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Nigel Swain [a]
[a] The University of Liverpool

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A Post-Socialist Capitalism

NIGEL SWAIN

IN THE TWO DECADES OR SO FOLLOWING 1989, the countries of East Central Europe[1] were transformed into market economies and liberal democracies, and became members of NATO and the European Union. Both the economic and the political transformations were radical; indeed the transition from socialism to capitalism was without precedent. Prior to the changes in East Central Europe, the (endogenous) development of capitalism in Europe has been much analysed by historians;[2] and political economists had investigated the externally driven integration of 'under-developed' and formerly colonial countries into global economic systems.[3] However, it was a step into the unknown to contemplate the creation of capitalism out of a developed, highly articulated socio-economic entity that had, with some success, been a significant challenger to the West for a number of decades. Based on central planning and with around 90% of the economy in state ownership of the means of production, distribution and exchange, East Central Europe under communist rule had been dominated by political structures that had rejected whole-heartedly both private ownership and the very logic of the market.

The following analysis seeks to identify the genesis and *differentia specie* of this post-socialist capitalism. It is empirical but not empiricist in conception. It is informed theoretically by the following scarcely contentious propositions: that what has emerged in post-socialist Eastern Europe is a form of capitalism; that it is a historically unique form of capitalism since, however the experience of the 1945–1989 period might be branded (for example as socialism, state socialism, state capitalism, or deformed workers' state), the transition from that socio-economic entity to capitalism had not happened before; and that it is therefore analytically useful to try to identify its specific characteristics.

Post-socialist capitalist democracy in Eastern Europe was fired in the crucible of four forces. The first of these was the socialist legacy, which left its imprint in the social, cultural and economic spheres. The second was equally an element of the

[1]This essay deals primarily with the six formerly communist-ruled countries that were neither parts of the former Soviet Union, nor the former Yugoslavia, and that have become EU members: Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria.

[2]See for example Hilton (1978), Thompson (1968), Landes (1966) and Holton (1985).

[3]See for example Amin (1977), Frank (1972) and Alavi (1972); also see the special issue on capitalism in Africa of *Review of African Political Economy*, 4, 8 (1977).

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socialist past, but it operated against much of the legacy: the domestic political agents that emerged from late socialism to overthrow it and create the early post-socialist polity. The third force was the attitude of the major international political actors, to a lesser extent NATO, but in particular the European Union (EU); while the fourth also operated internationally, but was wholly economic: the transnational corporations (TNCs), which were mostly but, not uniquely, based in Western Europe. These four forces interacted in different ways in the creation of a post-socialist economy, society and polity, each of which is considered in turn in the following sections.

Market economies (with post-socialist characteristics)[4]

Three features of socialism's economic legacy were of determining importance for the manner in which the capitalist transformation, and privatisation as its *sine qua non*, took place after 1989. The first was the absence of a market to establish a universally recognised measure of value. The 40-year experiment to create an economy based on a calculus of socially necessary labour time left a legacy in which disputes of the overvaluation or undervaluation of assets would be unavoidable and irresoluble. The second was the low level of domestic personal savings with which assets might be purchased; and the third was the socialist economy's 'lack of international product competitiveness in quality rather than price' (Martin 1999, p. 86). Socialist economies were characterised by state-owned enterprises that were large (but not very large, and certainly not transnational), inefficient and organised for mass production. After 40 years of operating in an economic environment where prices did not reflect opportunity costs (Boltho 1971, p. 65); where 'total factor productivity' failed to improve (Swain 1998, pp. 202–4); where managers were motivated to continue with old technology, rather than risk innovation; such enterprises were of questionable viability by the last decade of the twentieth century.[5] These three features together created a context for privatisation which Mandelbaum characterised as 'selling assets with no value to people with no money' (1993, p. 6). There was, however, a fourth determining element in socialism's economic legacy: its disproportionate focus on industry. Sectors which dominated post-industrial, Western economies were weak or entirely absent. East Central European economies were economies with gaps that were ripe for exploitation, however unattractive their manufacturing industries. The focus on industry also meant that industrialisation had outstripped urbanisation, resulting in under-urbanisation and an unusually rural-based proletariat (Konrad & Szelenyi 1974; Kideckel 1993, pp. 63–64; Swain 1994, pp. 30–32).

Throughout the early-1990s there were heated debates between politicians and academics about the best mechanism for privatisation and the relative merits of 'shock therapy' and 'gradualism'. Radical reformers clustered around the former; managers and civil servants tended to favour the latter, but, from the perspective of two decades later, it was the common features of the socialist legacy, rather than the policies of the

[4]For a concise assessment of the first dozen or so years of the economic transition, see Dyker (2004, pp. 291–321); for an economic and social history of the region since 1973, see Berend (2009).

[5]See for example Hughes and Hare (1991, p. 80).

early post-socialist political actors, that counted.[6] 'Shock therapy' was quietly abandoned as soon as the 'shock' became politically unacceptable at home.[7] Furthermore, specific privatisation techniques did not affect the long-term outcome. The absence of domestic savings and the international unattractiveness of the assets on sale meant that most enterprises were sold off cheaply (by any measure of their value), mostly to their workforces and managers (because, these were the only people who had an interest in them).[8] International investors cherry-picked the few manufacturing 'crown jewels' which had an international reputation, such as Škoda or Tungsram, or companies which offered a virtual monopoly market share, such as tobacco or the food industry (Radice 1995, p. 296); and, later in the 1990s, they moved into utilities (which guaranteed a reasonable return) and banking and finance (which were essentially virgin territory).

The overwhelming unattractiveness of socialism's manufacturing legacy, and the exclusion from the realm of real-world possibilities of any 'East Asian' solution based on preserving a Comecon block that would be allowed temporarily to protect its own industries,[9] resulted in severe economic recession, a recession which lasted almost a decade in the more developed countries, and much more than a decade in the countries which had historically been less developed.

Nevertheless, the private sector grew rapidly in the first post-socialist decade, as Table 1 indicates, and the biggest engine behind the growing dominance of the private sector in the region was new company formation. As Estrin notes (1994, p. 13), 'The bulk of new firms everywhere, and of private sector jobs everywhere with the

TABLE 1
ECONOMIC PERFORMANCE 1989–2009

	Real GDP 1989 = 100			*Private Sector Share of GDP*		
	1995	*1998*	*2009**	*1995*	*1998*	*2009*
Bulgaria	76	66	108	45	65	75
Czech Republic	85	93	135	70	75	80
Hungary	86	95	127	60	80	80
Poland	99	117	181	60	65	75
Romania	84	78	117	55	60	70
Slovakia	84	99	156	60	75	80

Note: *denotes estimate.
Source: EBRD Economic Analyses and Forecasts, available at http://www.ebrd.com/pages/research/analysis/forecasts.shtml, accessed 18 February 2011.

6 Dyker sees no clear-cut correlation between macroeconomic shock therapy and general success in transition in terms of rates of growth of GDP and productivity (2004, p. 349).

7 It was abandoned except in the sense of opening up the Eastern economies to Western competition and prohibiting protecting domestic industries (Gowan 1995); for Gowan this is the essence of 'shock therapy' (1996, p. 130). For the abandonment of 'shock therapy' in Poland, see Myant (1993, p. 85).

8 Earle and Estrin (1996, p. 29) give figures for the scale of employee (including management) companies. For comparative privatisation strategies, see Frydman *et al*. (1993).

