

**Foreign Direct Legislation, Informality, and
the Iron Fist of Liberal Capitalism
After the End of European State Socialism**

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Prepared for the inaugural workshop of ARCCGOR
17 - 18 December 2004
held at the Vrije Universiteit Amsterdam

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by

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Version 1.21

word count: main body of text = 9223 ; total = 9786

07 December 2004, 10:23

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ⁱ Paper prepared for presentation at the Inaugural Workshop of the Amsterdam Research Centre on the Transnational Political Economy of Corporate Governance Regulation, 17-18 December 2004, Vrije Universiteit Amsterdam.

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Introduction

This essay considers the political economy of corporate regulation as part of a historical-causal argument that links some macro-structural characteristics of global capitalism to the recent re-emergence of dependent development in eastern and east-central Europe. In this framework, both the content and the social, economic, political and cultural outcomes of corporate regulation are variables, i.e., they are assumed to change over time and vary according to the socio-economic context in which they travel. More precisely, the term “corporate regulation” refers to a batch of intervening variables embedded in an overarching historical process of social change, so that, in this model, corporate governance regulation is a consequence of some historical processes and a cause of some others.

The basic story I tell is that of reproduction: I am interested in the mechanisms that are responsible for the reproduction of highly externally-dependent forms of semiperipheral capitalism in eastern Europe—a set of features that characterised the former state socialist societies’ pre-state-socialist histories—in the post-state-socialist period. This is a study in the mechanisms that have created the European instance of what could be termed, partly after Peter Katzenstein (2003), global regionalism, creating a layer of formal institutions whose scale is between “national regulation” and “global governance” (McMichael 2000: 184-8).

The main purpose of my analysis is to insert the variable of corporate regulation among the key mechanisms through which longue-durée, region-

specific patterns of global inequality are transmitted during the macro-structural transformation of what was, until fifteen years ago, the state socialist “bloc” of the capitalist world economy. Because of the Eurocentric nature of the developments I address, both my narrative and the data I use focus on Europe. Most of my field examples come from “market transition- and EU-membership-frontrunner” Hungary.

The Context

Over the course of its five-centuries-long history, global capitalism has created an enormous diversity of institutional forms and a system of stark regional inequalities. One way in which scholars of the macro-historical political-economy approach have modelled the bewildering variety of capitalist experiences is by placing the world’s states along a global system of stratification termed the core-semiperiphery-periphery hierarchy. This hierarchy rests, ultimately, on some fundamental geographical differences in the world-wide, longue-durée distributional patterns of capital-intensive and labour-intensive activities, creating durable global inequalities and highly varied historical patterns of adaptation to those inequalities. The concept of the semiperiphery is a particularly important point of departure to our analysis because each of the three main meanings of the term, as proposed by Immanuel Wallerstein (1979) and modified, re-cast and operationalised by, among others, Giovanni Arrighi (1985), Arrighi and Drangel (1986) and Christopher Chase-Dunn (e.g., 1998: 210-20), is directly relevant to the societies of eastern Europe and their relationship

to their regional metropolises in western Europe. The notion of the semiperiphery evokes:

/1/ the institutional features that tie semiperipheral societies to the rest of the world through a set of specific network linkages, marked by the following three elements: /a/ a high degree of dependence on a select group of west European actors, /b/ a relatively dominant position vis-à-vis some parts of the world whose states, capital and labour participate in global exchange with considerably less power than those of the semiperiphery, and /c/ the global function of facilitating global flows—a crucial component for global capitalism—by providing transfer, logistical, mediation and buffering services, i.e., organising some of the ties between the core and the peripheral regions of the world;

/2/ a middling position in the global system of the distribution of economic resources with respect to the general rates of capital accumulation and profits, as well as levels of individual and collective consumption; and, finally,

/3/ a set of unique institutional features that both ascertain the longue-durée reproduction of semiperipheral position and provide mechanisms for adaptation, i.e., institutional characteristics that allow semiperipheral societies to cope with the challenges caused by their semiperipheral position.

[Figure 1 about here!]

Per capita GDP serves as a convenient descriptive measure of any state's world-system position and, for the purpose of this analysis, I will label as 'semiperipheral' any state that registers between 50% and 200% of the world

average per capita GDP. Using this criterion, Figure 1 suggests that all of the states of eastern Europe have remained within the global semiperiphery during the last century of their pre-state-socialist history—the period for which we have reliable data¹—with the sole exception of Albania which had sunk, sometime before the post-World-War-II time point, just below the line separating the semiperiphery from the periphery. One of the most remarkable over-time regularities of the history of highly stratified, regionally organised, global capitalism is that the societies of east-central Europe have occupied, pretty much throughout their capitalist history, a middling position in those regional inequalities. As a result, by the time of their transformation to state socialism, the societies of eastern Europe were, clearly, among “those areas or states in which there is a predominance of activities which are at intermediate levels with regard to the current world-system distribution of capital intensive / labour intensive production” (Chase-Dunn 1998:212). This also means that they have never experienced core status or peripheral position. Eastern Europe’s historical experience with capitalism is that of constituting the global middle.

[Figure 2 about here!]

