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## INEQUALITIES IN WESTERN BALKAN COUNTRIES AND CHALLENGES IN POST- PANDEMIC PERIOD<sup>32</sup>

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### Abstract

In the decade that preceded Covid-19 pandemic income inequality and poverty risk in the Western Balkan countries were reduced. Part of the paper will include an analysis of the basic causes of social inequalities as well as the relationship between society and the state in that context. High economic inequalities and poor governance go hand in hand which is particularly evident in transitional countries with underdeveloped institutions, weak rule of law and control of corruption. Western Balkan countries entered the pandemic crises with huge gap to the OECD countries in terms of rule of law and control of corruption, as indicators of good governance. Since governance is recognized as one of major factors for overcoming economic crises as well as for reduction of inequalities, Western Balkan countries have to make significant efforts to achieve good governance standards.

**Key words:** *income inequality, social inequalities, education, governance, rule of law, control of corruption, state capture*

### INTRODUCTION

In the past 13 years, the world was faced deep crises, starting with financial and economic crises in 2008 that exposed the depth and significance of existing imbalances and accelerated the process of redistribution of global

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economic and geopolitical power (Nikolić and Petrović, 2011: 213), to the recent pandemic, while the human negative impact on climate was evident for a longer period. That called for changes in approach to human development in the future. In the UNDP Human Development Report 2020, the new term was introduced: “Anthropocene, the age of humans, which reflected the unprecedented planetary change in scope, scale and speed, driven by human activity posing risks to people and all forms of life” (UNDP, 2020). But the risks do not affect everyone in the same way thus increasing risks of inequalities in human development.

In Human Development Index the two capabilities - living a healthy life and having an education - were of critical importance, while income was considered as a means. However, although income couldn't be considered as an indicator that directly reflects human wellbeing, it could be interpreted as an instrument that enables the development of human capital aspects such as health and education. In other words, higher income provides more potential for upgrading human capital and citizens' quality of life.

In this paper, we will provide insight into income inequalities in the five Western Balkan countries: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia, in the period 2011-2019, since income inequality determines, to the large extent, possibilities of different income groups to overcome the key challenges of the modern world. Furthermore, causes of certain non-income inequalities such as social inequalities considering education, political power, and decision-making, etc. will be elaborated as well as manners in which they could be overcome. At the end, we will consider an issue of governance as a factor with strong influence on inequalities in Western Balkan countries.

## **INCOME INEQUALITIES**

Serbia belongs to the Western Balkan region and shares aspiration to EU membership with its neighbors. Four of the countries: Montenegro, Serbia, North Macedonia, and Albania have “candidate” status, while Bosnia and Herzegovina have the status of “potential candidate”. All of them are transitional economies sharing the same legacy being part of one country, with exception of Albania. We covered the period 2011-2019, a decade before the pandemic started to get insight into conditions that preceded the biggest challenge the world is faced within the last few decades.

Serbia had bad experience with high inflation or hyperinflation during the 1990s and at the beginning of 2000s (Petrović, Filipović and Nikolić,



2016:30). Before the start of the transition process in 90-is, levels of inequalities in the Western Balkan region were low by international standards. Although they then increased significantly in the early years of the transition process, they remain moderate by comparison with other parts of the world (UNDP, 2016).

Trends in income inequalities in the EBRD region that covers 34 countries, including those from Western Balkan, provide a broader picture of changes that occurred in the past three decades. In 2016 the incomes of the top quintile, in the EBRD region, were 19 times those of the bottom quintile, up from 13 in 1996 and around 7 in 1989 (EBRD, 2017).

Since all five countries from the Western Balkan region need to meet EU standards in the economic and social sphere, besides other, as a precondition for joining the EU, it is important to see how inequalities and poverty changed in the past decade in these countries as well as how these indicators levels were related to the EU averages.

All of the five countries that we are dealing with in this research: Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia are considered by the UNDP as middle-income countries (UNDP, 2016). Their legacy of former socialist/communist countries contributed to a lower level of inequalities. Thus moderate increases in the region's income inequalities during the transition period were both inevitable and desirable as breaking with state-imposed social leveling ("uranilovka"). In the past decade, the level of inequalities varied among the five countries of the Western Balkan region, as we can see in Table 1.