9 Amsden *et al*. (1994) make a powerful case for such policies, but no mainstream international organisation supported them.

possible exceptions of Czechoslovakia and Hungary, have emerged *de novo*, and primarily in small-scale service, construction, transport and retail firms'. The UN similarly noted a 'rapid expansion of new private businesses' in the mid-1990s (UN/ECE 1995, p. 72). Meanwhile, Johnson and Loveman attributed Poland's impressive early economic performance to its new private sector which had developed 'from scratch' (1995 pp. 8–9, 134–35), and Kostova noted the emergence of private companies 'from below' in Bulgaria (2000, p. 199). Moreover, Estrin's minor reservations about Hungary were not borne out by later figures: Laki reports individual proprietorships doubling between 1989 and 1993 to roughly seven million, while limited liability companies quadrupled to around 86,000. The latter almost tripled again by 2005, while the former rather stagnated (Laki 2008, pp. 124–25).

The reaction of most enterprises (whether state-owned or privatised) to the collapse of Comecon markets and trade liberalisation was to seek out new markets for existing products rather than develop new ones for which they lacked the necessary capital. They were trapped, selling products which lacked international competitiveness, and mired in inter-enterprise debt, which in 1991 represented around 50% of GDP (Martin 1999, pp. 84, 95). Moreover, with the encouragement of the EU, 'Western companies were attacking regional markets when indigenous firms were least capable of responding successfully' (Martin 1999, p. 134). The role of the EU, while it was most influential in the political sphere, also had an impact in the economic sector. EU accession negotiations proved to be a forum through which national governments of existing members could prosecute the interest of their national champions (Baun 2000, p. 213), while the Association Agreements, which were quickly introduced as part of the EU's aid package to the region, were criticised for favouring Western companies. While tariff adjustments favoured the applicant countries, the non-tariff barriers of the existing members were left in place, resulting in a tripling of EU exports to the region between 1989 and 1994 (Gowan 1995, pp. 25–28; Pollert 1999, p. 86; Martin 1999, p. 134).

It has been suggested that the interest of Western European TNCs in the region coincided with a period when North American companies were shifting production to their cheap-labour, less regulated 'back yard' in Latin America, and Japanese companies were doing likewise in East Asia (Berend 2009, p. 117; Kurz & Wittke 1998, pp. 63–64). Certainly labour costs at the beginning of the transformation were only 7% of those of the EU, and had only increased to 15% by 2001;[10] and socialist economies had been notoriously lax when it came to health and safety or environmental legislation. Western European companies, however, were equally concerned about markets. Dyker concludes that 'foreign investors have been more concerned to access markets than factors of production' (2004, p. 358); and Martin is persuaded that it was the region as a market that first attracted the interest of Western companies (1999, p. 142).[11] In the two post-socialist decades, China became the cheap, less-regulated workhouse of the whole world, not just of Japan; but East Central

[10]In Poland, Hungary, Slovakia, Slovenia and the Czech Republic labour costs in 2001 still stood at roughly a quarter, but in Romania and Bulgaria nearer a tenth of the European Union average, calculated at exchange rate parity. Even using the purchasing power parity measure, Eastern European wages only increased to between 30% and 35% of EU levels (Berend 2009, pp. 121–22).

[11]See also Pollert (1999, pp. 112–16) and Radice (1995, p. 294).

Europe's poorly developed consumer industries, its underdeveloped infrastructure, and its non-existent financial services industries offered market opportunities for Western European-based companies, and other TNCs, especially in the food and retail industries, the media, telecommunications and banking (Berend 2009, pp. 118–20).[12]

In the mid-1990s, in the view of the World Bank, the region had 'absorbed only a modest share of capital flows' (Martin 1999, p. 138), but, as the prospects of EU membership increased, so too did the likelihood that shortcomings with regard to clear ownership, transparency and uniform tax regulations would disappear. It was these shortcomings, along with the hesitancy to implement what Svejnar termed 'Type II' reforms—'the development and enforcement of laws, regulations and institutions that would ensure a successful market-oriented economy' (2002, p. 5)—that had put investors off. EU membership and the conditionality associated with it turned early 'low-commitment strategies' (simply marketing) into 'high commitment' strategies, such as joint ventures and wholly owned subsidiaries (Martin 1999, pp. 132–52). By the turn of the millennium, foreign companies in Poland and the Czech Republic accounted for at least 27% of employment, 53% of investment, 42% of sales and 59% of industrial exports, and the ratios were at least half as large again for Hungary (Berend 2009, p. 115). By 2008, between 76.5% (Poland) and 99.2% (Slovakia) of total banking assets of the six East Central European countries were in foreign hands.[13] Although some of this investment offered the possibility of 'complementary specialisation' and technological advance for Eastern European firms (Berend 2009, p. 124; Kurz & Wittke 1998, p. 65), Kurz and Wittke see the driving force to be structural adaptation by Western European companies (1998, pp. 77–78), and a study of the Central European automotive industry noted the region's 'heightened dependence on external forces' (Sadler 2003, p. 116). Dyker questioned the knock-on benefits of such investments, noting that 'even the most advanced transition economies have struggled to generate locally owned supply industries' (2004, p. 12). Both dependency and prospects are reflected in IBM's changing investment in Hungary. It invested in a hard-disk manufacturing plant employing 4,000 people in western Hungary in 1994, but closed it in 2002 and moved towards computer services. By 2008 it provided only 800 service jobs at the old location, but almost twice as many in new offices in Budapest.[14]

Turning to the domestic sector, small and medium-sized enterprises (SMEs), which are seen as central to transition success by supporting employment and introducing innovation and flexibility, moved into sectors where the socialist economy had been weak. However, according to Dallago and McIntyre, citing their own findings and the European Bank for Reconstruction and Development (EBRD)'s Transition Report

[12]Pollert paints a similar picture (1999, pp. 112–16), as does Martin (1999, p. 143). In the mid-1990s West European TNCs comprised some three quarters of FDI stock in Hungary and Bulgaria, and two thirds in the Czech Republic, Slovakia and Poland (Pollert 1999, p. 115).

[13]Taken from the EBRD's Structural Change Indicators available at: http://www.ebrd.com/pages/research/analysis/forecasts.shtml, accessed 18 February 2011.

[14]See also Pollert (1999, pp. 116–21) and Hardy (2009, pp. 87–90). For IBM, see Berend (2009, p. 129), and the following websites: http://www-05.ibm.com/employment/hu/idc/history.html; http://www-05.ibm.com/employment/hu/ibmissc/history.html; http://www.hartford-hwp.com/archives/63/143.html, all accessed 18 February 2011.

1999, their development was unsatisfactory. In some countries the sector remained small; in others, such as Poland and Hungary, it was more extensive but operated in niche markets and was not competitive. SMEs were concentrated in the personal services and construction, where returns were rapid and little investment was required (Dallago & McIntyre 2003, p. 210; EBRD 1999, pp. 150–59). Dallago and McIntyre also noted problems concerning 'concentration in trade (especially retailing), aversion to investment and growth, pursuit of rapid returns on investment, use of labour-intensive and traditional techniques, and involvement in the irregular economy' (2003, p. 214).[15] Making use of Richard Scase's distinction between 'entrepreneurship' and 'proprietorship', they considered post-socialist SMEs to be characterised by the latter: the pursuit of gain without long-term accumulation, using assets for personal consumption or trade (Scase 2003). Furthermore, the businesses themselves were very small. Between 90% and 96% of SMEs in transitional economies were in the 'micro-business' group (0–9 employees), and the levels of self-employment (around 20%) were twice the OECD average, although lower than Latin America and Asia (Glinkina 2003, p. 59). They also constituted a relatively small sector of the economy. Dyker reported that companies of up to 100 employees accounted for only 10% of employees in most countries in the region (20% in Poland and Hungary), compared with 50% for the EU as a whole (2004, p. 309).

