. Although stabilisation policies such as fiscal tightening and monetary reforms eventually restored growth and curbed inflation by the late 1990s, the social costs were profound (Kornai, 2006). Rising income inequality, the erosion of welfare systems and labour market exclusion disproportionately affected vulnerable groups such as pensioners, low-skilled workers and rural populations. In many countries, especially Bulgaria, Romania and Ukraine, inadequate social protection mechanisms produced what scholars term "transition fatigue," a growing disillusionment with democratic reforms and market principles (Milanović, 2019: 1–12; Kubik and Mole, 2025: 1–12). This, in turn, fuelled populist movements and eroded public confidence in emerging democratic institutions. The economic liberalisation of the 1990s also accelerated urbanisation, as people migrated from rural regions to capital cities and industrial hubs such as Warsaw, Prague and Budapest in search of employment and better living standards. Meanwhile, smaller towns and peripheral areas experienced population decline, deindustrialisation and long-term stagnation (Marangos, 2008: 240–242). The uneven redistribution of resources and investment deepened spatial inequalities, leaving rural regions marginalised. Ultimately, the early transition demonstrated that economic success could not be separated from social cohesion and that the human costs of reform would shape the region's long-term political and developmental trajectories (Sandu, 2023).

Spatial and Regional Disparities

Transition also produced pronounced spatial inequalities. Metropolitan areas such as Warsaw, Prague and Budapest emerged as hubs of foreign direct investment and high-skilled employment, while peripheral rural regions lagged behind (Marangos, 2008: 240–242). This spatial unevenness reflected the concentration of infrastructure, education and capital flows within select urban cores. The emergence of a dual economy in post-communist CEE created sharp divides between dynamic, foreign-investment-driven sectors and domestically oriented industries (Bohle and Greskovits, 2012: 25–41). Consequently, this imbalance reinforced wage inequality, regional disparity and labour market segmentation that not only limited inclusive growth but also made peripheral regions dependent on low-value production and external capital flows (Sandu, 2023).

These varied transition experiences highlight two key issues in understanding the political economy of change across CEE, as well as the evolving forms of post-communism and market socialism in peripheral states. First, the dominant neoliberal perspective, promoted by Western multilateral institutions views transition as a straightforward process of implementing economic liberalisation, marketisation and democratisation to establish market economies and liberal political systems. However, this approach rests on an inadequately theorised conception of post-communist change. Second, as the Western business press's analysis of the Czech crisis illustrates, the enduring legacies of institutional structures and social relations from state socialism play a central role in shaping the diverse and complex trajectories of transition (Pickles and Smith, 2005: 1–20).

International Integration and Legacy

The international dimension of transition was equally transformative because it shaped both the pace and direction of post-socialist reform across CEE. The prospect of EU accession during the 2000s served as a powerful external anchor that compelled countries such as Poland, Hungary and the Czech Republic to adopt far-reaching institutional reforms that strengthened fiscal discipline, governance transparency and legal harmonisation (Pickles and Smith, 2005: 1–20). Yet, this process also entrenched structural dependency, as domestic industries were reoriented to fit the production hierarchies of Western European economies, particularly Germany and France. This resulted in asymmetric patterns of development. FDI became a driving force of modernisation and technological diffusion, especially visible in Poland's manufacturing boom and the Czech Republic's flourishing automotive sector (Medve-Bálint, 2024). It also reinforced low-value-added, export-dependent growth models that constrained innovation and domestic entrepreneurship.

Conversely, countries like Romania, Bulgaria and Croatia faced weaker institutional capacity, infrastructural bottlenecks and difficulties in absorbing EU structural funds, widening intra-regional disparities. Furthermore, the reliance on external capital exposed many CEE economies to global shocks, as seen during the 2008 financial crisis. Thus, while EU integration promoted convergence, stability and macroeconomic discipline, it also intensified economic dependency, regional inequality and political tensions between integrationist and nationalist forces within the region (Epstein and Sedelmeier, 2013). Additionally, although post-communist CEE countries' integration into the European Union has brought significant institutional and economic benefits, it also has new challenges, particularly regarding migration.