**Table 1. Income distribution**

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Montenegro</b>	:	:	8,54	7,27	7,48	7,38	7,57	7,37	6,72
<b>North Macedonia</b>	:	10,20	8,37	7,22	6,62	6,63	6,38	6,16	5,56
<b>Albania</b>	:	:	:	:	:	:	7,47	6,98	6,38
<b>Serbia</b>	:	:	8,59	9,41	10,70	11,02	9,38	8,58	6,46
<b>European Union - 27 countries (from 2020)</b>	4,99	4,98	5,05	5,22	5,22	5,16	5,03	5,05	4,99

Source: EUROSTAT, Sustainable Development Indicators

<https://ec.europa.eu/eurostat/web/main/data/database>

In Table 1 we used the ratio of total income received by the 20% of the

population with the highest income (the top quintile) to that received by the 20% of the population with the lowest income (the bottom quintile) as an indicator of inequalities. In the last decade (2011-2019), the EU indicator “20/20” was stable and at the level of approximately 5. However, two counties of the region (North Macedonia and Serbia) have a ratio above 10, Macedonia in 2012 (10,2) with a stable trend of reducing it after that and bringing it close to the EU average in 2019.

However, Serbia experienced firstly increase of the indicator “20/20” in the period 2013-2016 reaching the highest level in the region (11,02) followed by diminishing (2017-2019). That could be explained by Serbian government measures on reducing salaries in the public sector, banning new employment in the public sector as well as cutting the number of public officers in order to reduce public expenditures and to make fiscal consolidation starting in 2014. According to Government sources, the share of incomes in GDP dropped from 12% in 2014 to 9,8% in 2017. However, after reaching the goal of fiscal consolidation in 2017, the Government increased salaries in the public sector from 5% to 10%. As data in Table 1 shows, Governmental restrictive measures led to increasing inequalities. However, once the goal of fiscal consolidation was reached and measures ceased, the Government raised salaries in the public sector that shrinks income inequality.

In Table 2 we used the second indicator of inequalities - the ratio of growth rates of household income per capita among the least wealthy “bottom 40 percent” of the population, relative to the total population.

**Table 2. Income share of the bottom 40 % of the population**

Country	2012	2013	2014	2015	2016	2017	2018	2019
Montenegro	:	15,9	17,1	16,8	17,1	17,4	17,8	18,1
North Macedonia	15,4	16,6	17,8	18,5	18,5	18,8	19,1	19,7
Albania	:	:	:	:	:	17,1	17,8	18,4
Serbia	:	16,5	16,1	15,1	14,8	16,3	17,3	18,8
European Union - 27 countries (from 2020)	21,2	21,2	20,9	20,9	21,0	21,2	21,2	21,4

Source: EUROSTAT, Sustainable Development Indicators

<https://ec.europa.eu/eurostat/web/main/data/database>

Share of the “bottom 40” income was lowest in North Macedonia in 2012 compared to other countries in the region and it rose steadily to 2019

reaching the highest level in the region. This indicates that reducing inequality measured by the ratio of 20 top quintiles to the bottom 20 quintile was based mainly on the above-average increase of “bottom 40” income.

In Serbia, the period 2013 to 2019 could be divided into two sub-periods: the first one (2013-2016) when the share of income of those with “bottom 40” in the total income was decreasing and the second one when it started to increase. It could be interpreted that reduction of salaries in the public sector in the first period affected mostly “bottom 40”, while abandoning the measure and replacing it with an increase of salaries by the Government, benefitted predominantly the same income category leading to decreased income inequality in 2019.

Both indicators of income inequalities improved over the last decade in all of the countries surveyed. Moreover, the indicators are at levels close to the EU values. Since decreasing of “20/20” indicator was going hand in hand with an increasing share of income of the “bottom 40”, it could be concluded that lowering the inequalities gap relied on the increase of income of the poorer citizens.

The next question would be how the risk of poverty changed in the period 2011-2019 in the countries observed. Risk of poverty indicator is the proportion of people at risk of poverty receiving an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). As it could be seen in Table 3, the risk of poverty decreased in all observed countries reaching its minimum in 2019 thus bringing it closer to the EU level.

