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Postsocialist crises and the rise of transnational capitalism in Eastern Europe: a theoretical framework for comparative analysis

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There is no question today of the deep institutional divergence of the postsocialist economies of Eastern Europe. The vision and designs of postsocialist reform in the early years aimed at turning Eastern European economies into capitalist economies akin to those of western Europe. But the outcomes of reform have been a plethora of capitalisms, which distinct and widely varying roles played by the state, domestic capitalists, transnational corporations, and workers. To examine this process of change, this paper offers a theoretical framework that explains why some East European economies became more embedded in transnational production than others. Its focus is on the political economy of institutional change. It assumes that economic institutional change is most dramatic under conditions of economic crisis. In the case of East European transformations, it sees the return of economic crises in the late 1990s as such episodes, serving as critical turning points in postsocialist efforts attempts to institute stable regimes of accumulation.

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In the early years of reform, the reigning “transition paradigm” (Carothers 2002) in the study of East European transformations assumed East European states and economies to be headed towards the same endpoints of liberal democracy and liberal market capitalism. By contrast, recent literatures have noted the significant qualitative differences in paths and outcomes of postsocialist institutional transformation. More recently, scholars of comparative capitalisms have highlighted the dramatic differences in the types of capitalist institutional arrangements that have emerged across the postsocialist world (Bohle and Greskovits 2012; Feldmann 2006; King and Szelényi 2005; Lane and Myant 2007; Myant and Drahokoupil 2011). In particular, observers have noted the rise of a distinct kind of “transnational capitalism” (Bohle and Greskovits 2012) or “dependent market economy” (Nölke and Vliegenthart 2009) in Central and Eastern Europe. In these economies, investment and growth depends heavily on the transnational corporate (TNC) sector, especially prominent in these economies’ manufacturing sectors.

Rather than an outgrowth of postsocialist openings to foreign direct investment (FDI), I consider transnational capitalism a political response to the failures of postsocialist capitalisms to produce sustainable regimes of accumulation. Where postsocialist capitalism resulted in renewed economic crises, reformers relied on the transnational sector more heavily. This is the path observed in the Czech Republic, Slovakia, Romania, and Bulgaria. Hungary’s transition to transnational capitalism was early and swift. By contrast, where stable national regimes of accumulation emerged, such as Poland and Slovenia, economic crises were averted and postsocialist capitalism retained rootedness in national capitalist institutions. In the course of the 2000s, Poland and Slovenia preserved national variants of capitalism, in contrast to the deeply transnationalized, FDI-dependent economies of Hungary, Czech Republic, Slovakia, Romania, and Bulgaria.

This paper’s goal is theoretical. It develops a comparative theoretical framework which explains the patterns of the making and unmaking of capitalism in Central and Eastern Europe which draws on
the Social Structures of Accumulation (SSA) approach. The paper does not discuss empirical cases in depth, as this task is currently being completed by the author as part of a larger project.

**Market reform and industrial survival: why transnational capitalism?**

Given their postwar political origins as states geared towards industrialization, the preservation of industrial capacity – or, alternatively, an effort to halt rapid and wholesale deindustrialization – was, regardless of ideological commitments, a central goal of postsocialist governments. The immediate consequence of liberalization reforms after 1989 were deep economic crises, what Kornai (1994) called the “transformational recession,” or what more accurately became the “transformational depression” (Myant and Drahokoupil 2011, pp. 49-62). The scale and severity of industrial collapse in Eastern Europe came as a surprise to both domestic reformers and external architects of reform (Nove 1994; Sachs and Woo 1994). The origin of the industrial shock of 1989-90 was both exogenous, resulting from the sudden disintegration of the Comecon market, as well as endogenous, as “shock therapy” macroeconomic liberalization and stabilization measures unleashed tremendous financial pressures on domestic industry. By the mid-1990s, however, it appeared as if most East European states had overcome the worst of these crisis and, everywhere besides Russia, managed to engender a recovery of industrial output, if not outright economic growth.

Economic crises returned spectacularly to the region in the late 1990s. Romania and Bulgaria faced near industrial collapse, followed by a deep fiscal and financial crisis in Bulgaria in 1996 and recession in Romania in 1997. Slovakia faced a severe financial crisis in 1998. Even the seemingly star reformer, Vaclav Klaus’ Czech Republic, experienced a deep financial crisis in 1998. I argue that these crises were turning points in the disintegration of institutional experiments in national capitalism and marked the beginning of the turn to transnational capitalism (cf. Myant 2003).
Before presenting the argument and framework, some definitions are in place. When speaking of distinct kinds of capitalism, the definition alludes to the dominant form of capitalist accumulation. More specifically, it includes the prevailing source of investment in the business sector (Nölke and Vliegenthart 2009). Under national capitalist systems, the state is (at least formally) institutionally separate from the economy, and investments are primarily sourced from private actors in the domestic economy. Under transnational capitalism, while the same institutional separation exists, the prevailing source of private investment is foreign.

More than the source of capital, the designations of national and transnational capitalism denote the central organizational actor(s) that drives postsocialist industrial transformation. Under national capitalism, the actors driving this process are domestic ones, whether organizational entrepreneurs such as managers, state officials, and new entrants into business, or hybrid organizations such as investment funds established by the state. Under transnational capitalism, the dominant force in industrial restructuring are non-domestic organizations, and typically large industrial TNCs. As should be clear, the conceptual types are historically specific and apply to the universe of postsocialist states. They are not intended to be a priori universal descriptions of global varieties of capitalism, though in theory this is not precluded if the specific scope conditions of the theory are modified to fit other cases.

To be more specific, transnational capitalism is here defined as a distinct postsocialist economic regime. The term “economic regime” designates the set of institutional arrangements that underpin economic growth, alongside the political alliances that sustain it. Markets are but one element of a capitalist economic regime. A capitalist economic regime is analogous to what some political economists call an institutional variety of capitalism (Amable 2003; Hall and Soskice 2001; Hollingsworth and Boyer 1997; Thelen 2004), a mode of regulation (Aglietta 1979; Boyer 1990), and others a social structure of accumulation (Gordon, Edwards and Reich 1982; Kotz, McDonough and Reich 1994; McDonough, Reich and Kotz 2010b). As this paper will argue, the fundamental problem of postsocialist reformers was not simply creating markets, but of instituting
a robust economic regime enabling a sustained process of accumulation. Transnational capitalism, which relies heavily on FDI for economic growth, was one such solution.