As observed earlier, EU membership facilitated large-scale labour migration to Western Europe that resulted in population decline and brain drain in CEE states. Simultaneously, some of these countries have resisted EU-mandated refugee resettlement policies. For instance, the Polish Prime Minister, Donald Tusk, has maintained that the Polish government will not execute the immigration rules of the European Union (Koper et al., 2025). Many Poles view Sweden as a cautionary example of a direction they do not want Poland to follow. They point to Sweden's acceptance of large numbers of migrants from Syria and Afghanistan over the past decade and argue that this occurred without sufficient long-term labour-market planning. They also highlight neighbourhoods with very high concentrations of immigrants who hardly assimilate into Swedish society. Additionally, rising incidents of gun violence, explosive attacks and gang-related conflicts in Sweden are frequently cited, with claims that some major criminal networks have leadership ties to the Middle East (Burger, 2025). Specifically, public opinion surveys indicate that many Poles express concerns about accepting refugees from predominantly Muslim countries, citing integration challenges and security risks (Cienski, 2017; Cieślińska, 2017). However, recent migration trends reflect Poland's economic growth and evolving role within Europe, attracting increasing numbers of labour migrants and, since 2022, Ukrainian refugees, rather than representing a direct outcome of the post-communist transition (OECD, 2022a; 2022b).

DIVERGENCE IN REFORM OUTCOMES: LESSONS FROM POLAND, HUNGARY AND THE CZECH REPUBLIC

Why did the post-communist transitions produce divergent outcomes in different CEE countries? Why did reform efforts succeed in some countries but failed in others? Scholars have examined the role of conditions such as domestic policy reforms and external shocks to compare the financial systems of Poland, the Czech Republic and Hungary and observed that all three countries faced early banking crises during transformation but some later did better than others (Kowalski, 2009; Romaniuk and Sznajderska, 2013). These crises stemmed from recessionary conditions and political interference (Mitra and Selowsky, 2002; Kowalski, 2009). Others faced non-performing loans, weak licensing systems, inadequate capitalisation and banking expertise (Colombo and Stanca, 2006: 35–43). Despite initial inadequate capitalisation, some countries such as Poland and Hungary had a faster and less costly recapitalisation while the Czech Republic experienced a prolonged and expensive recapitalisation (Zemplinerová and Macháček, 2003: 202–203). Similarly, while privatisation advanced swiftly in Hungary and the Czech Republic, it was slow in Poland even though Poland was the first country in Eastern Europe to break away from communist rule, setting in motion a wave of political and economic transformations across the region (Bałtowski and Mickiewicz, 2000; Nowak et al., 2016: 19–34). Although each country successfully developed capital markets, the strategies of Poland and Hungary that centred on building regulatory and infrastructural frameworks, proved more sustainable than the Czech Republic's model (Kowalski, 2009). Both in economic growth before and after 1989 and average growth rates between 1995 to 2003, these countries developed in different directions as table 1 shows.

Table 1. Economic Growth Dynamics in CEE: Pre and Post-Transition Periods (1980–2003)

Selected Countries	GDP/NNP Index (1989 = 100)		Average annual growth rate (%)	
	1980	1990	1980–1989	1995–2003
Czech Republic	85	99	1.8	1.5
Estonia	75	92	3.2	5.3
Hungary	86	97	1.7	3.8
Latvia	69	103	4.2	5.6
Lithuania	65	97	4.9	4.7
Poland	91	88	1.1	4.0

Source: Authors' compilation based on Kornai (2006: 213).

Table 1 presents the GDP/NNP index (1989 = 100) and average annual growth rates for selected Central and Eastern European (CEE) countries before and after the transition to market economies. The GDP/NNP index uses 1989 as the benchmark, with values below 100 indicating output below the 1989 level and values above 100 indicating recovery beyond it. Growth rates compare the final decade of socialism (1980–1989) with the post-transition period (1995–2003). Although Czechoslovakia existed in 1989, the table reports data for the Czech Republic because historical series have been retrospectively reconstructed for the successor state after the 1993 dissolution, consistent with standard comparative transition studies.

Overall, the data reveal considerable cross-country variation in transition outcomes among the selected CEE countries. While all experienced an initial economic contraction during the transition, post-transition growth diverged considerably. Poland and the Czech Republic demonstrated relatively stable and sustained recovery, reflecting effective institutional reforms, strong industrial foundations and the early adoption of market-oriented policies. Poland's pragmatic combination of rapid liberalisation and institutional consolidation facilitated a swift recovery from transitional shocks, while the Czech Republic benefited from fiscal discipline and export competitiveness. By contrast, Hungary's slower post-transition growth reflected reform fatigue, rising public debt and delayed structural adjustment, which constrained its long-term economic performance.