**Table 3. People at risk of income poverty after social transfers, by citizenship**

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Montenegro	:	:	:	21,0	21,2	21,7	21,6	20,7	20,0	20,6
North Macedonia	25,7	25,1	24,8	22,5	20,3	19,7	20,1	20,1	19,9	20,0
Albania	:	:	:	:	:	:	:	21,9	21,6	21,2
Serbia	:	:	:	:	24,0	25,9	25,1	24,8	23,3	22,0
European Union - 27 countries (from 2020)	14,5	15,2	15,2	15,1	15,4	15,6	15,6	15,2	15,3	15,1

Source: EUROSTAT, Sustainable Development Indicators

<https://ec.europa.eu/eurostat/web/main/data/database>

Poverty reduction of the five countries in the observed period could be explained by: a) economic growth (Table 4) and b) reduction of income inequality. Data in Table 4 show that Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia have positive growth rates of GDP in most of the period, which created a base for poverty reduction. The highest rates of GDP rise were achieved in 2018 (with exception of North Macedonia) followed by solid growth next year thus creating a precondition for the best result in poverty reduction to be achieved in the last year of the observed period (2019). According to projections, the growth of the EU27 will be significantly lower in the future - 1.5% and 1.6%, respectively, in 2024 (Nikolić and Petrović, 2020: 159).

**Table 4. Real gross domestic product: annual average growth rates**

Country	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Montenegro	3,23	-2,72	3,55	1,78	3,39	2,95	4,72	5,08	4,06	-12,00
North Macedonia	2,34	-0,46	2,92	3,63	3,86	2,85	108	2,72	3,55	-4,52
Albania	2,55	1,42	1,00	1,77	2,22	3,31	3,80	4,07	2,21	-6,50
Serbia	2,33	-0,23	2,97	-1,21	2,12	3,44	2,40	4,40	4,35	-2,10
Bosnia and Herzegovina	0,96	-0,82	2,35	1,15	3,09	3,15	3,17	3,74	2,68	-4,50
European Union - 27 countries (from 2020)	1,87	-0,72	-0,03	1,59	2,33	2,01	2,80	2,12	1,55	-6,30

Source: UNCTAD, <https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

If we compare changes of values of income inequality indicators “20/20” and “bottom 40” on one side and the risk of poverty on the other (tables 1, 2, and 3), similar patterns could be noticed. For example, in Serbia income inequalities indicators and poverty reduction deteriorated till 2016 and then improved from 2017 thus confirming how poverty reduction depends on the reduction of income inequalities. Lessening inequalities enabled GDP growth to influence the rate of poverty. It could be concluded that the more income inequality is reduced, the higher the positive effect of economic growth on poverty reduction could be expected.

The five countries of the Western Balkan region experienced two

different periods regarding income inequalities. The pre-transition phase was characterized by near full employment, low-income differences, and broad coverage of social safety nets. However, in the transition period, income inequalities increased with later tendencies towards closing gaps compared to the EU, during the last decade.

## **SOCIAL INEQUALITIES IN BETWEEN SOCIETY-STATE RELATIONSHIP**

The social crisis leads to the disturbance of the social order and most threatens the members of already endangered social groups, the poor and the marginalized. Social inequalities cannot be completely eradicated because they are present in every society regardless of the level of social development. In crisis circumstances, the basic values are endangered, which according to one of the most general definitions represent "relatively general, stable and hierarchically organized characteristics of individuals and groups that represent elements of social consciousness" (Pantić, 1996: 119-147).

In sociological researches, the analysis of the causes and consequences of social, class-layer inequalities included the main areas of social life: education, employment, housing, political system, remuneration and decision-making in work organizations, inequalities in vertical mobility of the population. In recent times, instead of researching social inequalities within the entire social structure, the causes and consequences of inequality of socially endangered (vulnerable) social categories, such as women, children, the elderly, people with disabilities, etc., are more often investigated.

Education is also one of the factors in maintaining social order. For example, in Serbia, in the process of modernization after 2000, education reform was introduced, but the knowledge so that it would be applicable was included in the "knowledge market" and placed in the framework of the by-sale relationship. In that way, the authenticity of the form and content of education reform was lost, and the establishment of knowledge was an important factor in human (social) development. As a means for the neocolonial occupation of educational institutions, ideal-type criteria of education were used, which are not applied even in all EU countries or are used in accordance with the degree to which they can be applied at all - especially considering the degree of socio-economic development in a given country. Thus, knowledge (education) as a social category and one of the parameters of social inequalities is reduced to a unit of goods, and access to members of lower social strata is disabled, i.e. poorer social groups. In

accordance with the neoliberal model of social reform, education has become a means of ideological legitimation of the new order and recruitment of cheap labor within the neocolonial apparatus of control and exploitation of a (semi)peripheral society (Vuković, 2020: 150-151). This process enabled the growth of social inequalities in access to education as one of the ways of vertical social mobility and social promotion, because it followed the, as observed in sociological research, closing of social structure for members of lower social strata (Antonić, 2013).