Why did this form of capitalism emerge in Central and Eastern Europe? Nölke and Vliegenthart identify the unique characteristics of the “dependent market economies” of Central and Eastern Europe, but they do not account for their origins. Why did this form of capitalism emerge in Central and Eastern Europe? Nölke and Vliegenthart identify the unique characteristics of the “dependent market economies” of Central and Eastern Europe, but they do not account for their origins. Other accounts come to contradictory conclusions. Both King (2007) and Bohle and Greskovits (2012) see transnational capitalism in Central and Eastern Europe as an outgrowth of FDI inflows, but while the former suggests this to be the result of the region’s technological backwardness, the latter argue that it results from inherited regional legacies of technologically complex manufacturing. Moreover, patterns of FDI shift in the late 1990s and early 2000s, when even such “reform laggards” like Romania and Bulgaria dramatically enhance their FDI attraction and absorption capabilities. Bohle and Greskovits further argue that the consolidation of transnational capitalism was the result of EU integration and the intensification of intraregional rivalries for FDI. But why did the Slovenian leadership never feel compelled to enter such a rivalry? And why did such competition lead to near total FDI-dependence in Hungary, Czech Republic, and Slovakia, but not in Poland, whose industrial structure in the 1980s was much weaker? This variation must be addressed by examining differences in institutional change.

A related assumption is that transnational capitalism in Central and Eastern Europe was a by-product of EU integration (Bruszt and McDermott 2009). Transnational capitalism is thus interpreted as a consequence of the “asymmetric dependency” (Vachudova 2005) between the EU and aspiring members in Central and Eastern Europe, which naturally became reliant on markets in and investments from the EU’s core economies. But asymmetric dependency does not explain why states like Poland and Slovenia, in spite of deep EU-mandated reforms and
similar access to EU markets, maintained relatively robust national capitalisms throughout the 1990s and the 2000s. It also does not consider the extent to which industrial and market integration preceded and was a causal factor driving EU accession, rather than the other way around. Certainly, EU integration has enabled a remarkable and arguably novel form of “dependent development” (Evans 1979) in Central and Eastern Europe that is deeply and intricately reliant on transnational capital resulting in what Bohle and Greskovits describe as “manufacturing miracles” that rapidly catapulted these small and once closed economies into the forefront of globalized production. But emphasizing the causal dynamics of transnational capitalism as being primarily external in origin is at best a partial account. It leaves out ways in which domestic social and political coalitions led the turn to transnational capitalism as a regime of industrial renewal and economic growth.

My main argument is a simple one: transnational capitalism was a result of the failure of early reforms to produce a sustainable national capitalist regime. Transnational capitalism was the institutional result of a set of political choices made in light of the failure of a sustainable domestic capitalism. In this new, post-2000s economic regime, FDI was not a single component within a broader investment policy, but a regime which premised its growth program almost exclusively on the inflows of foreign capital and reliance on TNC organization, technology, and markets (Drahokoupil 2009). This made FDI – and its bearer, TNCs – appear not only as disinterested political actors entering the economic arena for purely instrumental, profit-seeking purposes, but crucial political allies in the making and legitimizing of postsocialist capitalism (Eyal, Szelényi and Townsley 1998). As an economic regime, transnational capitalism was intended not as a supplement, but as a substitute for largely failed and discredited national capitalisms. Most importantly, transnational capitalisms were politically constituted economic regimes.

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2 Slovenia experienced a breakdown of national capitalism in the aftermath of the 2008 global financial crisis. By contrast, Poland maintained robust economic growth in spite of the wave of recessions which plagued the rest of Europe since 2009. Post-2008 political and economic dynamics are addressed in subsequent papers.
Given this, following an historical institutionalist logic, I seek to identify the conjunctures that explain the variable survival or failure of national capitalism, and the factors that explain the transition from economic crisis to transnational capitalism. I treat the economic crises of the mid-to late 1990s experienced in Bulgaria, Romania, Czech Republic, Slovakia, and Russia, as the critical moments of economic regime breakdown creating opportunities for new coalitions of change. Unsurprisingly, the turn to transnational capitalism is most dramatic in these post-crisis cases.

The remainder of the paper proceeds in the following ways. First, it reviews the ways in which the comparative democratization literature has addressed the question of the politics of postsocialist economic reform, economic performance, and regime consolidation. The paper provides an alternative approach which uses insights from Social Structures of Accumulation (SSA) theory to explain the dynamics of economic regime formation and breakdown in postsocialism. From there, the paper proposes a theoretical model which explains the causal dynamics which led from economic regime success and breakdown to reconstruction. The analytical framework presented in this paper identifies three paths of postsocialist transformation, each with a distinct outcome in terms of postsocialist economic regime. This paper only cursorily discusses empirical cases as its main objective is theoretical.

**Reform, crisis, and the political origins of transnational capitalism as a social structure of accumulation**

Approaches to democratization and institutional change tend to be agnostic about the origins of economic growth. They also treat the industrial nature of East European economies as being of secondary importance. This has partly fueled the flaw in the democratization literature in Eastern Europe, especially in the first generation of research, which all too readily adopted neoliberal assumptions that problems of economic growth in Eastern Europe stemmed from the lack of markets. Comparative political economy approaches, as in the Polanyian approach
of Bohle and Greskovits (2012), work in the Varieties of Capitalism (VoC) approach and similar theories of comparative capitalisms (Crowley and Stanojević 2011; Feldmann 2006; King 2007; King and Szelényi 2005; Knell and Srholec 2007; Lane 2007; Myant and Drahokoupil 2011; Noelke and Vliegenthart 2009), have avoided this common pitfall. They recognize that capitalism exists in more than one institutional variety, that these institutional variants can co-exist with democracy, and reject the neoliberal claim that the postsocialist choice was one between liberal capitalism and democracy or a state-run economy and authoritarianism (e.g., Åslund 1991). At the same time, the comparative capitalisms approach has been criticized for often attempting to categorize emergent postsocialist capitalisms along categories developed in the study of Western political economies, particularly those of the VoC school and the distinction between Liberal Market Economies (LMEs) and Coordinated Market Economies (CMEs) (Hall and Soskice 2001). This attempt to pigeonhole East European economies along established categories disregards the critical novel features of these economies (Bohle and Greskovits 2007; Nölke and Vliegenthart 2009). As a result, they have too often ignored the path dependent nature of economic institutions and the distinct political and economic challenges of engendering capitalist growth in postsocialist economies. Even Nölke and Vliegenthart (2009), who are otherwise critical of analysts that seek to categorize East European economies along a LME-CME scale while ignoring the crucial qualitative institutional differences of these economies from both LMEs and CMEs, ultimately do not account for, nor propose a theory explaining why, the institutional development of postsocialist capitalism differs in fundamental ways from Western capitalisms. My goal is to draw on these two sets of insights by turning to an historically-grounded, institutionally-based analysis of the political economy of capitalist growth and crises, the Social Structures of Accumulation (SSA) approach.

SSA theory is a theory of the political and institutional conditions of capitalist growth (Gordon 1980; Gordon, Edwards and Reich 1982; Kotz, McDonough and Reich 1994; McDonough, Reich and Kotz 2010b).

