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The role of existing theories and the need for a theory of capitalism in Central Eastern Europe

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A theory or meta-theory should provide a starting point for empirical analysis. With this in mind, what framework should we adopt for analyzing the transition to capitalism in Central Eastern Europe? I will sketch out a critique of some prominent existing paradigms and argue for the adoption of a “neoclassical sociological” approach.

The first approach I will consider is the Varieties of Capitalism paradigm. This approach is so well known that I need not repeat the details here (compare also Iankova, this volume). The VoC, while possessing some utility in explaining different labour-employer relationships between European countries, is inadequate for comparing advanced capitalist countries; and it is even less up to the task in CEE. Indeed, correcting for the deficiencies of VoC is a nice way to start thinking about categorizing different types of capitalism. First, VoC is ahistorical. Part of the appeal of VoC is that it provided a “soft-rational choice” framework, which has legitimized it with mainstream political science departments.

This approach is based on a static equilibrium that, by its nature, attempts to explain differences between countries based on their different economic tendencies stemming from their differing institutional configurations. However, the differences between the advanced capitalist countries can only be understood in terms of the historical evolution of substantially inter-dependent economic activity in the emerging nationally-bound capitalist systems. For example, differences in different sectors in different countries can only be explained by the historical pattern of investment, protection and regulation in those particular sectors.

This is also true at the country level. When comparing country performance as in the VoC perspective, that is to say as a cross-section, one can get a much distorted picture of economic performance. As Brenner shows (1998), the success of the manufacturing sectors in the US, Germany and Japan are determined to a considerable extent by the timing of investments in those three countries as well as by exchange rate regimes. Because of the Schumpeterian logic to actual investments in advanced capitalist economies, there is an enormous problem with the fixed sunk-costs of these investments when these become uncompetitive due to technological innovation elsewhere in the global system (e.g. because of Schumpeterian dynamic imperfect competition) (see Brenner 1998). Moreover, the relative success of countries is dependent on the political-economic construction of exchange rate management (the Paris Accord in 1985 and the Reverse Paris Accord in 1995). Thus, the study of capitalism in CEE should be eminently historical. Such a historical perspective would inevitably focus on FDI as an overriding factor that is totally outside the traditional VoC framework.

Second, the VoC perspective neglects power relationships, in particular, the power of big business vis-à-vis the state. For example, it neglects the political power of giant corporations in monopolistic or oligopolistic markets as well as the extent to which they are constrained by effective state regulation (See Perrow 2002). Consider the distinctiveness of many US sectors. Most of US economic history since the corporate revolution at the turn of the 19th Century shows that political power allows oligopolies to completely capture the regulatory process and co-opt all other actors that might impinge on their economic interests. As a result, in addition to behaving like the orthodox theory of oligopoly suggests (keeping competition restricted), they also use their financial and political clout to:

- (1) change regulations and laws to favour their own short-term and long-term profitability by restricting competition;
- (2) gain subsidies and especially bailouts when necessary;
- (3) overcome externalities that their individually rational activities might create; and
- (4) re-shape society to maximize their long-term interests.

These characteristics almost always create a variety of socially inefficient outcomes.

This description is pretty fair to the pharmaceutical sector (Angell 2005) and the transportation sector (Klein 1996) as well as oil, banking, health insurance, etc. To summarize, the study of capitalism in CEE should start also with questions of economic power in mind – the power of big organizations (both public and private) and collective actors.

The VoC approach also vastly overstates the role of formal and transparent market-based, intra-firm relationships in the LMEs, as well as their virtues. Quite simply, the success seen in high-tech sectors in the LMEs is not due to the greater technological dynamism due to the mobility of labour and capital but rather state-sponsorship, in particular through the defence budget (both the formal defence budget and the “hidden” one) and the National Institute of Health as well as an array of federal laboratories (Block and Keller 2009). Thus, this provides another starting point for the study of capitalism in the CEE: pay special attention to what the state is doing in terms of industrial policy and regulation.

If the VoC approach has achieved some sort of dominance in political science, much of the self-consciously critical perspective self-identifies as Word-Systems theory. WS can be useful, depending on what you mean by it. The original formulations of WS and Dependency theorists in the late 60s and 70s were problematic on a number of grounds. These critiques are well known and include:

- (1) neglect of domestic class and political relations.
- (2) blindness to the benefits of FDI (capital, marketing networks in high profit markets, access to leading technology). An understanding of FDI as being quite varied and of its impact being dependent on characteristics of the host state and economy.
- (3) blindness to the benefits of market competition.
- (4) vagueness about historical agents.
- (5) tendency to see capitalist development as zero-sum.