Nineteenth-century capitalism produced a global income distribution in which western Europe’s spread² was wider than that of eastern Europe³: We do see some semiperipheral states in western Europe—in 1913, Portugal, Greece, Spain, Finland, Italy, and Ireland all show income figures that are, by and large, similar to the upper-tier semiperipheral states of eastern Europe—but, more

important, above this group, we also find the paradigmatic colonial powers of global capitalism (the UK, Belgium, the Netherlands and France), as well as “catching-up” latecomer (Gerschenkron 1992[1952]), nonliberal (Streeck 2001), imperial Germany and high-accumulation finance-enclosure Switzerland. This wealthier group of west European states constituted the core of the world economy, so that western Europe as a whole was, clearly, the most privileged and most powerful part of the world until 1913. Even after World War II, in spite of the damage it did to the economic, political, cultural and social infrastructures of western Europe, only the United States has surpassed the wealthiest and most powerful west European states in terms of their position as global powers.

[Figure 3 about here!]

As Figure 3 indicates, the states of eastern Europe preserved much of their pre-state-socialist position vis-à-vis the rest of the world economy during the state socialist period. Again, with the single exception of Albania, Europe’s eastern half remained tightly squeezed within the semiperipheral belt, even though there are clearly recognisable signs of movement within, registering an upswing during the 1950s and 1960s and a downturn after the mid-1970s. In spite of the considerably specific legal and regulatory environment, in many important ways directly opposed to, and by, the dominant capitalist logic of the world-system, referred to as state socialism—imposed on eastern Europe under aegis of the Stalinist geopolitical project during the late 1940s and in effect until 1989-90—the global trajectories of the European state socialist economies

remained remarkably consistent with their pre-state-socialist patterns. The range of the east European economies' world-system position remained essentially the same throughout their state socialist history.⁴ Eastern Europe's resilience to core-periphery mobility in spite of very momentous changes in their legal and regulatory setup is an important piece of testimony to the power of historical legacies and the limits of the transformative power of regulation transfer.

[Figure 4 about here!]

Meanwhile, in western Europe, the post-war period saw two parallel processes. The core states of western Europe managed very effectively to preserve their privileged position in the world-system, while the semiperipheral states of western Europe experienced a steep upswing and entered the core. By 1989, Greece (standing at 196.2% of the world mean per capita GDP) was the only state in western Europe that had not exceeded our 200%-of-the-world-mean criterion for membership in the core of the world-system. As a result, the range of the west European states narrowed considerably.⁵ By the end of the eighties, western Europe became—for the first time in its history—a by and large homogeneous, core region of the world-system.

Even more significant for my argument, the small states of eastern Europe began their twentieth-century history in a position of being tightly integrated into the economic networks of west European capitalism as inferior partners. This situation constitutes the textbook pattern referred to, in the international political economy of uneven development, as economic dependence. Hungary

was a subordinate area of the multiethnic Habsburg empire—i.e., bound to a more powerful entity in political as well as economic terms—and that relationship of subordination was replaced, soon after the collapse of the Habsburg Empire, by an even tighter grip of political and economic dependence on the Third Reich. It will be useful to remember that several states that we recognise from the post-World-War-II status quo as independent entities (e.g., Czechoslovakia or Yugoslavia) were created by dividing the Habsburg Empire, and they, too, fell under Nazi German hegemony soon thereafter. Even those states of eastern Europe that were nominally independent at the outbreak of World War I—such as Romania—had a history that is incomprehensible without paying detailed attention to their dependence on various powerful imperial actors. Poland's history during the period of global capitalism is a virtually un-interrupted, often frustrated struggle for sovereignty and basic stability, with domestic political elites and capital interests aiming to exercise control over their own affairs, economically as well as politically. The economic and political history of the entire region of eastern Europe is that of weak states and externally dependent, semiperipheral economies, subject to the imperial dynamics of the economic and geopolitical interests of four land-based great powers—the Habsburg, Ottoman, Prussian and Romanov Empires—pushing forward and pulling back according to the logic of imperial dominance.

Two historical features distinguish, hence, the semiperipheral societies of western Europe from their east European counterparts. First, in western Europe we find semiperipheral states (Portugal and Spain) whose histories are entirely different from the patterns I have just outlined for eastern Europe. Their past

trajectories cannot be explained without featuring prominently their seaborne imperial expansion outside of Europe—that is, in short, their central role in the western Europe-centred colonial enterprise that had created the basic structure of the truly global, capitalist world-economy. This feature—a history of past colonial pursuits—is entirely absent from the histories of east European states, and make Portugal's and Spain's economic histories more similar, in some crucial respects, to their core neighbours in western Europe than to their semiperipheral equivalents in the eastern parts of the continent. Second, due, in large measure, precisely to the extra-European colonial linkages of the semiperipheral states of western Europe, long-term patterns of unequal economic dependence are by and large absent from the ties between the semiperipheral and core states of western Europe. Greece constitutes yet another pattern, that of a several-centuries-long insertion into an imperial system—the Ottoman Empire—that was, at first, an external arena for emerging capitalism, and later became incorporated in global capitalist trade flows as a peripheral region. Arguably only Sweden's imperial annexation of Finland and Britain's imperial subjugation of Ireland are the two exceptions from this rule, making some aspects of Finland's and Ireland's histories reminiscent of eastern Europe's.