3 Evolutionary economists and economic sociologists have also shared similar views.
SSA theory sees capitalist accumulation to result from historically changing institutional and sociopolitical arrangements, defined as historically-constituted social structures of accumulation. For SSA theory, capitalism, rather than a fixed institutional structure, is a dynamic system involving permanent social and institutional instability, which is only temporarily stabilized in growth-enhancing social structures of accumulation. This distinguishes SSA theory from historical institutionalist approaches that bracket the dynamic features of capitalism while favoring a view in which institutional change is set in motion by exogenous events (Krasner 1976; Skocpol 1979; Spruyt 1996). It differs from the VoC approach which sees capitalism to operate as a set of stable “institutional complementarities” but unable to account for their origins or transformation (Blyth 2003; Hall and Thelen 2008; Korpi 2006). It also differs fundamentally from the “transitions to democracy” literature which treats as non-problematic the relationship between political economy and democratization (Haggard and Kaufman 1995; Haggard and Kaufman 2012). And unlike neoclassical economics, SSA theory does not accept the notion of market equilibrium, but sees markets as unstable and continuously disrupted and reconstituted by economic and political actors (cf. Fligstein 2001). In this respect, SSA theory is less neoclassical and more Marxian, Keynesian, and Schumpeterian in its economic underpinnings. In the following discussion, I outline a framework which uses insights from SSA theory to account for outcomes of postsocialist reforms through an analysis of the political economy of capitalist accumulation. Using SSA theory, I seek to account for the political origins of transnational capitalism not only as an economic program or policy, but as a distinct and stable social structure of accumulation that resulted directly from a situation of a structural crisis of capitalism.

The SSA approach shares certain theoretical underpinnings with the French Regulation School (Aglietta 1979; Boyer 1990; Boyer and Saillard 2002). Both perspectives treat processes of capital accumulation as historical and periods of high economic growth as driven by social structures constituted by particular institutional complexes which are non-permanent. SSA theory builds on both Marxist and Keynesian
insights on the social, ideological, and institutional prerequisites of capitalism.

From Marx, SSA theory recognizes that, in addition to basic institutions of private property and contract enforcement, modern capitalism is constituted by fundamentally distinct and incommensurable social roles for capital and labor. This basic social division of industrial capitalism forms the basis for the conflictual nature of the capitalist economy. For capitalist accumulation to be sustained over the long run, institutional mechanisms are necessary that mediate class conflict and produce working compromises between industrial capitalism’s two fundamental social classes in order for the process of capitalist accumulation to take place. In addition, capitalism constitutes fundamental disunity within the capitalist class, as the market pits different capitals in competition against each other. Mediation of this disunity, such as enforcing competitive market rules and legal restrictions against monopoly, is also a basic structural necessity of capitalist accumulation. SSA theory builds on Marx, but it also grew out of critical engagements with orthodox Marxist approaches which described capitalist social structures as static and unchanging. Instead, SSA theory sees capitalism as characterized by a set of “dynamic tendencies.” These include (1) the socially and geographically expanding nature of capitalist accumulation, (2) the tendency towards the concentration of ownership, (3) the expansion of the rule of wage labor alongside the need to ensure the reproduction of labor power, (4) continuous organizational and technological change in the process of production, and (5) the tendency of labor to emerge as a distinctly organized political group (Gordon, Edwards and Reich 1994, pp. 11-13). These, it is important to emphasize, are general historical tendencies that have emerged from capitalist development, and not universal social laws that characterize capitalism at all times and in all places.

From Keynes, SSA theory recognizes both the problem of demand realization, and the constitutive role of uncertainty in capitalist economic behavior at the micro-level. As Weber pointed out, capitalism’s basic motion is determined by action that is motivated by “the pursuit of profit,
and forever renewed profit, by means of continuous, rational, capitalistic enterprise” (1998[1930], p. 17; emphasis in original). For Keynes, the pursuit of “forever renewed profit” is an undertaking forever fraught with uncertainty. Uncertainty in a capitalist economy is endemic and, more fundamentally, ontological (Keynes 1965, esp. pp. 147-153; Lavoie 2014, pp. 72-82). The view of uncertainty as ontological distinguishes Keynesian approaches from neoclassical perspectives which define uncertainty in stochastic terms, i.e., in terms of probabilities which can be ascertained based on knowledge of past behavior and expressed in the form of risk (Knight 1921). Like Marx, Keynes saw capitalist accumulation, the pursuit of “forever renewed profit,” as a process embedded in history. Two consequences flow from this. First, that capitalist profit-seeking rationality is historically constituted. Second, that the contingencies and historical turns of capitalism can be neither known nor modeled in full in advance. This led Keynes to develop assumptions about the limits and boundedness of rationality, distinguishing his approach from rationality assumptions in neoclassical understandings. Rather than maximizing utility based on neoclassical notions of complete information, capitalist behavior in the Keynesian view is by necessity pragmatic, bounded, and one which relies on environmental cues with the aim of “satisficing” (Simon 1956). With satisficing, the key driver of capitalist behavior is not maximization, but an ongoing and continuous process of using information provided by the actor’s environment to set “aspiration levels, so that the search for alternatives is brought to an end when the aspiration level is achieved” (Lavoie 2014, p. 90). Following Gigerenzer (2008), the Post-Keynesian economist Lavoie terms this “ecological rationality” (Lavoie 2014, p. 87). In this view of the limits of capitalist rationality and the underlying uncertainty of capitalist action, the assumptions of SSA theory share views of economic action found in economic sociology (Beckert 1996). In understanding capitalist rationality, the analytical task is to “simultaneously [refer] to actors with their interests and to the social structure that these actors have to take into account when they try to realize their interests” (Swedberg 2003, p. 53; emphasis in original). This structurally embedded view of economic action expands the latter’s action
horizon. It examines economy as social organization and avoids the reduction of the economy to a mere “price system” (Swedberg 2003, p. 53).

SSA theory aims to specify the institutional environment within which capitalist economic rationality (“the pursuit of profit, and forever renewed profit”) takes place. It adds a macrosociology to Keynesian microeconomics, or an analysis of what the Löwe called “the concordance of [economic] microdecisions with the required macroprocesses” (1976, p. 17) of capitalist growth. SSA theory posits that capitalist accumulation, in addition to institutions that mediate the social conflicts of capitalist production, also requires institutions that mediate and place within reasonably manageable bounds the uncertainty faced by economic actors carrying out profit-seeking investments. These involve not only legal frameworks recognizing property rights and contracts emphasized by neoclassical institutionalists (North 1981), but also organizational and ideological structures which enforce legal frameworks and provide normative underpinnings of expected courses of action to place individual behavior within some predictable bounds. Institutions exist not only to lower the transaction costs of economic action, but also to enable actors to make decisions based on reasonable judgments regarding future expectations (Meyer and Rowan 1977). In combination, social and political institutions that mediate social conflict and create conditions for the realization of demand help reduce uncertainty and constitute a stable SSA. As McDonough et al. (2010a, p. 3) point out,

when a social structure of accumulation is in place, many of the determinants of the profit rate are secured, and long-run expectations of profitability are stabilized. Higher levels of investment lead to expansion and growth. Initially, this expansionary dynamic reinforces the SSA and provides resources that can be devoted to its consolidation.