It is perhaps in the agricultural sector that elements of a socialist legacy were most visible in post-socialist capitalism; yet it was also in agriculture that the EU exercised a profound and perverse influence. The dual structure of socialist agriculture, based on large-scale collectively worked farms and small-scale household plots, was maintained into the post-socialist era based on private ownership, as many studies have confirmed.[16] Non-land assets became concentrated within farms which, to varying degrees in different countries, were owned by private individuals, companies, or cooperatives; and they operated on a huge scale by Western European standards. Land ownership, however, remained in tiny (often notional) parcels, owned by countless individuals who received *de facto* as well as *de jure* ownership in 1992. Some of these small owners in rural communities attempted to farm for subsistence needs, along with many urban unemployed and commuting workers created by the region's under-urbanisation. Indeed those who owned land were effectively obliged to do so in Romania and Poland because they did not qualify for unemployment benefit (Swain & Vincze 2001, p. 176; Borowicz 1996, p. 20), but the bulk of the land was rented to the small number of large-scale farms that produced most of the food (Swain 2004, pp. 212–19); and producers seemed content with such land market 'imperfections', which were generally attributed to high transaction costs, including the persistence of co-ownership, asymmetrical knowledge and rights between owners and renters, and to imperfect competition (Ciaian & Swinnen 2006, pp. 799–802).[17] Some assume that a land market will spring into motion once the prohibitions on the purchase of land by

[15]See also Glinkina (2003, p. 62).

[16]See for example Swain (1999), Sarris *et al.* (1999), Pouliquen (2001), Ciaian and Swinnen (2006, p. 813) and Gorton *et al.* (2009).

[17]See also Lerman (2001, p. 100; 2004, p. 181).

non-resident foreigners are removed,[18] but this does not explain the failure of a domestic market to develop over the past 20 years; and the restrictions on land purchase did not keep foreigners out of Eastern European agriculture, certainly not out of Hungary where they operated with higher capital intensity than their domestic neighbours.[19]

This unusual structure of farming has accentuated the perversity of the EU's Common Agricultural Policy (CAP). The rule of thumb for critics of the CAP is that 80% of subsidies go to 20% of farmers (Grant 1997, p. 77). Recent research in Hungary revealed that some 70% of subsidies went to only 7% of farmers (Biró 2010, p. 77); data from Romania suggested an even starker imbalance (0.5% of farms eligible for 21% of support) (Gorton *et al*. 2009, p. 1313); while the organisation 'farmsubsidy.org' reported that the top 10% of recipients in 2008 received 75% of payments in the Czech Republic, 87% in Slovakia, but only 42% in Poland (similar to Denmark and midway between France and Germany).[20] At the same time, rural development lines of support, which might have benefited the rural poor, were not pursued (Gorton *et al*. 2009, p. 1310; Swain 2004, p. 211).

Capitalist society (with post-socialist characteristics)

In contrast to the economic structures, when considering the social structures created by post-socialist capitalism, socialism's social and cultural legacy played a more significant role. This section will first consider the social characteristics of the motor of a capitalist economy—capital and labour—before turning to social differentiation in terms of income, gender and race.

As far as capital and labour are concerned, two features of the socialist legacy were particularly significant. First, socialism created a 'service class' (Goldthorpe 1980, p. 40), rather than a 'bourgeoisie', a highly educated professional middle class, but without entrepreneurs. This service class shared a common, rather conventionally bourgeois culture, and developed personal ties both through general social contacts and, in particular, through Party membership.[21] It lacked economic capital, but it did not want for human and social capital. Second, economic performance required improvisation and innovation, but low levels of personal risk. Within socialism's large, inefficient, industrial and mass-production-based enterprises, neither management nor labour was encouraged to innovate according to their formal job descriptions. Management was motivated to defend its privileges, and labour to fulfil its norms; yet successful managers were those who could use informal channels to overcome endemic shortages of materials and supplies, while workers were also challenged by shortages and were obliged to innovate at the workface, in a way that was unknown amongst Western 'deskilled' labour. Outside the workplace, the tendency to retreat into the household and focus on consumption, that students of the GDR termed a 'niche society' (Gaus 1986), took place in the absence of large home-improvement stores:

[18]See Tesser (2004) for the security dimension to this issue.
[19]See figures provided by Biró (2010, pp. 29, 37).
[20]Available at: http://farmsubsidy.org/, accessed 18 February 2011.
[21]For the Party as a vector for networking, see Róna-Tas and Böröcz (2000, p. 218).

DIY also required improvisation, innovation and exploiting contacts.[22] In the interplay between the first and second economy, socialist sector jobs were secure; and workers used their innovation and improvisation in the 'second economy' in the knowledge that they could not lose their state sector jobs.[23]

It has become something of a commonplace to claim that the old political elites of late socialism converted their political capital into economic capital to become the economic elite of post-socialist capitalism; and there is a general truth to it, but it is a claim that lacks precision, as Eyal *et al.* have demonstrated in the case of the Czech Republic, Hungary and Poland at least (Eyal *et al.* 1998).[24] Their evidence is clear. Leading members of the '*nomenklatura*' were downwardly mobile; those who benefitted were the second rank, technocratic elite, and the less political elements of the socialist 'service class'. Such individuals were often members of the Party of course, and benefited from the social capital advantages that Party membership endowed, but they had not been members of the political apparatus (Eyal *et al.* 1998, pp. 117, 120). Słomczynski and Shabad reported produced broadly similar results: it was former middle managers, not the top managers who became entrepreneurs; and Party membership was not of itself an asset (1996, pp. 175–77). Róna-Tas and Böröcz found, for Bulgaria as well as the trinity of countries studied by Eyal *et al.,* that most of the new post-socialist economic elite had been socialist-era managers, that they were disproportionately likely to be Party members, and yet being a party functionary in itself gave no significant advantage (Róna-Tas & Böröcz 2000, p. 223).

Eyal *et al.* then claimed that what was developing in post-socialist Central Europe was 'capitalism without capitalists', that the new economic elites were not the owners of the resources that they controlled. The data that they collected in 1993 seemed to bear this out; but subsequent data, collected in the spring and autumn of 1996 in Hungary only, suggested two significant developments. First, analysis of the same firms as investigated in 1993 showed a sharp decline in public ownership at the expense of foreign ownership. Second, data from a different, smaller sample of enterprises revealed 'the Great Bank Robbery of 1993–96', that is to say a 'massive increase in the proportion of firms reporting ownership by domestic individuals' between 1993 and 1996 so that 'a fairly sizeable propertied bourgeoisie emerged between 1993 and 1996'. However, they were reluctant to accept that either development undermined their theory of post-communist managerialism (Eyal *et al.* 1998, pp. 116, 153–56), although what the evidence seemed to show was that while 'fuzzy' ownership had been maintained between 1989 and 1993, by the middle of the first post-socialist decade, private ownership by foreign and domestic owners was becoming ever more dominant, as Table 1 suggests. Certainly in the former collective farm sector, leading managers were attempting to establish ownership as well as control during this period (Kovács 1998). The evidence from Poland too suggests that, over a 10-year period, the

[22]For a Hungarian example, see Kenedi (1981).