In contrast, one of the most fundamental historical lessons that the societies of eastern Europe have been taught during the period of modern capitalist development in the shadow of the economic and political powers they had for neighbours articulated a situation of endemic international powerlessness. This included perceptions of the frailty and contingency of their sovereignty, an acute awareness of the difficulties of conceiving, attaining and maintaining their

national independence, concerns for the outer-directedness and external dependency of their economic development, and frustration over their subordinate position vis-à-vis the key economic powers of western Europe. In eastern Europe, the collective historical experience of capitalism and political “freedom” has meant external dependence, endemic smallness and repeated, forcible fragmentation; the combination of those entails legal-regulatory subordination to the continent’s economically and politically more powerful local hegemony and a general attitude of mistrust in formal avenues of claim-making and contestation. In a context in which most of your competitors and adversaries are richer and more powerful than you are, pursuance of long-term, formal ties and formal avenues of reform promise acceptable, or even just tolerable, results only in the presence of other factors that could serve to mitigate the overbearing weight of your competitors / adversaries. Most of the history of modern capitalism provided no such mitigating mechanisms in eastern Europe.

Informality as a Rule

Formal rules—prescriptions for social action based on explicit and embodied, usually professionally written, ritually accepted rules and regulations that are made available to the public—never exist in a vacuum. They are always surrounded by, and they always interact in complex, multidimensional ways with, informal rules—i.e., unwritten, implicitly accepted, culturally coded rules of conduct that are often hidden from sight, particularly for those who arrive into a cultural context from without. Formal and informal rules always counterbalance,

negate and extinguish, as well as support, enable and actualise each other in the practices of every society. The interplay between formal and informal rules defines much of what can be described as any society's specific cultural setup.

The combination of some of those macro-structural factors—the absence of global mitigating mechanisms in the capitalist world-system, the semiperipheral status and small size of the states of eastern Europe, and their resulting, *longue-durée* legacies of dependence on their economically and geopolitically more powerful, often outright expansionist neighbours—in themselves should have been sufficient to instil great interest in informal solutions. Informality was promoted and locked in, however, by other structural features, perhaps the most significant of which is limitations on the size⁶ and scope of the activities that eastern Europe's indigenous economic enterprises have been able to achieve. The experience of international subordination and size constraints together have pushed the east European economies in the direction of informality, creating a powerful social, political, economic and cultural legacy, a recognisable mentalité that can be described as ubiquitous, pervasive informality.

Much of my work in the comparative economic sociology of social change since the collapse of state has focussed on describing and explaining this phenomenon and exploring its consequences for the post-state-socialist transformation. In this paper, I shall not repeat the points I have made in the context of other arguments earlier.⁷ Instead, I will touch upon those aspects of informality which I see as the most relevant to the issue of regulation transfer and its developmental outcomes.

Perhaps most pertinent to my argument is the insight that, when it comes to the transfer of rules and regulations through a supra-state legislative-diplomatic process, only formal rules lend themselves to such transfer. (The implicit, culturally coded and unspoken nature of informality makes the “official” transfer of such rules absurd.) The transfer of a wide range of formal regulations across the borders of its member states is the essence of the EU as a regulatory instrument, so much so that—as Katzenstein (2003:109-10) observes—the very formality of its supra-state institutional structure is what distinguishes the EU from all other instances of regionalism world-wide. The transfer of formal rules from western Europe to eastern Europe has been, of course, a defining feature eastern Europe’s post-state-socialist history, given that “transposition and implementation of the acquis communautaire” has been one of the three key criteria specified by the 1993 Copenhagen Council of the European Union as a prerequisite for any “eastern applicant” to be allowed even to apply for full membership in the EU, let alone having a realistic chance to be accepted. Since formal rules always operate in interaction with the informal rules (Winiński 2000-2001), changes in formal rules will always be actualised through a set of specific interactions involving not only the new formal rules but the pre-existing conglomerate of formal and informal rules. As a result, the substantive outcome of the transfer of formal regulations will always be under-determined, and highly contingent. I will return to the question of post-state-socialist informality after a brief discussion of the structural legacies of state socialism.

Legacies of State Socialism

It is a key lesson of much of historical sociology that no process of social change, no matter how pervasive, can erase the social, political, cultural or economic logic of the previous social system. This is so even if—or, perhaps I should say, especially if—there exists a concerted will on part of the political elites to do so. The case of the east European relinquishment of state socialism constitutes a clear example of this phenomenon, so much so that David Stark—a leading observer of the recent changes in eastern Europe—has quipped, in a very pregnant metaphor, that, in this transformation, capitalism is built not “on the ruins, [. . .] but with the ruins of socialism.”⁸

Four such legacies bear consideration. The first is the fact that, throughout its history, the socialist state existed in a profound role conflict: It was both the owner and the regulator of the economy.⁹ The softness of the state socialist state-owned enterprise’s budget constraint (Kornai 1992: 487-97) is only one of the consequences of this conflict. The most significant corollary of the conflation of the socialist state’s regulatory and proprietorial roles for the post-state-socialist transformation is that it leaves the post-state-socialist state in a role conflict too, one that is no less profound than that of its predecessor. Its main role as liquidator of “socialist property”—i.e., the agent whose immediate task is to alienate the state’s assets—worked as a force pressuring the post-state-socialist state not only to abandon its moral and constitutional responsibility to be a prudent guardian of the collective property of the people but also to subordinate its role as regulator of the economy to the over-arching cause of privatisation. In

other words, the role conflation of the socialist state as owner and regulator of the economy enabled the post-state-socialist state's liquidator function to mute considerations pertaining to the state's generic, regulatory functions as well.