Resulting SSAs are hence both macro-level institutional arrangements and micro-level mechanisms which mediate between the state, owners of capital, labor, and other institutions and social structures that enable the
circuit of investment, production, and exchange to take place. In the Regulation School, the mediating mechanisms between production, accumulation, and exchange the the general requirements of social reproduction are categorized under the term *mode of regulation* (Aglietta 1979; Aglietta 1998; Boyer 1990; Boyer and Saillard 2002).

The emphasis here is the changing nature of SSAs: the institutions that are established to mediate these relations are *politically* constituted and alter in nature and scope as one long-wave cycle of accumulation comes to an end. These institutions are not created by rational design, but through political struggle and processes of trial and error. Moreover, as institutions are created, they not only constrain, but also draw the stakes and organize the interests of a multiplicity of actors. This historical perspective is critical in understanding differences between SSAs across different national variants of capitalism in North America, Europe, and Japan. While comparative analysis of SSAs is an underdeveloped area (McDonough 2010, pp. 33-39), in general terms, SSAs differ in terms of the degree of state intervention and regulation of capitalist competition and labor markets, degrees of organization of capital and labor, forms of demand realization, and rates of technological change and innovation (Wolfson and Kotz 2010). That is, unlike the VoC perspective where capitalisms are contrasted by the nature of their “institutional complementarities” which cut across industrial firms, the financial sector, and systems of occupational training and education, SSA theory is both narrower and more general. It is narrowly concerned with the operation of the institutions of the capitalist sector (the organization of production) with its emphasis on the relative boundedness and separation of this process from other social processes. At the general level, it is concerned with the social structures, including the institutions and ideologies, that

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4 See McDonough et al. (2010) for a discussion of the convergence between SSA theory and what they, following Boyer (2002), describe as an an institutionalist strand of the Regulation School.

5 “The social structure of accumulation can be conceptualized as a durable investment that, once installed, pays off over a long period of time. It is durable because much investment has gone into its institutionalization; it is successful because it results from a long period of experimentation” (Gordon, Edwards, and Reich 1994, p. 22).
enable the process of accumulation in the capitalist sector to take their course while minimizing the effects of disruptive social processes that undermine the process of accumulation. While VoC theory is a meso-level institutional theory concerned with processes of inter-institutional coordination, SSA theory is interested in the coherence between microeconomic capitalist behavior and the macro-level social structures which enable it to take place and succeed.

Traditional SSA theory sees the remaking and reconstitution of SSAs most likely when a long-term wave of economic growth reaches its ends, typically in an economic crisis signaled by diminishing returns to investment. The causes of the disintegration of an SSA which enabled the period of expansion are varied. Here, unlike Marxist approaches which might locate the origins of capitalist crisis in single causes (such as the “law” of falling rates of profit) and Keynesian approaches which suggest that economic crises result from the untamed “animal spirits” of capitalist speculation, SSA theory locates the origins of economic crisis in the disruption of the very institutional arrangements of the existing SSA. Depending on the institutional makeup of an SSA, the particular economic causes of crisis may be varied. These can be “Marxist” (problems of underconsumption and falling rates of profit), “Keynesian” (excessive speculation leading to overinvestment), or “Schumpeterian” (disruptive entrepreneurial and technological innovations) (Kotz 2011; Kotz 2013). While Gordon’s (1980) original articulation of SSA theory associated capitalist crises and the demise of SSAs with long-wave cycles of expansion and contraction, later developments in SSA theory have tended to be more accepting of the role of contingency in the specific origins of capitalist crises and in the reconstitution of SSAs (McDonough 1994). SSA theory thus offers no general theory of capitalist crisis. A structural crisis of an SSA is reflected in the secular decline of investments, falling profit rates, and declines in consumption. The particular causes are contingent upon the institutional nature of the existing SSA. The more direct theoretical concern of SSA theory is how a new SSA is reconstructed once a structural crisis emerges.
Here, I call attention to the parallels between SSA theory and historical institutionalist approaches in which crises disrupt existing institutional arrangements and spur actors to engage in institutional change (Pierson 2004; Streeck and Thelen 2005).

Social structures of accumulation will exhibit considerable inertia, and coalitions aiming to change those institutions will emerge only slowly. As a result, capital accumulation within a given social structure of accumulation is likely to encounter diminishing returns to continuing capital investment, and this deceleration is likely to intensify until substantial adjustments in the social structure of accumulation can be made. ... The length of the stagnation phase of a long swing results from the long lag before individual actors can mobilize collectively and from the long lag before collective struggles reaches the point of compromise or clear-cut victory that permits construction of a new social structure of accumulation (Gordon, Edwards and Reich 1994, p. 24).

O’Hara argues that, “the SSA approach ... is compatible with institutionalism because it is holistic, implicitly utilizes the concepts of circular and cumulative causation, examines the evolutionary transformation of capitalism, and places emphasis on the contradictions between capital and labor, nation and world economy, and big and small capitals” (1994, p. 498). The assumptions of SSA theory are compatible with those of historical institutionalism insofar as they both emphasize the relevance of political processes in the constitution, maintenance, and dissolution of institutions. The key difference is that historical institutionalism has traditionally treated institutions and political coalitions that sustain them as self-reinforcing until an exogenous development produces a “punctuated equilibrium” that undermines their stability and coherence (Krasner 1989; Spruyt 1996). By contrast, SSA theory insists that dynamics endogenous to capitalist accumulation are in themselves sufficient for a crisis of institutional reproduction to occur.
More than being compatible with historical institutionalism, SSA theory helps address two important shortcomings of historical institutionalism as traditionally practiced in comparative historical sociology and political science. The first is to treat capitalist crises as endogenous to capitalist political economies, not as exogenous “economic” events that impose themselves upon political institutions (cf. Weir and Skocpol 1985). The second is to correct the widespread practice in historical institutionalism, noted by Streeck (2009), in which comparative political economies of capitalism are conducted without reference to a substantive theory of capitalism. In Streeck’s call for historical institutionalism to “bring capitalism back in,” SSA theory offers that crucial complement. In turn, historical institutionalism clarifies within SSA theory the process and dynamics of institutional change by providing a more explicit framework for analyzing the role of political agents in institutional change.

SSA theory has been less successful in developing a framework for analyzing SSAs comparatively. As McDonough points out, the lack of comparative analysis in SSA theory is largely due to the origins of the approach in the study of a single economy, that of the US. There are also unresolved issues in terms of the scope and level of SSAs. Do they exist at the national or subnational level? Are national SSAs autonomous or have they in the neoliberal era been encompassed by a global SSA? Do structural crises lead to the total breakdown of SSAs or can the life of an existing SSAs be prolonged via temporary institutional fixes? Does SSA change reflect a Polanyian “double movement” and undergo a permanent pendular swing from decommodification and regulation to liberalization, or is each SSA a distinct structure? (Gordon 1994; Kotz and McDonough 2010; Wallace and Brady 2010). These are complex theoretical issues which are not addressed here. I will, following the example of Gordon, Edwards and Reich’s (1982) seminal work, treat SSAs as institutional phenomena and, as such, consider the political economies established at the national level within relatively autonomous states as crucial for the making of SSAs. This brings the assumptions of comparative analyses of SSAs in line with existing insights from state-centered global political economy, which emphasize the centrality of national institutions in
providing the framework for international economic change and the primary arena where political action is concentrated (Gilpin 2001; Weiss 1998). It also makes contemporaneously existing SSAs conceptually analogous to VoC-type variants of capitalism.