On the other hand, research has shown that special resistance to the negative impact of social crisis on the functioning of society and the state is provided by the family as a social group, but in a broader sense as a family system that allows continuity between individual and state. The role of the family in the crisis is outlined through one of the main family values, "a value that puts family integration, survival of the whole, cooperation and solidarity among members in the first place, as a condition for survival not only of the group, but of each individual." This value postulate that the family emits by the 'nature' of its group union gained strength and persuasiveness in times of crisis, uncertainty and 'risky life'. In such times, values that suggest to individuals, families and society the meaningfulness of submission to the collective, solidarity without asking when and at what price, authoritarianism as a way out of difficulties and developmental dilemmas gain meaningfulness and significance. In that social framework, traditionalism is strengthening, and in such a value system, the family occupies a high place, as the guardian of identity and integrity, of the individual, family, nation and state" (Milić, 2010: 239-240).

Changes in social values system and state systems, as well as various "transitional" forms that characterize societies and states that have experienced changes in political systems, economic models of functioning, cultural patterns, educational reforms, etc. in essence, they introduce reflections based on the advantages and weaknesses of these social structures and may show how to enable social development. Somewhere in between that need and intention are members of deprived social strata-classes who, according to the possibilities they have to ensure a decent life, are at the bottom of the social ladder due to the minimal possibilities for vertical social mobility and social promotion. In this case, too, according to the findings of the earliest sociological research, we turn to the family and social origin as the most important factor in the survival of the individual and the mitigation of social inequalities (Popović et al., 1987; Popović et al., 1991; Bolčić, Milić, 2002; Milić et al., 2010).

For example, to mitigate the consequences of social inequalities in the education and position of women, the state provided quotas and other affirmative action measures. These ways of overcoming social inequalities in access to various social areas are not a new invention, because, for example, in the former SFRY, the low representation of youth and women should have been regulated through the so-called Personnel Coordination Commission, whose task was to take into account the appropriate ethnic, gender, age, class and other representation in elected delegations and elected delegates (Vuković, 2019: 206). Considering that women are a historically deprived group in politics as well as in other important and powerful social positions, although the "critical mass" provided by the quota should ensure the representation of, in this case, women respondents, in qualitative sociological research about women in politics, agreed that should be clear criteria (competence, personal qualities, abilities, etc.) after which the choice of women in the parliament would no longer depend on the quota system (Vuković, 2009; Vuković, 2019).

Despite the fact that societies differ according to the degree of social development, societies that have been in a permanent crisis for several decades, expressed in serious and severe social inequalities, can serve as an indicator of how social inequalities deepen and in what form and degree they can be reduced. Experience of societies with a "decade-long crisis" also points out that polarization of social values in accordance with different types of social and state organization to enable the functioning of society-state relations in order to overcome social inequalities, is not the best response to the crisis. More often, crisis leads to the intertwining of different social values as a reaction and resistance in crisis circumstances. In this sense, the protection of the rights of socially vulnerable groups would mean, in the classical sense, a return to the values of solidarity and collectivism versus individualism or the introduction through new laws of the primacy of individual rights and freedoms of citizens, as opposed to the dominance of common rights, instead of job insecurity and economic success in the market, re-ensure job security and wages regardless of the market effect and social privileges as a need for system sustainability. Thus, for example, 'modern capitalism' has incorporated "several important social institutions that are essentially socialist in content and orientation, such as labor legislation, health and social security policy of all citizens, the role of the state in directing economic and social flows, in a word development welfare states" (Popović, 1991: 536-537).

The regulation of the social sphere is related to the type of state system, in terms of access to various forms of social protection, however, solving social issues is related to individual and collective attitude towards social

values, which are manifested through differences in social, educational and cultural capital. The harmonization of social needs and interests and state possibilities for their satisfaction is being tested when it comes to the position of socially endangered or marginalized categories of the population. Regulating and resolving these issues is inseparable from the economic possibilities of the state, i.e. from economic development, and connection with social values. Social inequalities arise as a consequence primarily of inequalities in the disposal of material and other social goods, that is, in their use. Despite the measures that can be taken by the state, inequalities in society are the result of the different position of the individual in the social structure, i.e. class-layer inequalities in which members of different social strata have unequal chances for employment, education, decision-making. These factors indicate that social origin (background) remains one of the basic and core factors of social inequality. Family and education remain functional and important elements for alleviating social inequalities caused by various social crises, including the current coronavirus pandemic. Only in the cooperation of the society-state relations can the consequences of crises and social disturbances be mitigated and human development ensured.