As a result, the regulatory functions of the post-state-socialist state were substantially weakened, almost as if it was custom-made for receiving normativity-distorting influences of all kinds. Three major sets of actors exerted particularly strong influences on the policies of this, fading post-state-socialist regulator state in this fashion: /1/ various informal cliques within the old-regime managerial elites, /2/ foreign investors of all kinds, who appeared through privatisation (that is, steeply discounted sales of state assets) as well as through "green field" FDI schemes and, most powerful of all in the long run, /3/ the EU through its insistence on the transposition and implementation of the acquis.

The second legacy of state socialism that impacted on the post-state-socialist status quo was the late, reform-socialist state's abandonment of its principle, previously seen as the pillar of socialism, concerning the primacy of collective consumption over individual consumption. Sometime during the mid-sixties to late seventies, the Polish, Czechoslovak, East German, Hungarian and Yugoslav states moved, each in their own distinctive ways, to de-emphasise collective consumption by implicitly bleeding the socialist welfare state, reducing or discontinuing investment in the infrastructure of collective consumption, lowering subsidies for public utilities of all kinds, and relaxing all egalitarian elements in the distribution of basic consumption goods. Meanwhile, the same states introduced political discourses, created economic incentives and popularised cultural symbols that helped to legitimise individual consumption of

a state socialist kind. The resulting, pervasive “(petty)-embourgeoisement” of the state socialist societies of eastern Europe created gaping holes in the social safety net for those at the bottom of the social hierarchy, and worked not only to increase domestic inequality, but also to make significantly higher levels of economic, political and cultural inequalities—something that was unfamiliar from the earlier phase of state socialism—acceptable. The abandonment of such “old-fashioned” socialist principles as the basic equality of opportunities and a tightly woven social safety net were abandoned, hence, well before the actual collapse of state socialism in 1989. It is this combination of increased freedom for the managers of state-owned enterprises with a deeply individualised pattern consumption-orientation under the continued ownership of the means of production by the state that has been referred to as the late, “reform-socialist” period of state socialism.

The third legacy of state socialism had much to do with the second point above: The individual consumption promulgated in the reform-socialist practices, coupled with the unwillingness of the socialist economies to adjust to the new global economic environment of high fossil fuel prices, and an inability to adjust to the world economy’s shift away from a heavy-industry-driven model to flexible accumulation, has created the thorough fiscal crisis of the socialist state. The deeply entrenched ownership pattern of the state socialist economies and the power of the socialist state as both the owner and the regulator of its economy, along with the overbearing weight of the Cold War geopolitical arrangement, made the socialist states desirable, highly trustworthy borrowers in the world financial market, especially given an upsurge in excess cash during the world oil

price explosion. As a result, pretty much all of the European state socialist states engaged in foreign borrowing, so that they arrived at the point of the collapse of state socialism, and the ensuing needs for wholesale re-tooling, with significant levels of indebtedness. Poland—the largest foreign borrower in Europe in absolute terms by 1989—and Hungary—Europe’s most indebted economy both in per-capita and per-GDP terms by 1989—were most affected by the debt crisis inherited from “reform-socialism.”

This not only constrained the post-state-socialist states’ ability to apply economic instruments to manage the structural imbalances that would stem from the collapse of the state socialist regional trading bloc and the transformation of their property system; it also put tremendous pressures on them to privatise as soon as possible, almost at any price. This created a widespread investment hunger, especially a hunger for foreign direct investment (FDI). As a result, the FDI-based privatisation programs that were implemented turned out to be—as it is clear in retrospect—basically foreign debt equity swap schemes, overseen by the finance ministries of the post-state-socialist states in such a way as to privilege concerns for short-term fiscal balance over other considerations, including fair price, issues of long-term economic strategy or industrial policy. This also partly explains the prevalence of tax- and other public obligation-free investment-attraction policies in eastern Europe, clearly privileging foreign investors over domestic capital. As a result, the most cosmopolitan members of the domestic economic elites also transformed themselves, as far as the law was concerned, into “foreign” entities through off-shore schemes—a pattern very well known from Russia’s economic transformation as well.

Finally, the fourth legacy of state socialism has to do with the lopsidedness and inarticulateness of the critiques of state socialism that would dominate the late-state-socialist, early-post-state-socialist context. The state socialist state was, of course, very sensitive to criticisms from all sides and never completely relinquished control over ideological realm. As a result, much of the critical thought that existed emerged in the informal, half-public sphere of close-knit intellectual and professional circles. Fully open, public debates over the problems of state socialism were never encouraged. Whatever existed by way of critical reflection remained essentially un-checked: Its main tenets remained basically inaccessible to empirical verification, theoretical or logical scrutiny and popular elaboration.