**Comparative SSAs in postsocialist transformations**

The basic insights of SSA theory described above lay the groundwork for the analysis developed in this book. The postsocialist economies were undergoing a change from the SSA of the ancien regime of the party-state towards a new “capitalist” SSA.\(^7\) It is clear, however, that, as the transition literature recognizes, in the early period, institutions were in flux. The institutions of the SSA were being dismantled and transformed into a new SSA which was, for most of the 1990s, in a process of elaboration. The intermediate period was one that, inspired by the work of Blanchard and Kremler (1997), can be called a “disorganized SSA.”\(^8\) A disorganized SSA is one in which there is “neither plan nor market,” but is not an entirely anarchic one (Stark 2003). It is a period in which institutions of the ancien regime co-exist and intermingle with the new institutions established by market reform. However, the still unconsolidated nature of the new SSA leaves the state too weak to fully regulate institutional domains and actors without the means of coordinating activities. This creates economic opportunities for individual actors to skew the accumulation process in their favor and political

\(^7\) Attempting to apply SSA theory to state socialist economies would take the discussion in a different and, for the purposes of this analysis, unnecessary direction. The analysis here assumes that a distinct, bureaucratic and “non-capitalist” SSAs existed without detailing their elements. In theory, it would be possible to identify these elements, keeping in mind that, in principle, state socialism did away with capitalist (profit-seeking) rationality. Modifying Weber’s definition of capitalist rationality to apply to state socialism, one could say that its premise was “accumulation, and forever renewed accumulation.”

\(^8\) Blanchard and Kremer (1997) argue that the decline of output in the transitional economies was the result of disorganization, which they characterize as the loss of mechanisms of coercive coordination under central planning and the resulting disintegration of chains of production.
opportunities for collective actors to press the state with new claims over economic flows. The weakness of new institutions, information asymmetries, and the lack of institutional means of coordination between economic actors (firms and labor) also generate great uncertainty in the economic realm. In combination, these processes may take the institutional elaboration of the new SSA in directions which were unintended by the architects of postsocialist market economies. It is this process of economic activity within newly established market institutions and the political claim-making and bargaining between reformers and newly empowered political actors which negotiated the basic make-up of postsocialist capitalism, considered as an historically distinct SSA.

As Appel (2004) persuasively shows, the goals of postsocialist reformers were not the implementation of any “really-existing” economic system, but were mainly driven by ideological understandings of markets and capitalism (cf. Blyth 2002). The ideological content of reforms, their vision of what Stark (2003) calls “capitalism by design” centered around an ideal of national capitalism which presumed the emergence of some Western variant of a liberal or corporatist form of capitalism. In reality, rather than the efficiency gains of neoclassical models based on the presumed utility-maximizing actions of economic actors, reforms produced economic disorganization on the one hand and unleashed innovative institutional behavior on the other (Stark 1996; Stark and Bruszt 1998). These situations of institutional instability and flux represented the "transitional" model of an economy which had dismantled the key institutions of state socialism but where a new growth regime had not stabilized and its supportive institutions not yet settled. Reforms were a political act which disrupted economies without necessarily “fixing” anything in place. The “fixing” of new institutions took renewed political efforts, and was a generally an organizational process that was independent from reform itself. The political actors which emerged in

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9 As Sachs (1993) argued, the goal of reforms was to introduce “market institutions,” while the decision on an exact variant of capitalism “could be left for a later time.” The notion of markets operating in isolation from other social institutions is characteristic of neoclassical thought.
producing the temporary institutional fixes did so under interests which sometimes diverged from the expectations and grand designs of reformers (Stark 1996).

The temporary institutional fixes produced tentative, transitional SSAs. They restored economic growth and the semblance of economic “normality.” But in many cases they unravelled as the institutional arrangements proved unworkable and postsocialist economies plunged into crisis. These postsocialist crises served as inflection points in the making of a new SSA. It is at the moment of extricating themselves from postsocialist economic crises that the postsocialist economies experience great divergence, as actors sought new institutional solutions to problems of stable growth. In this process, a few states managed to consolidate the temporary institutional fixes into permanent ones. Postsocialist national capitalism here proved steady and robust. In others, reformers needed to find entirely new solutions, leading to the turn to transnational capitalism or a deeply illiberal economy. An outline of types of postsocialist SSAs and their key features is presented in table 1.

Explaining change and stabilization in postsocialist SSAs

SSA theory provides a general theory of change, but the more protracted process of change in the constitution of stable SSAs in the postsocialist economies requires a more specific identification of the mechanism of stabilization or, when stabilization fails, the political means by which a new SSA is elaborated. SSA theory aims at developing an historical theory of capitalism, and thus accounting for the specificity of the historical cases is clearly necessary. Postsocialist political economies were by definition oriented towards fundamental institutional change. Thus, while in general, SSAs tend to transform piecemeal and in response to specific crises, postsocialist political economies were characterized by attempts at wholesale institutional redesign. The exceptional historical moment at which these SSAs were born gave political leaders both the willingness and legitimacy to engage in large-scale institutional redesign that is typically not possible under “normal” politics. In the words of
Polish economic reformer Balcerowicz, postsocialist reform came during a period of “extraordinary politics.”

In general, there are two steps in the process of the elaboration of postsocialist SSAs. The first is the attempt by reformers to transform their economies by introducing new institutions, typically modeled upon those found in existing SSAs in the West. On the one hand, some institutions are easy to port: an independent central bank, monetary policy, fiscal policy, a stock market, and other formal rules such as legal rights to property. What is more difficult to change and cannot be imposed from above are the social relations and actors of a capitalist economy. Chief among this is the non-existence of a domestic capitalist class (Eyal, Szelényi and Townsley 1998). Hence, in the postsocialist political economy, governments are faced with a number of choices: either allow the state to assume, at least temporarily, the role of a collective capitalist, introduce reforms which generate a capitalist class quickly out of existing social groups (e.g., by privatization), or source a capitalist class from the outside through foreign investment. Capital needed to be matched with owners. This was, above all, a political problem and not a merely technical and policy undertaking.