[23]Likewise, for the most entrepreneurial private ventures of late socialism, the market was secure because they plugged the shortage gaps of the first economy; the key skill-set required was innovation in resourcing (because of shortage) rather than marketing. I am grateful to Bruno Dallago for this observation.

[24]Russia, Bulgaria and Slovakia were also included in the research, but not in the analysis presented in the book.

ownership of 'employee companies' (much more numerous in Poland than elsewhere) became concentrated in the hands of management, or outsiders, or both (Tittenbrun 2005),[25] even though, as Hanley argued, in 1993 workers' councils appeared to be successfully blocking the transfer of ownership rights to members of the communist-era elite (1999, p. 175).[26]

The data by Eyal *et al.* on the background of the new economic elite were confirmed in a Hungarian study published over a decade later, although not based on such a large and representative sample (Laki & Szalai 2006); and by this time it was clear that the elite consisted of business owners. Of the owner–managers that Laki and Szalai interviewed, all came from the service class in that all had spent some time employed in the state or cooperative sector of the socialist economy, and most had spent more than half of their working days in that sector (2006, p. 325). Laki and Szalai also noted distinct trajectories related to previous Party membership: 'Former Party members acquired property mainly by the privatisation of their working places', whereas, 'the majority of non-Party members were not involved in privatisation but founded new companies' (2006, p. 325).[27] Those who participated in privatisation were also more likely to have remained in the socialist sector right up to 1989, while those who established new businesses from scratch were more likely to have already left it by that date (2006, p. 326).[28] Johnson and Loveman's survey of new Polish entrepreneurs reported not dissimilar findings. Some 85% had worked previously in the state sector. Some left state employment before 1980, but more did so over the course of the 1980s and into the 1990s; and many had been involved in Solidarity (*Solidarność*) and were disillusioned by socialism (Johnson & Loveman 1995, pp. 108–9, 112). Cătălin Stoica's study of Romania also reveals both 'cadre' and 'from below' paths to employer status.[29]

Szelényi and his colleagues had investigated the role of pre-socialist family status on embourgeoisement even before communism collapsed (1988). In the post-socialist era, Róna-Tas and Böröcz found that the post-socialist economic elite of 1993 in Bulgaria,

[25]I know of no equivalent work for Romania where employee ownership was even more significant (see Earle & Estrin 1996, p. 29).

[26]The 'capitalism without capitalists' thesis was informed in part by an influential article by David Stark on recombitant forms of property, by which he meant a process whereby former managers were active in both the state and private sectors, but centralised their assets in the private sector and their liabilities in the socialist sector (1996). That manipulations of this type took place is not in doubt. It was one of the features of Hungarian 'spontaneous privatisation' and Polish '*nomenklatura* privatisation' that their early post-socialist governments tried to stamp out; it continued into the later 1990s in the Czech Republic where the term 'tunnelling' was invented to describe it; in Romania and Bulgaria the term 'parasitic privatisation', describing essentially the same process, was in use throughout the 1990s; for Bulgaria, see Kostova (2000, p. 199). The beneficent state, however, could not take over private liabilities forever, as the Czech government learnt to its cost in 1997.

[27]This is in line with the earlier findings of Böröcz and Róna-Tas, who found that the path from socialist-era to post-socialist entrepreneur was more common in Hungary than elsewhere (1995, pp. 772–74).

[28]Emblematic representatives of these trajectories in Hungary might be former socialist party Prime Minister Ferenc Gyurcsány on the one hand and *FIDESZ*-supporting, former boss of a small cooperative Gábor Széles on the other. (The term 'small cooperative' refers to a specific legal type covered by Hungarian legislation.)

[29]Because her definition of 'cadre' is rather broad, her findings do not significantly contradict the findings of Eyal *et al.* (Stoica 2004).

the Czech Republic, Hungary and Poland were likely to be descended from grandparents who owned a business in 1948 (2000, p. 221). Johnson and Loveman found that in Poland, while on average only 23.6% reported that their families had been in business before 1948, this proportion was 45% amongst those who founded their business before 1980, 15% for businesses founded in 1988–1989, rising to 22% for those founded in the 1990s (1995, p. 111). Laki and Szalai also addressed the issue. For them the key factors that gave the post-socialist entrepreneurs their advantage were an orientation to education (and in particular selection of secondary school by ambitious parents) and work learned in the socialist era (2006, pp. 330–34). However, the motivations behind these orientations were various; and pre-socialist familial status played a role in their genesis. They identified four life-history profiles:[30] the 'upwardly mobile', 'status convergers', 'status restorers' and 'self-made men' (and they are overwhelmingly men). The parents of 'status convergers' had lost their bourgeois status with the advent of socialism, retreated out of the limelight (into perhaps what Szelényi would term a 'parking orbit' (1988, pp. 61–76)), but instilled in their children bourgeois culture and life-skills such as languages as well as an antipathy to the Party; none of this group were Party members. Inherited elements of a bourgeois cultural capital, it would seem, were one of a number of factors which could implant in certain individuals the psychological orientation necessary to maximise the social and human capital resources that they had gained from their socialist education and membership of the service class to become post-socialist capitalists.[31]

Turning from capital to labour, in Poland, Hungary and Bulgaria, the demands for independent trade unions were integral to the 1989 revolution, and, in Poland in particular, *Solidarność* as a trade union pursued a political agenda (Ost 2001, p. 81), as in many ways did Bulgaria's *Podkrepa* (Gradev 2001, p. 126). Even where trade unions had not been political actors, laws were quickly passed in line with international labour standards, guaranteeing freedom of association, the right to strike and to free collective bargaining (Pollert 1999, pp. 136–39). Also, communist-era trade unions quickly democratised themselves and, in Romania, unusually, the unions became identified with post-socialist political parties (Kideckel 2001, p. 105). In the early post-socialist years, encouraged by the International Labour Organisation, tripartite industrial relations structures emerged (Pollert 1999, p. 141; Myant *et al*. 2000, p. 723; Martin 1999, pp. 109–13), but by the middle of the 1990s it was clear, certainly in Hungary, Poland and Czechoslovakia (and subsequently in the Czech Republic), that unions were weak, unequal partners (Pollert 1999, p. 144). Tripartitism operated as a medium for social consultation only (Myant *et al*. 2000, p. 736).[32] This was categorised by Ost as 'illusory corporatism ... neocorporatist forms are being used to generate neoliberal outcomes' (Ost 2000, p. 504).

At the local level, industrial relations were characterised by fragmentation, disorganisation and the absence of industry-level bargaining, the consequence of weak employers' associations and TNC disinterest in bargaining at this level; unions

[30]The 'self-made men' profile is discussed in footnote 12 (Laki & Szalai 2006, p. 330).

[31]Clearly there would be fewer 'status converger' entrepreneurs in countries where the bourgeoisie was less well developed prior to socialism.