Table 2. Post-Transition Economic Performance Indicators in Selected CEE Countries, 1995–2023

Country	Average real GDP per capita growth (%)	Average labour productivity growth (%)	Average consumption per capita growth (%)
Czech Republic	2.2	2.6	3.0
Estonia	6.6	6.6	7.3
Hungary	4.1	3.2	4.5
Latvia	7.3	8.2	7.6
Lithuania	6.3	6.6	7.1
Poland	4.2	4.8	4.5
Slovakia	3.9	3.6	3.7

Source: Authors' compilation based on Kornai (2006: 214).

The table highlights the divergent post-transition growth trajectories among CEE economies between 1995 and 2023. Countries such as Latvia, Estonia and Lithuania recorded the highest growth rates across GDP, productivity and consumption, reflecting the success of rapid market liberalisation combined with strong institutional reforms and integration into European markets. Poland and the Czech Republic, though recording more moderate growth, achieved greater macroeconomic stability and resilience. Poland's success can be attributed to its pragmatic sequencing of reforms that combined initial "shock therapy" with sustained institution-building, effective financial supervision and strong domestic demand. This approach allowed Poland to become the only CEE country to avoid recession during the 2008 global financial crisis (Sheets, 2012; International Monetary Fund, 2014: 5). Polish banks maintained strong profitability, liquidity and capital adequacy throughout the crisis. Unlike many other EU member states, Poland's banking sector continued to expand credit to the private sector during this period, thereby sustaining domestic investment and contributing significantly to the country's economic resilience and growth (Piatkowski, 2015). Conversely, the Czech Republic's slower growth stemmed partly from delayed structural reforms, costly bank recapitalisation and cautious fiscal policies. Nonetheless, its strong industrial base, regulatory discipline and innovation-driven economy ensured steady long-term expansion.

A comparative analysis of the Slovak Republic and Lithuania shows that Poland outperformed its peers by surpassing pre-transition GDP levels. This shows that privatisation, enterprise restructuring and institutional reform are essential for fostering economic dynamism and competitiveness, while their absence can undermine stabilisation and growth (Rapacki and Blazyca, 2001: 15–52). Scholars attribute Poland's successful transition to several factors, including the effective implementation of shock therapy, constructive relations with international organisations, pragmatic policymaking, social responsiveness and strong EU accession ambitions (Rapacki and Blazyca, 2001: 15–52). Some contend, however, that the decisive catalyst was the then Finance Minister Leszek Balcerowicz's early stabilisation programme, which laid the foundation for Poland's sustained economic progress (Kierzkowski et al., 2013: 25–42). In other words, Poland's success should not be attributed to the quality of government alone but also to its effective financial supervision, which could serve as a model for other transition economies.

The Czech Republic pursued gradual reforms that emphasised stability. Through this, the country benefitted from robust administrative institutions and early privatisation efforts (Kowalski, 2009). In contrast, Hungary's initial reform momentum waned due to political fragmentation and clientelism that resulted in slower economic restructuring and democratic backsliding. While all three countries under review transitioned toward market economies, their differing trajectories highlight the importance of coherent reform strategies, transparent institutions and sustained political will. And the comparative experience underscores that liberalisation may generate severe economic and social dislocation where not accompanied by effective institutions, regulatory capacity and social protection (Love and Baer, 2000: 1–16, 126–150). In other words, durable transformation depends on institutional legitimacy, accountable governance and the ability to balance economic efficiency with social inclusion. In sum, these factors underscore how institutional capacity, financial regulation and adaptive reform strategies shaped the varying trajectories of post-socio-economic transformation in CEE (Roland, 2000: 1–23; Fidrmuc and Tichit, 2009).

TRANSITION REVISITED: LESSONS, LEGACIES AND CONTINUING CHALLENGES

Since the onset of transition, several CEE countries have encountered significant internal and external challenges to their democratic institutions and regional security. The persistence of non-democratic tendencies, most notably the rise of authoritarianism in Belarus and illiberal political shifts in Hungary and Poland, illustrates the fragility of democratic consolidation in parts of the post-transition landscape (Dallago and Rosefielde, 2016: 3–18; Zięba, 2023: 33–117). These developments highlight the need for renewed and more effective forms of multilateral cooperation among states in the region. Revisiting the post-1989 transition across CEE reveals a process far more complex and uneven than early reform narratives suggested. The initial optimism that liberalisation, democratic governance and privatisation would automatically produce prosperity and stability proved overly simplistic. Instead, socio-economic transition exposed the interplay between inherited institutional legacies, political agency and the pressures of global capitalism (Romaniuk and Sznajderska, 2013). Countries such as Poland and the Czech Republic show that reforms produced relatively stable and diversified economies where institutional capacity, regulatory coherence and political consensus existed (Åslund, 2013: 67–88). Conversely, countries such as Romania and Ukraine, with weak institutions, systemic corruption and inconsistent policy implementation, experienced hindered consolidation of both market systems and democratic governance (Fidrmuc and Fidrmuc, 2003; Kornai, 2006).