The strikingly inarticulate critique of state socialism that crystallised in this context was characterised by four basic failures. First, much of the mainstream critique of state socialism revealed a rather simplistic form of anti-étatisme. This trap is well reflected in the words of the Hungarian Minister of Justice who introduced, in the summer of 1989, the new Enterprise Law in the last state-socialist parliament with the following dictum: “no matter who or what the owner is, private property is superior to state ownership.”¹⁰ A similar sense of anti-étatisme pervaded the ensuing transformation, limiting the ability of those actors within the state and, more broadly, of all participants of the political sphere, who might have been interested in preserving or maintaining some of the “nonliberal” (Streeck 2001) elements of the historical legacies of eastern Europe’s economic institutions, or even creating some anew, to pursue some less extreme ideas concerning the possible range of pairwise relationships between the state

on the one hand, capital, labour, and the dependent population at large on the other. As a result, the concept of state ownership was matter-of-factly disavowed in any form, positing private property as a veritable manifest destiny for eastern Europe. Coupled with the debt crisis of the state, this created an irresistible push to combine privatisation schemes with foreign direct investment in a process I have described earlier (Böröcz 1992a) as the post-state-socialist property vacuum. This vortex was so powerful that it sucked in even agricultural, industrial and service cooperatives—a flexible and democratic property form that flourished in Hungary since the early 1960s and had, of course, nothing to do with state ownership per se. As a result of the this anti-étatist zeal, cooperatives were included in Hungary's 1989 Law on the Transformation of Economic Organisations.¹¹ Consequently, most cooperatives were eventually disbanded or converted into privately-owned limited liability companies, resulting in the disastrous collapse of Hungary's agriculture, and exacerbating the already occurring, large-scale displacement of the labour force, not to mention reducing the institutional diversity of ownership forms in post-state-socialist Hungary.

Second, the critique of state socialism that prevailed after the collapse was also strikingly un-informed about the nature of global competition and the role of geopolitical considerations in it, the degree to which processes in the world economy are influenced by unequal arrangements of economic, political and military power, the significance of administered trade in the world economy, the constraints that any newly-realigned actor had to face in such an environment, or the long, arduous and conflict-ridden road that the societies of western Europe had travelled until some basic civil, social and labour rights could be instituted in

spite of resistance by the oppressive practices of their “own” states and capital. Instead, the capitalist world economy was widely imagined as a basically “free” and “open” terrain, a space for the realisation of one’s economic potential from which the societies of eastern Europe had been, hitherto, putatively, “locked out.” This last point is particularly amazing, considering the grip of external debt dependence on some core actors of the capitalist world economy with which the economies of eastern Europe exited state socialism. Closely linked to this, much of eastern Europe’s historical experience with uneven development and dependency was also suppressed in the ideological production of post-state-socialism as a “communist” or “extreme-nationalist” distortion of history.

Third, post-state-socialist ideological reflection exhibited a certain striking, conspicuous silence about the power of informality. As a result, it came to the framers of the new, post-state-socialist legal and regulatory environment as a genuine surprise that most of the “system-transformative” deals would be done in hiding, through pre-existing informal social networks, under the general ethos of favours and patronage, often by the economic and political elites of the ancien régime. Foreign investors were at least as involved in this as domestic actors, confusing the intellectuals who made up the new political elites even more. As a result, the official, mainstream political sphere of the post-state-socialist societies of eastern Europe muddled through the institutional redirection of the economic and political spheres to capitalism and the emergence of new, contentious, democratic politics without any appropriate, conceptually worked-out, realistic or just simply practically workable cognitive tools that would allow them to handle

the sudden upsurge of transnational and domestic economic and political activity through informal channels.

A fourth tenet of the ideological context was marked by the cult of the “entrepreneur.” The denotation of this term is extremely difficult to define, ranging from the university students moonlighting as nocturnal gypsy cab drivers in Budapest, the pensioners operating a public urinal in an underground passage, the workers who devised ingenious schemes of internal subcontracting to streamline the cumbersome organisational bottlenecks of state-owned enterprises, the micro-plot farmers who put self-exploitative hours into growing labour-intensive, high-quality and reasonably profitable produce, or the intellectuals who hoarded second, third, fourth, fifth, etc. jobs and other appointments to supplement their meagre incomes from their “main” employment, to the politically as well as economically very powerful managers of the most successful state-owned enterprises—nicknamed the “Red Barons.” The “entrepreneur” was such a powerful keyword in the late-state-socialist context that a majority of respondents to a survey taken a year or so before the collapse of state socialism characterised themselves as first and foremost “entrepreneurs.”