The proper framework for the study of capitalism in CEE should once again do the opposite of these bad tendencies. These are, admittedly, not indulged in by the group of nuanced, sophisticated WS or Dependency theory, which are not that different from what I will be calling the Neoclassical Sociological approach below.

The last general approach to studying different capitalisms is the ever ubiquitous cultural approach, which explains divergent historical outcomes by reference to differences between cultures. Without engaging any particular work, much of which has great merit (especially those that have a more dynamic and praxiological understanding of culture), there are certain problems with the cultural tradition. Most importantly, such analyses have a tendency to lack rigorous use of data to test competing theories (and retreat into hermeneutics instead of doing the hard work of social science). They usually describe some cultural practice that is compatible or contributes to the functioning of capitalism and then infer or imply causality. One can invoke culture, but one must be very concrete about it and ask what “culture” means or how it is invoked by actors in various arenas. In CEE, the role of nationalism in influencing political coalitions and determining overall levels of legitimacy of different groups of elites is great. In the neoclassical sociological approach, “culture” is extremely important. However, its influence is via the mechanism of its substantial impact on intra-elite competition and social group competition (e.g. class and status group conflict).

Ivan Szelenyi and his students advocated what we call the neoclassical classical sociological approach (Eyal et al 1998; King and Sznajder 2006). For me, NCS continues the

comparative and historical study of the evolution of capitalist and non-capitalist economies in the tradition of Marx and Weber. It is a historical science that recognizes that capitalism is an evolving system spreading unevenly and combining with other modes of production around the globe. I think, therefore, that the theory of Capitalism in CEE should be part of a larger theory of capitalism. Both Marx and Weber agreed that Modern Rational Capitalism (by which he meant in the developed countries of the West) was a system of:

- (1) generalized commodity production;
- (2) capitalist private property (rights to control, transfer, and residual income);
- (3) free wage labour (free to take any labour contract but also free from the means of subsistence).

Weber then added:

- (1) bureaucratic state (following Weber's classic definition).
- (2) large state sector that contributes by creating the supportive institutions for capitalist development (education, technology, industrial policies, Keynesian counter-cyclical demand management).

Both Marx and Weber also believed in the importance of the historical development of class relations. This includes not just inter-class relationships but intra-class, as well (within salaried and owning classes). However, as Marx himself argued in the *18th Brumaire of Louis Bonaparte*, these intra-class conflicts are not always reducible to differences in the location in the system of production (e.g. agriculture vs. industrial capitalists) but rather often involved the historical evolution of status-group relations.

To study Capitalism, then, from this perspective is to look empirically at the actual concrete data on the functioning and structuring of economic life along these different dimensions at different levels of analysis.

- (1) The State vs. Capital: is there an autonomous state that can, to a varying degree, effectively regulate capital? To address this, one must study the evolution of practices around selecting politicians and political elites.
- (2) Capitalist vs. Labour.
- (3) Capitalist vs. Capitalist. Look at the structure of markets for particular goods (oligopolies, etc.), in addition to the evolution of institutions to coordinate activity among business owners and corporations.
- (4) The Bureaucratic character of the state.
- (5) The Nature of the welfare state. What is the extent of labour de-commodification?
- (6) Type of industrial policy institutions and organizations, their strength and effectiveness.
- (7) Articulation with other modes of production and external economic actors. (such as FDI of different types, non-capitalist local relations of production [e.g. Oligarchic Integrated Business Groups in Russia – in which the real ownership units are constituted by non-transparent patron-client ties between government officials and private business men or women]). Or articulation with labour repressive agricultural elites in some parts of the Third World.

The CEE countries have similar structural properties that place them in the same group of capitalist economies. They are late-Industrializers with relatively well functioning bureaucratic states, weak labour, some network industrial policy, a reliance on foreign investment or other network relationships with small numbers of Western customers for technology transfer. There are clearly differences among CEE countries, obviously on these same dimensions. These are based on the contingency and history – mostly of intra-elite and/or intra-class conflict – taking the form of various reform policies pre- and post transition.

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