Existing stocks of capital also needed to be made efficient and profitable. This is what Landesmann and Ábel (1995) identified as the “stock-flow” problem of the transitional economy. Industrial development under central planning produced an industrial structure whose very survival was threatened by the unleashing of market forces. Under central planning, capital was allocated based on central decisions, administered prices, and limited to no competition. In strict market terms, this allocation is inefficient. Transitions to the market will therefore require major industrial restructuring. There were few illusions among reformers in regards to this fundamental problem. But the key question with regard to the restructuring process was its time horizon. The immediate and wholesale introduction of market forces would within short order potentially lead to the outright destruction of the existing industrial base. Short of exposure to war, no economy will accept the full-scale destruction of its capital stock. No politician can survive a situation in which their
state’s entire economic base is facing ruin, no matter how ideologically committed to the idea of the market. As the long-time student of East European economics, Alec Nove, observed, reform policies created a situation in which “[t]he danger is not of the ‘creative destruction’ envisaged by Schumpeter, but just of destruction, de-industrialization, with nothing creative taking place” (1994, p. 865).

The survival and restructuring of existing capital stock requires new capital flows. As Landesmann and Ábel note, “such accumulation of new ‘flows’ is a gradual process, and thus the only option in order to maintain a (socially and politically) sustainable level of employment and level of supplies to support the living standards of the population is to keep ‘stocks’ in operation which would – if strict market criteria were applied – not be kept in operation” (1995, p. 316). This requires institutional compromises that contravene the requirements of a perfect market. “The sluggishness of enterprises and banks in conforming to strict market criteria is, in fact, an essential component in softening the impact of the fundamental stock-flow problem encountered in the transition: to repeat, if there were an immediate switch towards full compliance with strict market criteria, there would be an immediate and dramatic process of scrapping of existing capacities and large-scale redundancy of workers” (1995, p. 317). This national economic imperative forced political actors to address the stock-flow problem regardless of whether a capitalist class emerged on the scene and, ultimately, regardless of how deep their ideological commitment to the market went.

By allowing the state to step in with investments, the stock-flow problem is resolved, but governments now face a new problem. If the state steps in to provide financing, there are monitoring costs to ensure that funds are used for restructuring and not for private rent-seeking or to simply keep inefficient enterprises afloat. This is a monitoring and compliance problem. When monitoring is effective, investments are used for purposes of restructuring, solving the time horizon problem identified by Landesmann and Ábel. As time horizons expand, investments aim at long-term performance, restoring output and long-run profitability. This stabilizes the industrial economy, enabling reformers to carry on with
in institutional reforms under conditions of economic growth. By contrast, when monitoring is ineffective, any restoration of growth through investment is temporary, while opportunities for rent-seeking proliferate. Industry fails to restructure. More importantly, time horizons shorten, deterring investment and restoring the spiral of decapitalization. This renewed institutional crisis compounds the stock-flow problem by turning it into a financial and fiscal problem. This renewed crisis requires either locating a new investor base, or relying on coercion to discipline the existing one and end the appropriation of stocks (via the effective control of industrial assets) from expanding into a permanent appropriation of flows (via the appropriation of the state’s financial resources).

As a result of these patterns, the construction of postsocialist SSAs has in all cases been a two-pronged process: (1) liberalization shock and crisis, (2) addressing the stock-flow problem, (3) stabilization (where investment is successful) or renewed crisis (where investment fails). These steps represent the theoretical model of SSA crisis and stabilization, whose relationship with economic growth is given in graph 1. As the model suggests, there are no guarantees that the initial crisis will be successfully resolved into a renovated SSA which restores profitability and growth. The failure of an SSA to stabilize results in renewed crisis. In that situation, political actors face a new set of problems, but are also provided opportunities for new reforms.

This was the pattern observed across Eastern Europe. After the initial economic shocks of reforms in the period 1989-92, a number of postsocialist economies underwent another series of severe economic crises in the period 1996-98. The argument here suggests that these crises result from the tentative and unstable nature of the initial, disorganized SSAs, while they provide opportunities for political actors to “work out” new SSAs and consolidate them in the aftermath of the second crisis of postsocialism. It is for this very reason that the ultimate institutional forms of capitalism begin to diverge so greatly from the initial designs of the reformers. At some point, the original blueprints, proving ineffective at restoring growth, were abandoned altogether.
Why are SSAs stabilized in some states, while in others they unravel into renewed crisis? The key mechanism in the stabilization of a postsocialist SSAs is not economic but political. It rests on the successful formation of a developmental coalition. A developmental coalition denotes a coalition between political and economic actors that resolve problems of coordination and monitoring in the context of a disorganized SSA. A developmental coalition resolves both the stock-flow problem by securing a domestic base of investment, and the monitoring problem by ensuring that investments are used for goals of restructuring. This turns our attention to the politics surrounding the making or failure of developmental coalitions.

The institution-building role of developmental coalitions

The political environment in which postsocialist firms operated was shaped by two related factors. The first was the constituency of the reform process itself. When reforms had a mass constituency, such as militant trade unions, the costs of monitoring and compliance were greatly reduced for the state. This was accomplished by the direct participation of organized mass movements in the disciplining of reforms at the firm level. Members of organized mass movements took direct part in daily political struggles in which the modalities, parameters, and pace of reforms were negotiated and worked out with management. More than isolated workplace struggles, the mass organization underlying such local struggles ensured that local conflicts between labor and management would not remain isolated but quickly find support from external allies. Inadvertently, militant mass movements, such as trade unions, provided the means of enforcing compliance by their daily presence on the shop floor, monitoring the decisions and behavior of senior management, and using their collective political resources to pressure or oust delinquent or abusive managers. With direct stakes in the reforms and, more immediately, the fate of their employer, labor played a critical role in ensuring that financial resources were used towards supportive
investments. This book argues that, paradoxically, postsocialist labor militancy was good for capitalism.

When reforms had a narrow, largely elite-based constituency, coordination problems were more difficult and the costs of monitoring and compliance higher. Elites with narrow political bases could attempt to expand constituencies, such as distributing stakes to broad based publics (such as with the implementation of mass privatization programs which distributed ownership vouchers to the general public). This inclusion of broader constituencies, who develop direct stakes in the reform process, enhanced the legitimacy of reforms. But through this process, the state also outsourced part of the task of monitoring and compliance to private actors. The incentives of such constituencies were different, as they were aimed towards maximizing individual short-term gain (such as ensuring immediate returns from private investments and improving one's immediate situation in a competitive job market) as opposed to facilitating long-term investments in individual firms. This strategy tended to produce markets in which financial speculation became rampant and ultimately ended in major financial crashes.

Alternatively, elites could fail to gain mass support, and also be incapable of expanding constituencies and offering direct stakes for members of the larger public in the reform process. A situation in which elites are divided results in a situation of factionalized struggle in which reforms, rather than a genuine process of economic transformation, turn into a war of position between different elite factions aiming to gain control of political, economic, and ideological resources. Under these conditions, monitoring and compliance fail and rent-seeking becomes rampant. “Corruption” in postsocialist economies is not simply the consequence of administrative weaknesses, but a form of economic activity that emerges in the process of failed attempts to consolidate an SSA, or elite actors consolidating elements of an SSA that are favorable to their interests but lacking institutional embeddedness in a system of “beneficial constraints” (Streeck 1997).