A key contextual explanation for the striking imbalances and misperceptions that have dominated the ideological field of the post-state-socialist transformation had to do with the timing of the collapse of state socialism in Europe: These movements and the intellectual and scholarly criticisms they advanced appeared in the mid-1970s, a time when free-market liberalism ascended to its current ideological hegemony world-wide. Eastern Europe’s leading intellectuals, reform-minded politicians and other opinion-

makers correctly perceived this shift to free-market liberalism in global hegemonic discourses. They proceeded to apply some of its key tenets at home, by articulating them into a rather simplistic but politically effective critique of state socialism. This critique performed two basic operations: First, it reduced the concept of the state to a simple quantitative variable (so that conversation could only be about “more” or “less” state without addressing the question of just what it is that the state does, could or ought to do). Second, it moved on to denounce any instance of statehood, other than the “night-watchman” state—implicitly denouncing all nonliberal patterns of capitalism as well—as a civilisational dead-end. They also re-read the history of state socialism exclusively through the prism of extreme, Stalinist, Maoist and Pol-Potist violence, so that even the less oppressive, more accommodation-seeking varieties and emancipatory aspects of state socialism would be pronounced evil and moribund. According to this critique, the societies of the former state socialist bloc had one historic task before them: destroying all—not only the oppressive and anti-democratic, but also the economic inequality-reducing—capacities of the state, tout court.

Informality in the Transformation

By the time of the collapse of state socialism, the societies of eastern Europe were thoroughly informalised. Informality was the rule in the relationship between the individual and the state: Small-scale, private “takings” from the state were a common and typically un-punished occurrence, and the state reciprocated by allowing, at times even encouraging, arbitrary, clientelistic

relations in its relationship with the citizenry. Interpersonal and inter-organisational nexuses within the state bureaucracy, within the managerial elites and within intellectual elites were also organised on an overwhelmingly informal basis. As the new, post-state-socialist political elites came predominantly from the intellectual elite, and to a lesser extent from the second-line of the late-state-socialist “reform-socialist” managerial and political elites, each segment brought with it the informal mentalités and networks that had produced it. Although formal organizations did exist in the world of labour, the power of state socialist trade unions was undermined by their leadership’s record of subservience to the party-state elite, and the protection of labour rights was an extremely low priority for the political elite during the “reform-socialist” period. As a result, the protective power of state-socialist-era trade unions was negligible, and whatever measures were observable in the realm of labour protection operated through informal, arbitrary, clientelistic “deals” on the local level between management and specific groups of labour.

Probably the most clearly visible consequence of the legacy of state socialist informality for the transformation was in the relationship between managerial elites and the state. The basic informality of this arrangement determined who the few domestic actors would be that would have access to opportunities to privatise some of the assets of the post-state-socialist state. An extended quote from a recent interview with Ferenc Gyurcsány, one of the most successful beneficiaries of this informal transformation process in Hungary, speaks with remarkable sociological clarity:

The key to enrichment was privatisation, the fact that the state let go of its assets. I am saying that it “let go” and not “sold them” because the element of “letting go” was much stronger in the Hungarian experience of privatisation than actual sales. Members of the [old] elites can hardly be faulted for what happened [. . .]: It was not them who exercised [political] command at that time; in fact, in many cases, the [economic transformation] was tailored explicitly against them. It was the [post-state-socialist] Antall-government¹² that decided to use quasi-market instruments in privatisation, [in other words] put a quasi-market gown on a process that was built basically on lobbying and concessions. [. . .] Those would be the winners [of the economic transformation] who could orient themselves in this market. Who could orient themselves, who knew the country? Members of the previous elite who had [the right network] ties. What did you need in order to be able to come up with [investment] money? The investor had to make the banks trust that he can put into order the firm that was to be privatised. Who could make the banks confident that he can put things into order? Somebody who had already had company management experience, or who was in charge of a company at the time. When we established Altus¹³, I had knowledge and connections. The only thing I did not know was [this]: ‘What to buy with this enormous wealth?’ I had no choice but to fix ties with the elite of the state administration and the economic elite of the 1980s. Altus’ success was founded not only on the fact that the government [of the time] made

many [economic policy] mistakes, but also the fact that they sacked these people.¹⁴

The most important combined effect of the longue-durée patterns of informality and the peculiar structural legacies of state socialism is, hence, the accumulation of domestic ownership in a relatively small number of hands, with members of the late-state-socialist nomenklatura, especially its youngest and most well educated segments. This formally normative, substantively informal-clientelistic logic of the post-state-socialist transformation has functioned as a powerful lock-out mechanism, restricting the ability of an alternative, domestic economic elite—one whose members were had not been affiliated with the ancien régime—to emerge. The oligarchic concentration and political past of much of the new economic elite is one of the defining outcomes of the post-state-socialist transformation. This outcome—something that was hardly anticipated, let alone desired, by the framers of the regulatory environment after state socialism—is clearly the result of the specific choices pertaining to the legal and regulatory framework.

Foreign Direct Legislation

From the perspective of the international political economy of governance and corporate regulation, the European Union is, first and foremost, a global strategy for west European capital, especially multinational capital substantially rooted in western Europe with a global scope of operations. It has been a

remarkable success in terms of being able to remove tariff and other barriers among the states of western Europe, creating the world's largest single market, as well as in terms of its ability to tailor the outside environment to suit the geopolitical interests¹⁵ of west European capital and the west European states. The main purpose of its body of legal materials, in this context, is to help break down the historically staunchly protectionist institutional structures separating the nation-states of western Europe. The acquis communautaire has done so with remarkable effectiveness.