However, the present situation is characterized by the perception of a large proportion of citizens that their status and perspective, including income status, depends more on political connections than their human development potential (UNDP, 2016). That raises the issue of governance and its influence on income inequality.

## **GOVERNANCE AND INCOME INEQUALITY**

In literature, there is a lot of evidence that high economic inequalities and poor governance often go hand in hand. Hanson (2013) argues that national economic inequalities reflect underlying horizontal and vertical pressures that rulers navigate to remain in power. Acemoglu et al. (2004) find that, when political power is unevenly distributed, those with power will use it to influence economic institutions to their own (economic) benefit. Furthermore, elites' growing influence can lead to lower growth rates of the national economy and to increase income inequalities between those who are close to them and the rest of the citizens. Sustainable Development Goal 16 targets that are particularly relevant for issues of both economic and income inequalities, as well as governance in the region, are:

- Promote the rule of law at the national and international levels;
- Substantially reduce corruption and bribery in all its forms;

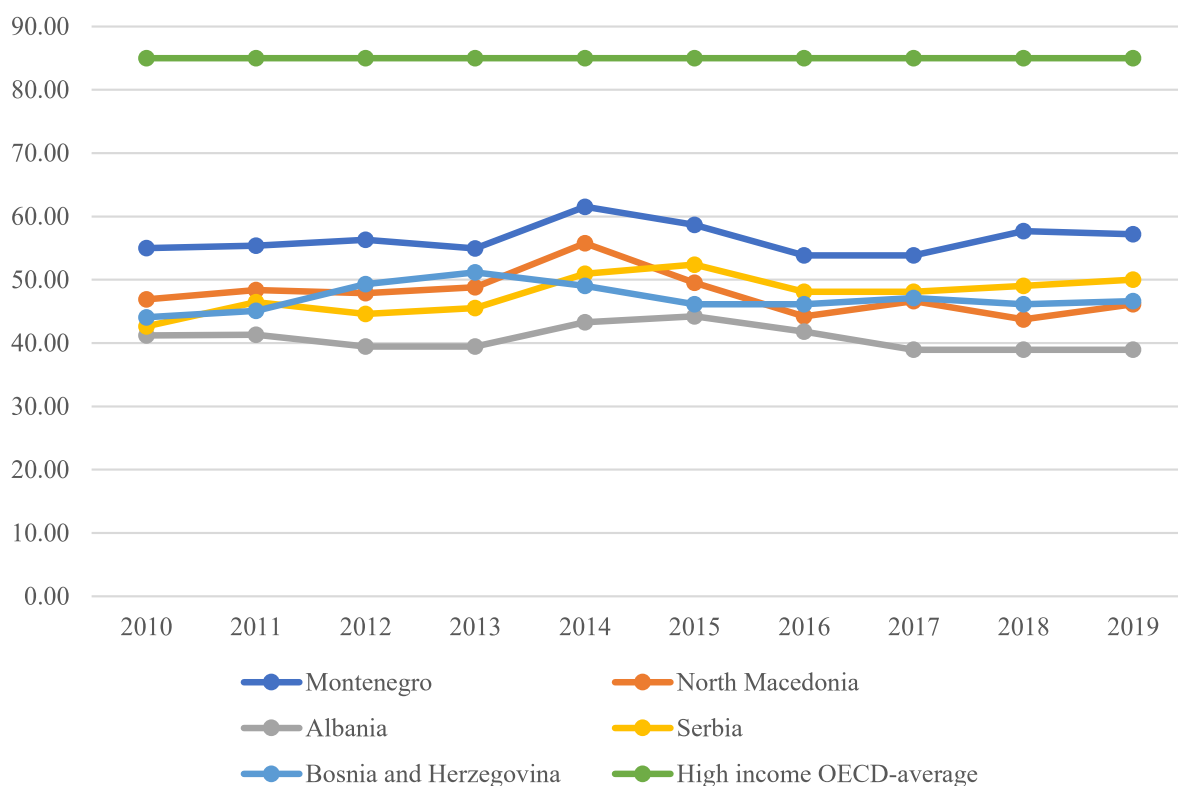


- Develop effective, accountable, and transparent institutions at all levels.

In this research, we will use two of the Worldwide Governance Indicators: 1) Rule of Law (RoL) and 2) Control of Corruption (CoC). The RoL indicator reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Citizens' uneven access to fundamental rights and selective approach in their protection is perceived as strong indicators of inequality in society. The CoC indicator reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Indicators are presented in form of rank where 0 is the lowest rank and 100 is the highest one.