[32]They give a much more nuanced account of Czech and Slovak tripartitism than is possible here.

faced the shrinking of their stronghold in the state sector and barriers to organisation in the private sector (Pollert 1999, pp. 146–47). In the first five years of transformation there were only two incidences of strike action being taken against a TNC, both of which were unsuccessful (Pollert 1999, pp. 124–28). Trade unions generally cooperated with restructuring plans and did not oppose labour-shedding, although Polish and Slovak trade unions defended working patterns more successfully than those of Hungary or the Czech Republic. They focused on communications and negotiating the annual collective agreement, not day-to-day issues of work organisation and increased flexibility (Pollert 1999, pp. 149–52), and Czech workers at least preferred to consult their first-line managers rather than their unions (Martin 1999, p. 116). Furthermore, workers' councils, which in Poland had enjoyed powers to veto privatisation, were lost when state enterprises were 'corporatised', as they were in Hungary; while the Czechoslovak equivalents, which had been dominated by the trade unions, were dissolved in April 1990 (Frydman *et al*. 1993, pp. 109, 141, 203–6; Pollert 1999, p. 135). In addition, demands for greater labour flexibility resulted in the use of self-employment contracts, the growth of employment agencies and in particular the spread of 'fractional contracts' for female supermarket workers, as Hardy reports for Poland (2009, pp. 123–24, 179). This decline in trade union power—'the dog that did not bark' (Martin 1999, p. 105)—cannot be divorced from the dramatic increases in unemployment (but to very different levels in each country) that accompanied the post-socialist recession and its aftermath, which are given in Table 2.

As market forces came to dominate post-socialist economies and the state's commitment to providing employment disappeared, options appeared to be stark: employment, entrepreneurship, casual employment, or surviving from benefits.[33] Entrepreneurs were, in the main, self-employed, force-of-circumstance entrepreneurs, accustomed to socialism's mutually supporting first and second economies, for whom Scase's 'proprietorship' was the norm. Juggling a multitude of income sources, including formal and informal economies, 'black', 'social' and 'household', remained central to post-socialist survival strategies (Wallace & Latcheva 2006). Wallace and

TABLE 2
UNEMPLOYMENT AS A SHARE OF LABOUR FORCE (%)

	1990	*1993*	*1996*	*1999*	*2002*	*2005*	*2008*
Bulgaria	1.6	16.3	13.0	17.0	16.8	10.1	5.1
Czech Republic	0.7	4.3	3.9	8.5	7.0	7.9	n/a
Hungary	1.4	11.9	9.9	7.0	5.8	7.3	7.8
Poland	6.5	16.4	13.2	15.1	20.0	16.9	6.7
Romania	n/a	10.4	6.6	6.8	8.4	5.9	4.4
Slovakia	1.2	14.4	11.3	16.2	18.5	16.2	9.6

Source: EBRD Economic Analyses and Forecasts, available at http://www.ebrd.com/pages/research/analysis/forecasts.shtml, accessed 18 February 2011.

[33]See Bodnár's article based on Budapest's Moscow Square's informal labour market (1998), which is also considered by Sik (2002, p. 12). Sik (1992) presents a more theoretical analysis.

Haerpfer used the New Democracies Barometer to trace the importance of formal and informal economies as sources of income for family survival in the 1990s. Although the formal economy was more important in Central Europe than in the Balkans, 90% of households were active in informal economies as either their first or second source of income, and even in Central Europe, one third of households were primarily dependent on the informal economy (household, social or cash) (Wallace & Haerpfer 2002, pp. 35–38). In Romania the informal economy increased from 33.6% of GDP in 1995 to 38.3% in 2000 (Ciupagea 2002, p. 191), while in Hungary the share of the 'hidden economy' peaked in 1993 at 33.1% of GDP, from 25.2% in 1989, and then fell in 1998 to 20.8% (Tóth & Sik 2002, p. 221).[34]

The introduction of market forces into formerly planned economies unsurprisingly also introduced market patterns of social inequality. Socialism had operated with a much narrower spread of social inequality than Western market economies, not least because there was no significant source of wealth other than income, and incomes were considerably controlled (Ferge 1979, pp. 168–70; Lane 1971, pp. 72–79; Lovenduski & Woodall 1987, p. 164). This legacy was undone in the first two post-socialist decades. The spread of inequality as measured by the Gini coefficient increased everywhere between the end of socialism and at least 2002, as Table 3 indicates.[35] Furthermore, Eurostat data from the new millennium cited by Hardy suggested that income inequality was still increasing and was approaching the EU25 average by 2005, and in Poland, income inequalities were considerably higher than the EU25 average (Hardy 2009, p. 132).[36]

As social inequality increased, so too did poverty. Table 3 reports the available 1990s data and suggests that absolute poverty was not insignificant everywhere, except in the Czech Republic, and relative poverty was significant everywhere. Also, as late as

TABLE 3
INDICES OF POVERTY AND INEQUALITY

	Poverty indicators %			*GINI* per capita *household income*		
	Date	*$4.30 per day*	*Relative poverty*	*1989–1990*	*1994–1995*	*2001–2002*
Bulgaria	1995*	18.2	13.3	23.3	38.4	37.0
Czech Republic	1996	0.8	5.0	19.8	21.6	23.4
Hungary	1997	15.4	7.9	22.5	24.2	26.7
Poland	1998	18.4	16.9	27.5	32.1	35.3
Romania	1998	44.5	12.6	23.7	30.6	35.3
Slovakia	1997	8.6	n/a	n/a	23.7	26.7

Note: *relative poverty figure is from 1997.
Sources: UN/ECE *Economic Survey of Europe*, 2004, No. 1, pp. 169–70; Heyns (2005, p. 174).

[34]For more qualitative accounts of informal economic activity, see Bridger and Pine (1998) and other contributions to Neef and Stănculescu (2002).

[35]Earlier data are given by Milanovic (1999, pp. 340–41) and Bunce (1999, p. 765). UN/ECE (2004, p. 167) gives GINI earnings figures until 2001.

[36]A more up-to-date table can be found at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdsc260&plugin=0, accessed 18 February 2011.

2002, the populations of Eastern Europe spent a much greater proportion of their household budgets on food (a standard proxy for poverty) than the old member states: ranging from 23.2% in the Czech Republic to 51.9% in Romania, compared to the EU15 figures which ranged from 10% to 19%; however, housing costs were much lower (ranging from 13% in Romania to 20% in Hungary, compared with the EU15 range of 20–30% (Heynes 2005, p. 179)). The percentage of the population at risk from poverty increased between 2000 and 2006 throughout Central and Eastern Europe (in countries where data were available) while the EU average remained constant at 16%, although in the two halves of the former Czechoslovakia it still remained below the EU average, while Hungary had reached the EU average by 2006 and Poland and Romania had exceeded it (Hardy 2009, p. 131).[37] The consequences of increasing poverty are illustrated by Hardy for Poland, who describes the case of the *nureks* who scavenge dustbins for paper and cans (Hardy 2009, pp. 129–300), while Smith *et al.* document the emergence of 'in-work' poverty in Bratislava and Kraków (Smith *et al.* 2008).