The imposition of the EU's legal and regulatory framework on the states of eastern Europe has had three main effects. First, it opened up the economies of eastern Europe to west European capital in an unprecedented manner, so that capital based in western Europe has established an overwhelming hegemony over the resources of eastern Europe in a remarkably short time, at extremely discounted costs. In a mere ten years after the collapse of state socialism, eastern Europe has been transformed into a second-rate manufacturing assembly and service center with controlling interest by west European capital. Financial dependence was partly replaced, partly augmented by investment dependence, and trade and technological dependence followed suit. Currently, Germany's share in Hungary's foreign trade is not only greater than Germany's share has ever been; it is also greater than the USSR's share had ever been during Hungary's state socialist period, including the extremely restrictive Stalinist years. Estimates concerning the share of foreign-based multinationals in Hungary's GDP run well over two-thirds, and most of the MNCs that operate in Hungary are headquartered in the European Union.

Because this part of the world has had, throughout its capitalist history a high degree of economic dependence on western Europe, this outcome has a certain, almost intimate ring of familiarity in eastern Europe, and—for the same reason—it has also revived some pre-state-socialist patterns of political resentment. Resentment was exacerbated by the remarkably condescending tone of civilisational supremacy with which EU officials, leading west European intellectuals and politicians have tended to characterise and address their east European would-be fellow EU-members. ¹⁶ Wade Jacoby (2001) has recently suggested the term “tutor-pupil relationship” to describe this particular attitude.

Second, “transposition and implementation of the acquis communautaire” turned out to be a difficult procedure—for some unexpected reasons. Contrary to some expectations, the acquis did not run into local “nationalist” or “leftover-communist” resistance; nor was there any significant transition cost in terms of the technical requirements of the change (after all, eastern Europe was part of the German-Austrian economic sphere of interest throughout its capitalist history—not to mention that, during its early industrialisation, its working class was predominantly German-speaking anyway—so that the industrial standards, statistical measurement techniques, and much of the region’s production culture is highly compatible with German and Austrian practices). The main problem that efforts at implementing the acquis ran into was that it clashed with some of the above characteristics of the post-state-socialist transformation. The property vacuum of the post-state-socialist state attracted foreign direct investors, including some from various parts of the world outside the EU as well. As a result, during the term of Hungary’s second right-wing government (in power between

1998 and 2002), the Prodi Commission felt compelled to dispatch then Competition Commissioner Monti to admonish the Hungarian leadership for keeping its economy too open, i.e., for providing tax- and other public expense-free conditions for foreign investors from anywhere, not just from the EU. That the issue is not completely settled even today is reflected in the fact that statements concerning the importance of “avoiding a race to the bottom in terms of tax legislation” regularly appear in the official communiqués from meetings between EU officials and now-EU-member Hungary’s top politicians.

The third main effect of the foreign direct legislation process—i.e., the imposition of the acquis on eastern Europe—was of course the fact that the acquis was implemented well before the completion of full membership (which is to be expected, because of the seven-year delay in labour rights—by 2011). As a result, the economies of eastern Europe entered into a period of explicit dependence on the EU perforce as early as the mid-nineties. The “Europe Agreements” stipulated a fundamentally asymmetrical relationship, in which EU-based capital would have privileged access to east European labour and other resources without similar measures on the other side. The east European economies, already shaken by their delayed and imperfect adjustment to flexible accumulation, a foreign debt crisis and various other aspects of late-state-socialist mismanagement, already weakened by the loss of much of their agricultural sector as well as the entirety of their conventional, fellow-state-socialist markets, resulting in serious plant closures in their industrial sector, and already bled by the inefficiencies of the “privatization at any cost” approach to economic regime change by their governments, had to face yet another system of “transitional”

difficulties: a distinctly subordinate relationship with the EU. The formal aspects of this arrangement will have lasted about 15-18 years for the most successful applicants, and is likely to last approximately 23 to 27 years for the currently pending applicants Romania and Bulgaria. The informal consequences are likely to last much longer.

Centrifugal Slide

The period since 1989 ushered in a new status quo in the continental order of Europe. In spite of the elimination of state socialism from the continent, the two halves of now-fully-capitalist Europe appear to be on very different capitalist trajectories indeed. For the societies of eastern Europe, the post-state-socialist period brought considerable economic hardship.

[Figure 5 about here!]

As the data in Figure 5 suggest, with the exception of Poland, all states of the region have experienced noticeable drops in their world-system position. Russia's per capita GDP has dropped to little over half of its 1989 figure, and even the region's poorest state, Albania—already in the periphery in 1989—registers a small slide downward. Poland's exceptional ability to avoid further centrifugal slide is likely to have been a function of the fact that a large part of its foreign debt was forgiven by its western lenders in 1991—a rare political step that is usually made with respect to the most impoverished, ultra-peripheral states on

the verge of a default. Although the states of eastern Europe (with the exception of by now fully peripheralised Albania) have remained, again, squarely within the semiperiphery, it is clear that they have experienced a palpable loss in their position in the world economy. The 2001 figures for Russia, Albania and Romania are lower than they had ever been since 1820, and the rest of the region's economies are also very close to their negative historical records. Mieke Meurs and Rasika Ranasinghe (2003) report a wide range of measures of the quality of life according to which eastern Europe's centrifugal slide is more pronounced than per capita GDP per se. Perhaps most striking among those are the drops in the east European states' rankings in terms of Human Development Indicator scores, computed by the UN's Development Program (Böröcz 1999).