In Graph 1, data show what progress in RoL each of the countries observed made in the last decade and how that relates to levels achieved by the OECD countries that already reached high standards in rule of law and corruption control. Comparison with advanced OECD countries helps to put light on how far are the selected transitional countries from international standards that should be met to join the EU.

Based on data in Graph 1, it could be concluded that the RoL indicator changed slightly in all five countries, during the decade. However, they significantly lag behind the OECD countries failing to reduce the gap. Regarding the Control of Corruption indicator, it could be concluded from Graph 2 that Serbia experienced significant deterioration, during the observed period. The indicator rank dropped from 46,45 in 2012 to 37,02 in 2019 that was the lowest level in the whole observed period.



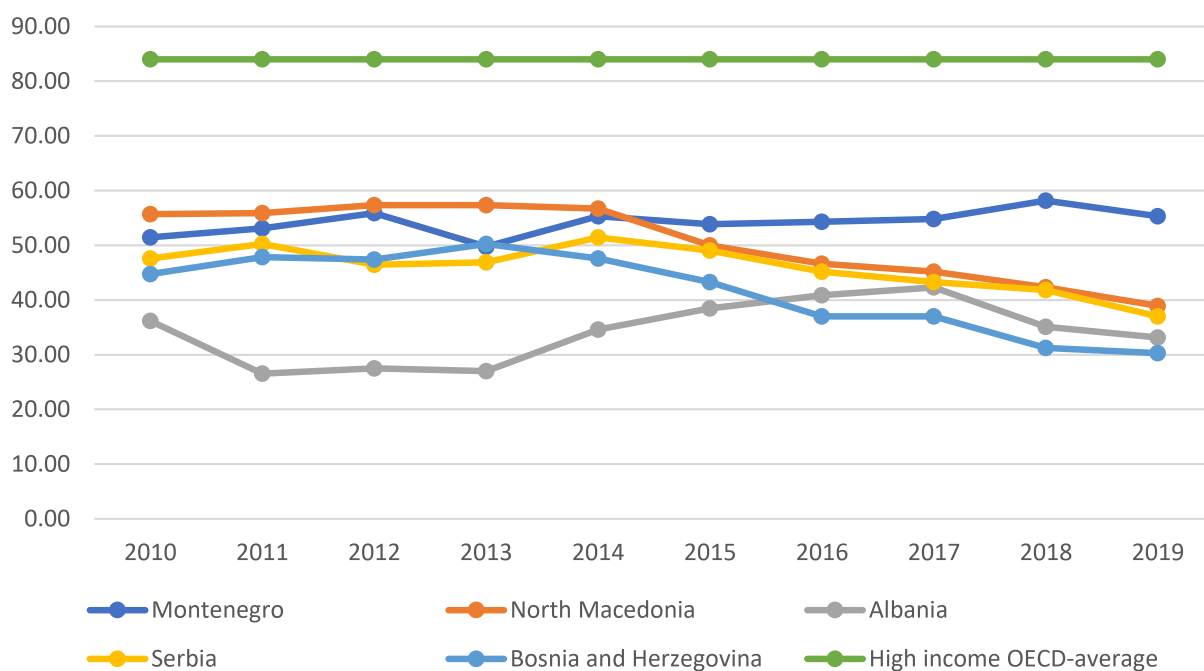
**Graph 1: Rule of low**

Source: World Bank, <https://databank.worldbank.org/databases/rule-of-law>

In 2019, the lowest rank of CoC had Bosnia and Herzegovina (30,29) with the largest drop of 40% from 50,24 in 2013. A huge decrease of CoC rank had North Macedonia. In 2019 its rank was 38,94 that is almost one-third behind the rank it had in 2012 (57,35). The second-lowest CoC rank in the region, in 2019, had Albania (33,17).

The only country of the region that had CoC rank above 50 during most of the observed period (except for 2013) was Montenegro. Moreover, Montenegro had the highest CoC rank in the region in 2019 (55,29). At the same time, in the region, Montenegro made the greatest progress in process of negotiation with the EU.

It could be concluded that the ranks of Control of Corruption indicator for four countries in the region were in the range between 30 and 37 which was one-third of the average CoC rank for the OECD countries. Moreover, during the past decade, all four countries experienced a significant worsening in terms of controlling corruption that negatively affected the equality of their citizens.