It has become one of the truisms of post-socialist capitalism that women lost out as a result of the transformation (Einhorn 1993). Even though 'actually existing socialism' lost contact early on with the emancipatory elements of socialism's 'woman question', it did need female labour and pulled women into the labour force, providing generous childcare provision in compensation.[38] In the post-socialist recession, when the logic of the 'cash-nexus' dominated political discourse, cash-strapped local authorities tasked with childcare provision cut back,[39] while enterprises reduced their employment of non-core labour. As a consequence, women were squeezed out of the labour market and back into their conventional roles of housewife and mother. This was most visible in Poland, where the Catholic Church returned to dominance and the ideological pressure on women to return to the household was considerable.[40] Domańsky found that women in Poland were disproportionately represented in the 'underclass', which in his analysis meant outside the labour market (2002), while the Polish state spent around half as much as its neighbours on family policies (Fodor 2005, pp. 18–19). Region-wide, Glass reported that, over time, motherhood had become a barrier to women holding down jobs (2008, p. 776).

In general, unemployment rates for women were higher than those for men (Fodor 2005, p. 7; Pollert 2003, pp. 338–39; 2005, pp. 215–16; Hardy 2009, p. 121), although this was not the case in Hungary (and Slovenia), a phenomenon generally explained by the fact that Hungary's still generous system of maternity benefits meant that a high proportion of women were not in the labour market. The decline in women's employment was much greater than that of men, especially in Hungary (Asztalos Morell 1999, pp. 203–5; Pollert 2003, pp. 338–39; 2005, pp. 215–16; Fodor 2005, p. 6).

[37]A more up-to-date table can be found at: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdsc260&plugin=0, accessed 18 February 2011.

[38]For a good summary, see Pollert (2003, pp. 332–35), Fodor (2005, pp. 2–5) or Hardy (2009, p. 166). Provision was worse in Poland.

[39]Although Fodor (2005, pp. 15–16) reports a less unfavourable picture, partly because demand for childcare fell with a declining birth rate.

[40]See, for example, Hardy (2009, pp. 163, 170–73), Fodor (1997, pp. 471, 479–80), Glass (2008, p. 778) and Heinen and Portet (2009).

The UN's Gender Development Index fell consistently for the Central European countries under consideration here from 1990–1992 to 1998, increasing marginally in 1999 (Pollert 2003, p. 336; UNDP 1991, 1995, 1998, 2000, 2001), although Romanian data suggested a stronger socialist 'gender-equality' legacy in the Balkans (Pollert 2005, p. 215). The gender pay gap after a decade or so of post-socialism, at roughly 80% of comparable male earnings in 2001, was somewhat wider than the pre-accession EU norm, and women were disproportionately represented in the poorer-paying public sector (Pollert 2005, pp. 222–27).

Writing in the 1990s, Fodor argued that, all these negative features notwithstanding, a certain group of women had benefited from the re-evaluation of the financial sector and services generally during the transition (1997, pp. 472, 496). A standard characteristic of socialist enterprises was that finance was undervalued, and thus feminised (Swain 1992, p. 158; Fodor 2005, p. 10; Martin 1999, p. 90). The tertiary sector generally suffered similarly low prestige compared with mass-production-based industrial production (Asztalos Morell 1999, p. 205). With the 'world turned upside down', the services and financial management represented the future;[41] and women were disproportionately equipped with the necessary qualifications.[42] Unfortunately this period of post-socialist comparative advantage for women proved to be relatively short-lived. Fodor noted that by 2001 'women dominated the services to a lesser extent than they used to' (2005, p. 10), even though those women who remained in employment were increasingly concentrated in the service sector. More particularly, in the subsector of banking and financial services, she reported 'an increasing number of men started to claim jobs in financial mediation, and after the mid-1990s, parallel to this, we see an increase in the wage gap as well'.[43] She concluded that, 'not only are women being forced out; those who manage to stay are increasingly ghettoized in the lower paid end of the sector' (Fodor 2005, p. 11), a view confirmed by Glass (2008, p. 775).

For the Roma, there were not even sector-specific, short-term benefits from the transition. Under socialism, Roma had suffered from housing, educational and occupational segregation, and were given minimal opportunities to develop their cultural identity,[44] but socialism's shortage economy, including its labour shortage, had provided them with employment in the 'first economy', while their traditional skills suited them for success in the 'second' (Stewart 1997, pp. 123–24, 264). The security of 'first economy' employment evaporated as lower-grade, unskilled jobs

[41] Martin (1999, p. 89) describes management restructuring to reflect this.

[42] See also Pollert (2005, p. 220). Heynes (2005, p. 180) too reported broadly similar findings. Asztalos Morell (1999, pp. 205–9) provides analogous data for rural women in Hungary, citing figures which indicate that women who lost their jobs when agricultural cooperatives closed down were able to earn higher wages in their new employment than men, and that the proportion of women among managers increased in the post-socialist period. Lengyel and Barta (2000, p. 168) found women disproportionately represented in the banking elite—25% compared with 15% in the elite at large.

[43] The percentage of women employed in the sector fell by around 10 percentage points from the mid-1990s to 2001 in the Czech Republic and Poland, although by only two in Hungary; and their wages as a proportion of men's fell in all three countries, but by widely ranging amounts (14 percentage points in the Czech Republic, eight in Hungary but only one in Poland) (Fodor 2005, p. 11).

[44] See for example Stewart (1990, 1997, pp. 97–111), Guy (1998), Bárány (2002, pp. 112–53), McCagg (1991), Ladányi and Szelényi (2006, pp. 77, 85–87) and Crowe (1994, pp. 20–28, 54–64, 91–102, 135–43).

disappeared from the economy, and full-time survival from the informal economy proved precarious. The extent of the deprivation that this occasioned has been extensively documented (Bárány 2002, pp. 157–201; Stewart 2002, p. 136; Ladányi & Szelényi 2006), and its rural dimension, in part the consequence of under-urbanisation, should not be neglected. While between 75% and 80% of the rather smaller Roma populations of Poland and the Czech Republic were urban residents in the 1990s, in Bulgaria (with one of the biggest Roma populations) only 52% were, and in Hungary and Slovakia (both with large Roma populations) only 40% were (Bárány 2002, pp. 160, 163). Roma poverty was predominantly rural poverty. Ladányi and Szelényi further reported that while in Hungary economic advancement for Roma came from assimilation alone, in Romania and Bulgaria, partly because of their extreme exclusion, wealthy Roma remained in their segregated communities, such as abandoned Saxon villages in Transylvania or ghettoes in Bulgarian cities (Ladányi & Szelényi 2006, p. 19). Socialism had prevented the political exploitation of open anti-Roma sentiment (unlike anti-Semitic sentiment which it occasionally encouraged, such as in Poland in 1968),[45] but in the post-socialist era, violently expressed anti-Roma sentiment became commonplace,[46] and even mainstream politicians promoted anti-Roma rhetoric. The Czech Christian Democrat (*Křesťanská a demokratická unie—Československá strana lidová*) politician Jiří Čunek, for example, based his popularity on his tough policy towards the Roma.

Liberal democracy (with post-socialist characteristics)

In the political sphere, the political actors of late socialism, in particular the opposition movements which engineered revolution in 1989, together with their successors who consolidated democracy, set aside the one-party legacy and created hugely differing political systems which cannot be considered at length here. Indeed, by the imperfect standards of the real world, all of the countries under consideration here counted as democratic. Domestic critics might (and with reason) complain about the quality of democracy in their countries—the particular voting system, the nature of the choice, the extent of corruption, the absence of transparency, the independence (or lack of it) of the media, the state of civil society, and some worryingly extremist nationalist parties; but similar criticisms can be made of the political structures in countries long accepted into the family of Western democracies.[47]

Post-socialist democracies offered the electorate a choice; elections took place at regular intervals; power changed hands smoothly without recourse to violence or extra-parliamentary activities; and, in countries where the Party had had a strong reform wing, the 'return' to government of the former communists in the early 1990s did not diminish the commitment to market strategies. Regimes once dominated by unreformed communist elites took longer to conform to this pattern. In Romania, the

[45]For a recent gloss on these events, see Kunicki (2005).