This is not to suggest that postsocialist elites, whether politicians or managers, or even ordinary workers, act simply as self-maximizing agents.
Individual strategies are structurally located in and influenced by organizational environments (Bourdieu 1985; Bourdieu 1993; Fligstein and McAdam 2012). Actors are organizationally situated and their capabilities determined partly by their organizational roles and networks.

Organizational theory suggests that actors do not comply with organizational roles and mandates simply due to incentives and sanctions, but also because of normative environments that organizations create (Scott 2008; Thornton, Ocasio and Lounsbury 2012). Rules are more easily enforced when actors implement them through norm-based behavior. At a very fundamental level, the integrity and effectiveness of normative environments of organizations are directly influenced by organizational uncertainty. If members perceive that the chances of an organization's survival are in decline, it becomes more difficult for the organization to uphold demands of norm-based conduct on members, while the likelihood of opportunistic behavior increases (Liebenstein 1987). In postsocialist contexts, uncertainty at the political level directly influenced uncertainty at the firm level (Frye 2010, pp. 122-40). Institutional stabilization in the economy was simultaneously a top-down and bottom-up process, and could not be attained without the tacit, if not overt, cooperation of multiple constituencies.

Political environments shaped not only incentives and mechanisms for monitoring and enforcement, but also formed the backdrop of overall organizational uncertainty among firms (McDermott 2004). In this case, organizational uncertainty involved the organizational viability of the firm (the chances that it will go under as a result of market pressures), but also the status uncertainties of existing management and employees. As Nove observed, in the early reform period, “[m]anagement, no longer subject to control from above, had no long-term prospect of job security, in that the enterprise could be privatized at any time, on terms not yet clear” (Nove 1995, p. 228). Employees faced even greater uncertainty, since liberalization often led to the loss of guarantees of job security under the rules of the old regime, turning the postsocialist period into one of widespread economic insecurity (Verdery 1996). The key point, however, is that, during the early reform period, organizational uncertainty remained
prevalent and was paradoxically higher so long as one remained a member of a postsocialist firm, and that it affected management, mid- and low-level employees across the board.

Uncertainty is a function of time-horizons. The higher organizational uncertainty, the shorter the time horizons actors take into account. The shorter the time horizons for the making of present decisions, the lower the certainty of long term expectations. The same is true of status uncertainty. This involves an individual’s confidence that they will, at least in the short run, continue to maintain an organizational role. Organizational uncertainty and status uncertainty combine when the organization’s survival is in doubt, as one clearly can no longer exercise the tasks and receive the benefits of a worker, technician, manager, or any other employee in a firm if the firm dissolves.

Political environments influenced directly the beliefs of firm-level actors by increasing both kinds of uncertainty in the short-run. Actors might genuinely believe that a firm has great potential in the long run given proper investment and restructuring, but uncertainty over the impact of reforms and change in the larger organizational environment may lead actors to believe that the firm’s chances of survival in the short run are slim. Uncertainty may also stimulate beliefs of impending failure, which speeds up organizational collapse. As more members of an organization lose confidence in its sustainability, their own activities will contribute to the organization’s demise as their individual goals switch towards opportunistic behavior aimed at maximizing individual short-term gain. In such conditions, within the firm, employees act in accordance with low productivity, “parametric-maximization,” which, as Liebenstein shows, is a situation in which individual employees are incentivized to “[pursue their] own interest using [their] effort discretion as much as [they] can” (1987, p. 48). Under postsocialist conditions, where organizational uncertainty is enhanced by political and legal uncertainty

10 “[T]he facts of the existing situation enter, in a sense disproportionately, into the formation of our long-term expectations; our usual practice being to take the existing situation and project it into the future, modified only to the extent that we have more or less definite reasons for expecting a change” (Keynes 1965, p. 148).
over property rights, the incentives of parametric-maximization included not only use of effort discretion (minimizing individual effort in organizational tasks), but also exploiting legal ambiguity and low monitoring to expropriate the firm. As Poznanski (1995) recognized, when managers are weakly or inadequately monitored during privatization, incentives for opportunistic behavior increase, and these incentives are only compounded by uncertainty. “This can be expected to be the case whenever agents for the state – managers – are left with little insight into the future status of their enterprise or of their personal fortunes. Under such uncertainty, hardly any incentives can prevent the intensification of ‘opportunistic behavior’ (‘moral hazard’) on the part of managers. The risk of dysfunctional behavior increases if lengthy divestment is combined with less-diligent supervision of agents (managers) by the state” (Poznanski 1995, pp. 219-20).

Here, this form of behavior by economic actors is termed *cannibalization*. The metaphor is carefully chosen. The opportunism of individual actors (employees and management) is not only about maximizing private gain at the cost of a firm’s productivity, but maximizing such gain at the cost of the organization as a whole – the very assets of the firm. Whether using accounting tricks to siphon off funds; managers setting up shadow companies to which the firm sells at a high discount goods, capital equipment, real estate, or shares; claiming government subsidies for goods that are not sold or never produced; borrowing monies which the firm never intends on paying back; or simply stealing equipment, parts and tools from the factory floor, these are behaviors which ultimately result in the firm’s self-destruction. This systemic decapitalization of the firm sets in not only because of financial constraints (i.e., the lack of investment), but because organizational uncertainty increasingly reduces trust and chances of coordination within the firm. In these situations, even the most well intended government programs to revive a firm will fail, because actors at the receiving end of such program, sure of either the firm’s immanent demise or their own personal immanent removal from the firm (whether the threat is real or perceived), have little motivation in putting their best efforts in to make
the firm viable, or trust that others will do the same.\textsuperscript{11} The ship is sinking and they’ll get their hands on whatever they can to load on their lifeboats before it all goes down. The postsocialist world has seen more than its fair share of this seemingly “irrational” behavior of organizational self-destruction.

The impact of developmental coalitions is thus not only to provide liquidity to firms and ensure that financial resources are not misappropriated, but also to extend time-horizons by reducing organizational uncertainty. This is a mutually reinforcing process. As states provide investment funds to their firms, and as firms use those funds for the end of improving efficiency, there is greater faith in the firm’s long term prospects. As long-term prospects improve, so are actors more committed to the firm in the short run and the organization more likely to uphold the normative commitments of its members. Faith in organizational survival reduces the chances of opportunistic behavior, thereby making monitoring and compliance less costly. This synergistic character of developmental coalitions gives them an institution-building role in postsocialist economies. Active, mass constituencies may have led to a greater politicization of the reform process, but they induced cooperative bargaining which ultimately reinforced normative commitments to organizations and thereby reduced uncertainty. By contrast, partial, self-interested constituencies could manipulate reform processes to their ends. This allowed powerful groups, such as managers, even while signaling formal commitment to reforms, to undermine institution-building by skewing the reform process towards private gain. This eroded the commitments of constituencies to reform, undermined the normative environment of economic activity (thus incentivizing non-cooperation and self-help), making organizational uncertainty deep and

\textsuperscript{11} The operation and organizational effect is similar to that of “cannibalistic networks” of corrupt activity studied by Jancsics and Jávor (2012) which, as they note, not only cause material losses to the organization but also generate a “widespread corrupt organizational culture” in which “organizational decision-making also becomes biased and departs from the optimal because of corrupt interests” (Jancsics and Jávor 2012, p. 82).
pervasive and ultimately undermining the institutionalization of a durable structure of accumulation.