A key lesson of the transition era is that economic liberalisation alone cannot substitute for institution-building; the sequencing and quality of reforms matter as much as their speed. Institutional and structural reforms account for different outcomes across CEE. For instance, in the Czech Republic, Poland and Slovakia, which adopted a “shock therapy” approach, life expectancy continued to rise throughout the transition period (Marangos, 2008: 240–242). By contrast, countries that pursued a gradual path, such as Hungary and Ukraine, experienced declines in life expectancy, particularly in Ukraine (Marangos, 2008: 240–242). Inflationary pressures associated with gradual reform strategies heightened social and economic uncertainty, exposing individuals to hardships they were ill-equipped to manage (Turley and Hare, 2013: 58–76; Ji, 2023). At the same time, the shock therapy model led to hardship, including low growth, inflation, unemployment, corruption and crime (Marangos, 2005). This outcome stemmed partly from the continuity of elites, where those dominant under socialism aligned with emerging multinational capitalist interests, producing a globalised economy that offered limited benefits to the majority. In effect, the model often generated social dislocation, macroeconomic instability and inequality without delivering lasting structural efficiency (Ji, 2023). Moreover, the legacy of state socialism, manifested in bureaucratic inertia, informal networks and path dependency, continued to shape post-communist trajectories, illustrating that historical legacies cannot be easily erased through policy change.

The continuing challenges of transition are equally significant. According to Slavkova (2019: 20–22), the transition produced a period of uncertainty and a generation of distrustful and intolerant citizens. An inadequate confrontation with the communist past remains a major obstacle in countries such as Romania and Bulgaria, underpinning persistent problems of accountability, corruption, the rule of law and ethnic conflict (Karp, 1993). Societal values such as tolerance, civic participation and innovation remain low across the region, while politics is widely perceived as corrupt and disreputable. This disillusionment has fostered deep mistrust toward institutions and democratic processes. Political parties and parliaments are viewed as the least trustworthy institutions, followed by governments and, in many cases, the media ('Politics', 2026). Consequently, elites command minimal public confidence.

Issues such as corruption, polarisation, rising inequality and demographic decline reflect deep-seated discontent with the outcomes of market transformation. Although European integration has anchored reform, it has not fully resolved disparities between core and periphery or eliminated vulnerabilities to external shocks. Ringold (2000: 10) observes that poverty among the Roma minority remains one of the most persistent challenges in CEE, shaped by poor health outcomes, limited education and restricted access to labour markets. In essence, despite progress in expanding opportunities, the transition process has been accompanied by considerable hardship.

Poverty levels have increased across CEE, real incomes have fallen and mortality rates have risen in several countries (Cornia and Paniccià, 2000: 105–126; Perugini and Pompei, 2015: 93). Economic inequality has deepened as income disparities widened and access to social services declined (Schweiger and Visvizi, 2018; Ignasiak-Szulc et al., 2025: 33–60). While such inequality is often linked to liberalisation, the resulting social discontent poses risks to political stability and the long-term success of reforms (Laporte and Ringold, 1997). Ultimately, the experience of transition underscores that sustainable socio-economic transformation requires more than market mechanisms. It demands adaptive governance, resilient institutions and social cohesion. The lessons of the past three decades therefore call for a renewed understanding of transition as an ongoing, multidimensional and unfinished project.

CONCLUSION

The post-1989 transformation of CEE represents a historically unprecedented experiment in economic and institutional engineering. Through the lens of institutional change theory, this study has demonstrated that transition was not merely a policy sequence but a complex historical process mediated by local institutions, international structures and societal responses. The comparative analysis reveals that while market reforms succeeded in integrating CEE economies into the global capitalist order, they also reproduced external dependencies and internal inequalities. And the dual legacy of transition—liberalisation without full inclusion, continues to shape the region's political economy. For policymaking and future scholarship, the lesson is clear: sustainable development in post-transition societies requires balancing economic efficiency with institutional resilience and social equity. Rather than importing Western models, building adaptive institutions remains central to completing the unfinished project of post-communist transformation in CEE.

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