[46]See the European Roma Right Centre website for up-to-date reports, available at: http://www.errc.org/index.php, accessed 18 February 2011.

[47]See Heywood (2002, p. 84) for a description of the real-world characteristics of a modern democracy.

continuity of the heirs of the Communist Party was broken in 1996; in Bulgaria, where the political power of unreformed communists was overcome by action on the streets as much as electoral change until 1997, the electoral process predominated thereafter; the increasingly authoritarian Vladimír Mečiar was voted out of Slovakian politics in 1998. The post-socialist recession left its mark on post-socialist politics in Hungary, Poland and Bulgaria in the form of pendulum politics: left and right, broadly defined, exchanged power alternately as the electorate despaired of whichever party was in power and voted in the opposition (Swain & Swain 2009, pp. 233–90). This ended in 2001 in Bulgaria (when the National Movement Simeon II [*Nacionalno Dviženie Simeon Vtori*] took over from the Union of Democratic Forces [*Sayuz na demokratichnite sili*]), in 2002 in Hungary (when the socialists were voted in for a second term), and in 2007 in Poland (when a more moderate right-of-centre government replaced its socially conservative and nationalist right-wing).

The main features of post-socialist democracy appear to be a left-of-centre social democratic space filled by former communist parties and a less stable political right where major new parties continue to be formed. The exception to the first of these was the former Czechoslovakia. In the Czech Republic, an unreformed Communist Party continued in existence and received a sizable share of the vote, although never sufficient to be a major party and social democracy was represented by the historic Social Democratic Party (*Česká strana sociálně demokratická*). In Slovakia, not only did the former communists disappear (although they were present in the early post-socialist years), but social democracy also seemed to be absent from the political palette until the victory of *Smer* in 2006. On the political right, in Hungary, *FIDESZ* took almost a decade to supplant the Hungarian Democratic Forum (*Magyar Demokrata Fórum*) and the Smallholders (*Független Kisgazda, Földmunkás és Polgári Párt*); in Poland, the Law and Justice Party (*Prawo i Sprawiedliwość*) and Civic Platform (*Platforma Obywatelska*) coalesced out of former Solidarity groupings; and in Bulgaria, the Union of Democratic Forces was eclipsed by the Simeon II Movement and then Citizens for the European Development of Bulgaria (*Grazhdani za evropeysko razvitie na Balgariya*). In Slovakia, the once-dominant Movement for a Democratic Slovakia (*Hnutie za demokratické Slovensko*) lost to the Slovak Democratic and Christian Union (Slovenská demokratická a kresťanská únia), and a new Freedom and Solidarity party (*Sloboda a Solidarita*) came third in the June 2010 elections; while in the Czech Republic the Greens (*Strana zelených*), Christian Democrats (*Křesťanská a demokratická unie—Československá strana lidová*), and latterly Public Affairs (*Věci veřejné*) and Karel Schwarzenberg's TOP09 (*Tradice Odpovednost Prosperita 09*) became more significant in the second post-socialist decade. Romania represented something of an exception in that the left transmogrified significantly too, and mergers and rebranding were more common than new party formation. The instability of the right reflects in part unresolved tensions in Eastern Europe's 'Janus-faced' nationalism, which feeds off senses of grievance towards historic persecutors (Swain & Swain 2009, p. 240). Nationalist tensions were to some extent neutralised around the turn of the millennium in advance of EU membership, but they reappeared in post-accession politics.

The first decade of post-socialism was an era of national paths to capitalist democracy during which the political forces that had overthrown socialism and their successors could pursue their own visions; but things changed as the century approached its end. 'By the end of 1995, EU policy had shifted firmly onto an irreversible path to enlargement' (Sedelmeier 2005, p. 83),[48] and the EU became a major actor in determining the complexion of post-socialist liberal democracy. Crucially it became increasingly prescriptive about what membership entailed, more prescriptive indeed than it was for existing members.[49] From 1997–1998 onwards, the path to 'Europe' was no longer one of demonstrating movement towards a nationally determined model of 'democratic institutions' and 'a functioning market economy', but of meeting the EU's strict conditionality criteria. Its *acquis communautaire* provided a concrete template for Svejnar's Type II reforms—laws, regulations and institutions that made a private-ownership-based market economy safe (see above). A Commission Opinion of more than 100 pages was published for each country in July 1997 covering political and economic criteria for membership, ability to assume the obligations of membership, and administrative capacity to apply the *acquis*; annual Regular Reports were published in October or November of each subsequent year; and from 2000 onwards these included all 29 chapters of the *acquis*.[50] All chapters had to be signed off, and only when the European Commission was satisfied. Eventually the 'laggards' of Romania and Bulgaria fell into line, although some felt reforms needed to be consolidated still 'from below' (Noutcheva & Bechev 2008, pp. 15–16). Occasionally EU conditionality intruded directly into national politics, such as its judgement on Mečiar (and more extensively on the politics of the former Yugoslavia), but its influence was most significant in the more mundane field of specifying and enforcing the legal and institutional norms of a market economy and democratic polity acceptable to Western European institutions.

It is not fanciful to interpret the post-socialist welfare systems in the region as resulting from EU influence. Given the strident calls for 'shock therapy' and neoliberal policies at the beginning of the 1990s, it is certainly surprising that, at the end of the first two post-socialist decades, they were still so mixed (Ferge 2001, p. 131). Tomasz Inglot's study of the former Czechoslovakia, Hungary and Poland stressed not only continuities from the socialist to the post-socialist periods, but also from the pre-socialist to the socialist: 'So far none of these new democracies decided to replace its original institutional blueprint that had served as the foundation of its social insurance systems throughout all of the twentieth century' (Inglot 2008, p. 297). It would seem to be the case that, as Deacon has argued (2000, p. 159), because EU conditionality was structured around European practice, extreme neoliberal models have been rejected.[51] Indeed, a survey conducted on behalf of the EU concluded that, 'all health care

[48]For a full account of the history of Europe's initial response to 1989 and the subsequent accession negotiations over agreements in Copenhagen, Madrid and Nice, see Sedelmeier (2005, pp. 52–100). For an account of Romania and Bulgaria's progress to membership, see Noutcheva and Bechev (2008).

[49]For increased EU prescriptiveness, see Grabbe (2003), Jacoby (1999) and Schimmelfennig and Sedelmeier (2005). See also the *Europe-Asia Studies* special section on the 'European Union and Post-Communist Eastern Europe: Conditionality, Legacies and Europeanisation' (Cirtautas & Schimmelfennig 2010; Schimmelfennig & Scholtz 2010; Levitz & Pop-Eleches 2010; Bandelj 2010; Vermeersch 2010).

[50]The Opinions are available at: http://ec.europa.eu/enlargement/press_corner/key-documents/index_archive_en.htm;the Regular Reports available at:http://ec.europa.eu/enlargement/archives/key_documents/reports_1998_en.htm, both accessed 18 February 2011.