A summary and a set of hypotheses

It is helpful at this point to summarize the theoretical framework and lay down a number of hypotheses. The chief argument of this paper is that transnational capitalism, defined as a national economic regime in which foreign capital plays a dominant role in securing investments in an economy, was not the outgrowth of larger inflows of FDI nor simply a by-product of EU integration. Transnational capitalism emerged as a particular solution to the crisis of capitalist accumulation, in light of the failures of national capitalist economic regimes. Economic regimes are here treated as analogous to social structures of accumulation (SSA). Robust and sustained economic growth requires a stabilized SSA. A stabilized SSA results from stable sociopolitical arrangements between capital and labor, institutional mechanisms providing for effective coordination among factions of capital, and related political coalitions that reinforce the institutions that reduce the uncertainties of capitalist investment. An unstable SSA will fail to produce robust growth and result in a structural accumulation crisis.

In postsocialist economies, initial economic reforms, inspired heavily by neoliberal blueprints, produced not a market economy but an environment characterized by economic disorganization and industrial decapitalization. Postsocialist institutional outcomes were determined by the coalitions that led economies out of a situation of disorganization and into a stabilized institutional structure of capitalist growth. After the initial reform period, the successful formation of a developmental coalition determined whether postsocialist economic institutions would produce a regime of robust and sustainable growth. A key hypothesis is thus that postsocialist national capitalism survived in states where developmental coalitions successfully stabilized domestic economic regimes around a stable social structure of accumulation. Developmental coalitions emerge when organized labor is sufficiently mobilized and strong to function as an effective
political ally and mass constituency for reformers. Organized labor does not necessarily function as an electoral ally of reformers. The amorphous party systems of postsocialist Eastern Europe, a by-product of the divided elites which led to the disintegration of Communist Party regimes, were not conducive to the emergence of strong, labor-based parties. Nor do unions need to share the reformers’ political and economic ideology. The extent to which organized labor functioned as an electoral ally of reformers is of secondary importance. Instead, the role of labor within a developmental coalition is that of an active organizational actor – its political activities enable the disciplining of managers during the reform process by reducing the state’s costs of monitoring and thereby constraining cannibalization. In other words, by actively monitoring the behavior of managers, organized labor both supplemented a strong state and provided political legitimacy for the consolidation of an effective state during the transformation process.

A by-product of the strengthening of the state’s capacities for monitoring and disciplining managers is the reduction of organizational uncertainty at the level of industrial firms. While the actions of managers are under the more direct scrutiny of unions and the state, the time-horizons of economic action expand. This starts off the “virtuous cycle” in which the economic decision to invest reinforces politically a strong, law-based state. As a strong state protects property rights (and, in some cases, resorts to a supportive industrial policy), economic recovery is sped up. As investments result in steady returns, industrial capacity is preserved, and economic growth is restored. A corollary hypothesis thus states that, national capitalism was more likely to survive in states in which organized labor served as a mass constituency for reform. Organized labor’s role helped reduce monitoring costs of reform; as these costs were reduced, virtuous cycles of investment based on expectations of long-term growth could begin. This combination of factors prevented the cannibalization of the industrial economy, restored investments, preserved productive capacities, and ensured the success of national capitalism.

In all states, reformers attempted to create developmental coalitions by forming and cajoling mass constituencies in support of economic
reform. When labor is weak, however, reformers tend to marginalize organized labor and rely more heavily on managerial elites. In other cases, an organizationally weak labor is captured by managers as a direct political constituency, by reliance on “enterprise paternalism” (Crowley 2001). Under those conditions, developmental coalitions reflect managerial interests. These may produce temporary institutional arrangements that restore growth. However, because the costs of monitoring are high, states are weakened, and incentives for freeriding and defection expand.

Under other circumstances, factional struggles divide elites and mass constituencies remain weak and disorganized, making developmental coalitions difficult to forge. In those cases, organizational uncertainty is widespread. Cannibalization is more likely than sustained investment. Industrial collapse is rampant and unstoppable as enterprises are engulfed by seemingly self-destructive behavior. Reforms, in spite of the best of intentions, are likely to flounder. Under those conditions, capitalism is reduced to cannibalization and fails to produce a sustainable institutional basis for accumulation.

Transnational capitalism was one possible outcome in states where developmental coalitions failed to form or were politically untenable. Where organized labor was too weak to provide a mass constituency for reform, monitoring was weak and empowered managers could manipulate the reform process to their ends. In those cases, SSAs failed to stabilize, and experiments in postsocialist capitalism ended in disastrous economic crises. The failure of developmental coalitions were not simply the result of the programmatic failures of reform. Where developmental coalitions failed, industrial collapse was widespread and accumulation crises ensued. Capitalism failed. The response to this structural accumulation crisis determined if and when political actors undertook a shift towards transnational capitalism.

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12 Crowley (2001) defines enterprise paternalism as the continuing reliance of workers on the enterprise for a variety of economic and social goods, besides a wage. It can also be construed as a manager-centered political patronage structure, as observed in the Russian case by Gaddy and Ickes (2002).
Transnational capitalism was more likely in states which could form alliances with external actors. The political framework for such external alliances was provided by the process of EU integration. But the successful restoration of capitalist accumulation required intervention in the basic mode of accumulation. The turn to foreign capital was not merely ideological, but a structural necessity required to substitute for the failure of domestic investment and the risk of full-scale decapitalization and deindustrialization of the economy. It also involved empowering foreign capital as a new political constituency in the domestic political economy. With foreign capital dominant, tripartism could not be effectively enacted as the state lost the means of disciplining capital. The move to transnational capitalism also involved the move towards a liberal labor market regime and hierarchically-coordinated industrial sector.

Where such external allies were unavailable, capitalism could be saved by states intervening in coercively renegotiating the terms of state-capital political bargains. In states where mass constituencies were too weak to provide support for reform, and external allies unavailable, capitalist accumulation was restored by the state’s coercive disciplining of domestic capital. The failure of postsocialist capitalism in these cases resulted in a politically-mediated capitalism and an illiberal state.
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Table 1. Comparable social structures of accumulation and their relationship to VoC production regimes.
Graph 1. Models illustrating the relationship between economic growth and crisis and stabilization of social structures of accumulation (SSA). In the top graph, a new SSA (SSA₁) is successfully stabilized and growth is restored after a structural crisis leads to the breakdown of an existing SSA. In the bottom graph, the breakdown of an existing SSA leads to failed attempts to institute a new SSA (SSA₁). Growth is restored only after a new SSA (SSA₂) is stabilized.