**Graph 2: Control of Corruption**

Source: World Bank, <https://databank.worldbank.org/databases/control-of-corruption>

The only exception to very negative tendencies in the region regarding corruption represented Montenegro that succeeded to retain a relatively good rank of 55 from 2012 to 2019, reaching a high of 58,17 in 2018.

In the period 2011-2019, all four countries had more favorable ranks of RoL indicator than that of CoC, similarly as in OECD countries. However, four of the five selected countries had RoL rank of 50 or less, while only Montenegro had a higher rank (57,21). Changes in RoL ranking of all five Western Balkan countries were slight during the last decade. It could be concluded that although significant worsening was avoided (as was the case with CoC), improvement was lacking too.

Rule of law is primarily related to the implementation of laws and other forms of regulation, i.e. how effective rules are implemented, in a fair manner with no ungrounded exemptions that would put agents in unequal positions. Institutions have a crucial role in the proper implementation of rules in a society. In many transition countries, governments tried to solve problems in governance and corruption by frequent changes of regulation.

For example, in Serbia, public procurement legislation was changed twice in the period 2015-2019 with the proclaimed aim to enable more free competition and to increase its intensity. However, in the same period, the average number of bids per tender dropped from 2,9 in 2015 to 2,2 in 2019

(PPO, 2019). However, surveys of bidders' opinions indicated their low and continuously decreasing credibility in the public procurement process. Bidders complained that more and more tenders were "agreed" in advance and public notices serve only to create an illusion of competition. Thus, more and more firms gave up participating in public procurement procedures that result in an increasing number of tenders with only one bid from 43% in 2015 to 55% in 2019 (PPO, 2019).

The negative influence of favoritism and biases in public procurement is not only the rule of law issue but the corruption one as well. Virtually unpredictable exchange rate, inflated prices for downgraded characteristics and quality of purchased goods and services enable the creation of surpluses that are divided between officials, at a central or local level, and the winning bidder (Petrović and Nikolić, 2018: 822). This Transparency International's Corruption Perception Index (CPI) for Serbia did not improve at all in the period 2015-2019. To avoid these weaknesses and to improve the Rule of Law, SIGMA recommends a set of measures in its document "Principles of Public Administration" (SIGMA, 2017):

- The organization of central government should follow adequate policies and regulations and provides for appropriate internal, political, judicial, social, and independent accountability,
- Functioning mechanisms are in place to protect both the rights of the individual to good administration and the public interest,
- Fair treatment in administrative disputes is guaranteed by internal administrative appeals and judicial reviews,
- The public authorities assume liability in cases of wrongdoing and guarantee redress and/or adequate compensation.

In its paper dealing with curbing corruption in Western Balkan, Transparency International sets key preconditions for upgrading control of corruption (Transparency International, 2016). The first and most important is establishing control over political parties on power. All five countries we observe are considered in the report as "captured states" by ruling elites. At the same time, citizens seen political parties as to the most corrupt institutions, with almost three-quarters of citizens in the region considering them to be corrupt or extremely corrupt. Ruling political parties have enormous influence across almost all segments of public life, including the judiciary and regulatory institutions (Transparency International, 2016).

In its recent special report devoted to "state capture" in Western Balkans, Transparency International defined these phenomena as "efforts taken by private actors and public actors with private interests to redirect

public policy decisions away from the public interest, using corrupt means and clustering around certain state organs and functions” (Transparency International, 2020).

In other words, it is a political practice that is very much motivated by patronage and clientelistic networks focused on controlling the state for private profits. From February 2018 onwards, the European Commission (EC) explicitly mentions the existence of state capture in the region and gives a clear message to candidate countries: showing signs of state capture will compromise any chance of becoming an EU member. Moreover, the “state capture” issue found its place in the EU enlargement countries reports for all five countries. State capture in the region is characterized by being driven mainly by political parties and clientelistic networks that sustain them (Transparency International, 2020). Political power is used for control of different domains such as the judiciary and the legislature to provide financial gain to the elite.

Both TI reports recognized that anti-corruption laws in all five countries were adopted being to large extent in line with international standards. Furthermore, formally independent regulatory institutions exist. However, a key determinant of whether a given set of anti-corruption institutions and laws is likely to prove effective is the social and political foundations on which these institutions and laws rest. In the Western Balkans, these foundations are fragile, with social fragmentation and ethnic and religious divides creating a context in which favoritism and uneven application of the law is the norm rather than the exception (Transparency International, 2016).