[51]Ferge (2001, p. 147) is sceptical, but questions outcomes rather than models.

financing reforms are in the mainstream of the Western European tradition' (Deacon 2000, p. 150). Deacon further noted that, 'The market for private pension schemes ... is small and the financial infrastructure undeveloped. This has meant that the main thrust of the World Bank's pension reform strategy in the region has only been positively responded to in a very limited number of countries such as Hungary [and] Poland since 1998', and that 'health-financing reforms have not been noteworthy for their emphasis on market competition or privatisation except in the fields of dentistry and pharmaceuticals' (Deacon 2000, pp. 154–55). The EU-inspired model nevertheless had some specific features. It has been suggested that means-tested social assistance, often the responsibility of underfunded local authorities, operated in a paternalistic fashion rather than the rights-based pattern of Western democracies (Deacon 2000, p. 154); and Ferge noted 'strong prejudices against the ''undeserving poor''' (2001, p. 132).

It is almost universally acknowledged that, despite qualifying as democracies, the surveyed countries suffered from a political culture characterised by 'corruption', and that 'civil society' remained weak;[52] Rose-Ackerman saw Polish and Hungarian democracy as 'unconsolidated' because of the relative absence of civil society there (2007). Instrumental in the reputation for corruption was almost certainly a socialist legacy in which the boundaries between the public and the private had been unclear and conflict-of-interest legislation weak. Sajó also attributes significance to the high levels of clientelism in the emerging political systems, clientelism being, in his view, a central element in Eastern European corruption (1998).[53] Certainly East Central European countries consistently performed poorly (in comparison with Western Europe) in the perceptions of corruption indices produced by Transparency International[54] and the EBRD's and World Bank's Business Environment and Enterprise Performance Surveys, although by 2005 the latter was improving (Anderson & Gray 2006). Throughout the region corruption was sufficiently endemic for almost every regime in every country to have the corrupt practices of its ruling party politicians conveniently exposed in the run-up to elections. Furthermore, at the level of day-to-day 'bureaucratic encounters' between citizens and 'street-level bureaucrats', Miller *et al.* discovered a 'culture of corruption' where the passing over of gifts was perceived to be necessary, although people did not give willingly, nor to the same degree as they perceived it necessary, and did so because of the strong bargaining power of certain officials rather than cultural traditions (2001, pp. 73, 91, 131, 165, 277). Wallace and Latcheva have associated such perceptions of corruption strongly with declining trust in public institutions and in some countries to the South and East with participation in the black economy (2006, p. 99).

The weakness of post-socialist civil society in Hungary was noted by Cox and Vass in the mid-1990s (1994, pp. 161, 175), although they were somewhat more optimistic by the end of the decade (Cox & Vass 2000), while Miszlivetz and Jensen (1998, pp.

[52]Civil society figures as a crucial element in Heywood's definition of a real-world democracy (2002, p. 84).

[53]For corruption in the Czech Republic, see Appel (2001).

[54]Available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009, accessed 18 February 2011.

84–85) warned that despite an increase in numbers (a process also witnessed in Poland (Ekiert & Kubik 2001, pp. 101–7)), there was a problem of the 'pseudo existence' of many regional NGOs.[55] Rose-Ackerman noted, with particular reference to Hungary and Poland, the region's small number of weakly institutionalised civil society groups, but focused on their lack of funding, limited staffs and absence from policy advocacy (2005, p. 169), as was illustrated in the field of women's NGOs, for example, by Sloat (2005, pp. 439–41). Rose-Ackerman also produced evidence from the European Values Study indicating a much weaker propensity to engage in political activity other than voting and working with parties (2005, p. 10). Howard's analysis of membership in voluntary organisations in older democracies, post-authoritarian countries and post-communist countries found that the average number of memberships in the latter group was half that of the post-authoritarian countries and one third of that of the older democracies. Within the region, Romanians were more active generally, and Romanians and Slovakians were more active in church organisations; Bulgarians were active in only one tenth of the number of organisations that US citizens were (Howard 2003, pp. 62–66). Poland was not included in Howard's survey, but Barnes found that it had an unusually weak civil society (Barnes 1998, p. 127). Although Howard only attempted a causal analysis for Eastern Germany and Russia, the factors that he identified (mistrust of communist organisations, persistence of friendship networks and post-communist disappointment) (2003, pp. 105–9) almost certainly have a more general application.

Conclusion

This essay has identified four forces that influenced the framing of a distinctly post-socialist version of capitalism and liberal democracy that emerged in East Central Europe in the two decades following 1989. The socialist legacy operated in economic, social and cultural spheres. It left a weak economy, not well positioned to respond to the challenges of adjustment and competition, and an economy with gaps, in the services and finance in particular, that waited to be filled. As a consequence of the economic changes labour was very weak too, despite the early political salience in some countries of trade unions. Socialism also left a legacy of an agrarian sector in which medium-sized family farms, for which the EU's CAP had been designed, were absent.

Socialism's social legacy meant that the new capitalists came from a socialist service class (some from families that were originally bourgeois) which was poorly adjusted to a market economy. Meanwhile, workers and consumers were skilled in improvisation, but accustomed to the cushion of employment security. As a consequence, the SME sector was weak, and reliance on informal economic activity continued to be extensive. In the increasing social inequalities and poverty that accompanied market reform, a certain section of women benefited briefly, before motherhood became a barrier generally to retaining employment and competing with men. Under-urbanisation and the collapse of the symbiosis between the first and second economy came together to accentuate the deprivation of the rural Roma. Central features of socialism's cultural legacy were both a lack of clarity concerning the boundary between public and private,

[55] Myant (2005) demonstrates the ambiguity of the term at the highest level of Czech society.

and a withdrawal into the unambiguously private. These had impacts on degrees of corruption and commitment to civil society.

The political agents of late socialism and the transitional period created very different party political regimes which this essay could not study at length (although the importance of the strength of both socialist-era opposition groups and a reform wing within the Party has been noted). Reform communists became the bedrock of a social democratic left (although this did not take place within the old Communist Party in the former Czechoslovakia), while the political right proved less stable. Joining the European Union imposed the perverse arrangements of the Common Agricultural Policy on post-socialist agriculture and the rural economy, and also helped keep welfare systems within a European rather than a neoliberal model. More importantly, it exercised an early influence on the opening of East Central European markets to Western companies; and later on it imposed its *acquis* as a template for the laws, regulations and institutions required by a market economy, offering the promise of stability, security and transparency that attracted TNCs, particularly in conservative sectors such as banking. Although TNCs had immediately seen and acted on market opportunities in the region, and had quickly snapped up the 'crown jewels' of manufacturing, they were slower to develop 'high-commitment' strategies, until the clear prospect of EU membership rendered investment secure. Two decades after 1989 they had built East Central European manufacturing ventures into their wider European operations and dominated sectors such as banking, finance and telecommunications which had scarcely existed under socialism.

Poznanski (2001) has interpreted the high incidence of foreign ownership in the region *ipso facto* as evidence of 'deviant' capitalism. More prosaically, post-socialist capitalism might be seen to have forged a dependent zone within a Europeanised economy. Within this zone elements of the former socialist service class have dominated; Western European levels of inequality were partially mitigated by European welfare systems; women's careers were once again at risk if they opted for motherhood; deep poverty was countered by extensive activity in the informal economy; ethnic tensions (both within and across national borders) remained unresolved; and a weak civil society encountered persistent corruption.

The University of Liverpool

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