Such practice resulted in a much higher perception of corruption in the Eastern Europe region compared to Western Europe and the EU. In 2019, the CPI score for the first group of countries was 35, while for the second one 66. It indicates how large is a gap between the two groups of countries regarding control of corruption and how much work is ahead of Western Balkan countries to achieve EU standards.

Progress in this field requires that election processes in Western Balkan countries should be improved in practice as well as control of financing of political parties. As an additional lever, progress in both processes is linked to advance in the EU membership status. Once an efficient control of ruling parties is established, it would be possible to create the political will for strengthening rule of law and curbing corruption as their key precondition.

## CHALLENGES IN POST PANDEMIC PERIOD

Since the pandemic started in 2020, countries all around the world were faced with reduced production and consumption. To revive economies, a growing number of countries that were previously committed to green growth that balances economic prosperity with reducing the impact on the environment abandoned that policy. Environmental protection efforts were sacrificed to economic prosperity by both developed countries such as United States, Germany, Israel as well as Central and Eastern European countries such as Poland and Czech Republic (Schiller and Hellmann, 2021).

Unlike previous crises, COVID-19 hit a serious blow to the personal services sector. Wholesale and the retail sectors, tourism, as well as the arts and entertainment, are specifically affected by the free fall of demand (IMF, 2020). That means that the crisis hurt particularly hard those service sectors that employ a high share of women, atypical workers, and low-wage earners. As a result, it could be expected to see a strong uptick in rising income inequality trends in the aftermath of the pandemic.

Although the unemployment rate in OECD countries had fallen in 2020 compared with the peak of the negative impact of the financial and economic crisis in 2013, the recovery was uneven (Schiller and Hellmann, 2021). That could be illustrated in an example of the United States where employment rates recovered at a different pace for low-income workers (those who earn less than 27.000 USD annually) and high-income employees (with salaries above 60.000 annually), during the past year and a half period. According to Opportunity Insights, at the end of June 2021, the employment rate of high-income workers surpassed the pre-Covid level by 9,6%, while the employment rate of low-income employees lagged behind the pre-Covid level by 21% (Opportunity Insights, 2021).

The risk-of-poverty rate, which is the percentage of people whose equivalized disposable income is below the threshold of 50% of the national median equivalized disposable income, was higher in nearly half of the OECD countries before the COVID-19 crisis (2019) than at the height of the economic and financial crisis. This increase shows that not all groups in society have benefited equally from the upturn in labor markets.

The difference in poverty and employment patterns could be explained by two factors. The first one is the flexibilization of labor markets, which can be observed in almost all OECD countries, and that has led to an increase in atypical employment such as fixed-term work, part-time work, solo self-employment, and temporary work. Longer periods spent in these forms of

employment are more often associated with a higher risk of poverty for a household throughout a lifetime.

The second factor is related to the rapid pace of technological progress in recent years that has increased a gap in demand for jobs between high-skilled and low-skilled workers, while jobs for people with intermediate skills have disappeared (OECD, 2020). Future income and non-income inequalities will depend on changes in demand for jobs of different categories of workers on one side and the pace of economic recovery, on the other. As well as on possibilities of close social relations in the family, and other social networks to provide support for overcoming old empowered and new induced social inequalities.

## CONCLUSIONS

In the decade that preceded the pandemic, income inequalities were lowest in the last observed year (2019) in all Western Balkan countries. The same pattern occurred in the rate of poverty as a result of economic development and decreasing income inequalities.

However, the pandemic crises slowed down economic growth rates as a result of a huge drop in consumption and production. The factor that was recognized as particularly important in transitional countries in terms of influence on inequalities is governance. Neither of the indicators that reflect the quality of governance: Rule of Law and Control of Corruption improved during the past decade. The RoL indicated stagnation while CoC deteriorated in four out of five observed countries. The outcome was significantly lagging behind the OECD countries as the ones with good governance.

Poor governance and in particular weakening of corruption control increases the risk of further deteriorating governance thus threatening economic recovery as well as the process of reducing inequalities in the post-pandemic period. To avoid this scenario, democracy should be strengthened in terms of establishing an efficient control of political parties, which would enable institutions to act in public interest in full capacity. In this context, the human need for an optimistic social scenario that the social crisis is at the same time a chance for improvement depends on several structural factors, and in countries with lower social development depends on the relationship between economic subsystem and social subsystem (family, social networks, access to education) and state, as well as their ability to respond to challenges together. Otherwise, present crises caused by pandemics may lead to increasing



autocracy with increasingly negative effects in the future regarding inequalities, quality of governance, and economic growth.

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