[Figure 6 about here!]

In contrast, the economies of western Europe are more firmly entrenched in the core than ever before: By 2001, even Greece has crossed the perimeter of the core. The EU of twenty-five members is, hence a very diverse entity. The current magnitude of the within-EU differences in terms of its members' world-system position are greater than ever and, given the powerful history of the specific economic dependence of the states of eastern Europe on their west European neighbours, the situation seems to be, in some historical terms, rather unprecedented in the European Union's history. The EU's size, especially in terms of member states, brings out the uniqueness of the current situation even more

Conclusion: A Causal Structure for Change

What I have outlined in this paper is an argument in which multiple historical legacies exert their influence on contemporary outcomes through multiple “transmission” mechanisms. The hegemonic core-to-semiperiphery transfer of regulations—termed, here, foreign direct legislation—is one of the key intervening mechanisms in this model. Figure 7 summarises the structure of my argument. In this graph, straight arrows signify causal connections and curved arrows mark co-occurrences or, in more formal language, empirical correlations without necessarily implying causal directionality.

[Figure 7 about here!]

Let us start with the outcomes (included in the box on the right-hand side of the graph, labelled M). The societies of eastern Europe arrived at the doorstep of the European Union after some moderate centrifugal slide within the semiperiphery, and a clearly detectable state of dependence on the EU. As part of the economic transformation after state socialism, a very large part of the human and natural resources of the societies of eastern Europe has come under the control of foreign, especially west European, capital. Foreign capital exercises unchallenged supremacy in the east European economic policy making process. Meanwhile, whatever is left for domestic capital, is organised in a highly concentrated, clientelistic-oligarchic fashion. East European labour faces

endemic uncertainties, the reduction of protections, and recurrent cuts in the purchasing power of its remuneration. The population at large, and especially the growing dependent population, is facing neo-liberal structural adjustment policies and across-the-board cuts in social services. The political field effectively muffles class politics, silences concerns over collective consumption, and precludes any discussion of supranational solidarity, concerns with the world outside of western Europe, and global alternatives.

The global structures of capitalism (box A in Figure 7) have impacted on the developmental outcomes of eastern Europe's recent transformation partly by having produced eastern Europe's longue-durée legacies of semiperipheral world-system position and dependency (B) leading, partly, to elevated levels of informality (I), implying a causal chain of (A-B-I-M). Semiperipheral legacies have also contributed to the absence of viable geo-economic alternatives to EU-integration for eastern Europe (creating an A-B-J-M chain). Semiperipheral history also paved the way for foreign direct legislation, partly due to the lack of geo-economic alternatives (A-B-J-K-M), partly directly, through the historic linkage patterns between the economies of eastern and western Europe (A-B-K-M). The structural legacies of state socialism (C) themselves were closely related both to the general structural features of the world-system (A) and to the legacies of semiperipheral dependency (B). State socialist legacies have contributed to the fiscal crisis of the post-state-socialist state (G), that added, in turn, to the power of the post-state-socialist property vacuum (L), implying an (A-C-G-L-M) chain. The fiscal crisis also increased the post-state-socialist state's investment hunger (F), exacerbating the property vacuum further (A-C-G-F-L-M). Meanwhile, post-

state-socialist investment hunger was not only a consequence of the post-state-socialist state's fiscal crisis per se but had to do also with some other features of state socialism, correlated partly with the socialist states' world-system position, such as the out-datedness or inappropriateness of the inherited technological setup (A-C-F-L-M and A-B-C-F-L-M). The structural legacies of state socialism also contributed to the inarticulateness of the post-state-socialist critiques of state socialism—in two ways: partly through an interaction effect with the global ideological hegemony of “free-market” liberalism (E), partly due to reasons rooted in the political structures of state socialism itself (A-C-H-M and A-C-E-H-M). The interaction between the structural legacies of state socialism and the global hegemony of “free-market liberalism” also contributed to the post-state-socialist property vacuum (A-C-E-L-M) and further disabled potential resistance to foreign direct legislation (A-C-E-K-M). Meanwhile, the EU's emergence as an effective global strategy for west European capital (D)—a process that took place in interaction with the structural features of global capitalism (A), the longue-durée patterns of the world-system position of various parts of Europe (B), the structural legacies of state socialism (C) and the global hegemony of liberalism (E). The EU's emergence and solidification is likely the single most important cause of the lack of viable geo-economic alternatives for eastern Europe (J), implying causal chains as follows: (A-B-D-J-M, A-D-J-M, A-C-D-J-M, A-E-D-J-M, etc.) The EU's emergence was of course a key cause of foreign direct legislation (A-B-D-K-M, A-D-K-M, A-C-D-K-M, A-E-D-K-M, etc.).

Of course various other causal paths are also meaningful within this model, and several alternative models are likely to be no less plausible than this one. The

subdivision or addition of any intervening variable would change the structure of this graph further. It is not my purpose with this particular visual schema to imply that here we have the final word on the structural transformation of eastern Europe. Quite to the contrary: I intend it as a heuristic device whereby we can open a discussion about some aspects of the complex process of social change in Europe.

What this exercise does suggest rather clearly, I believe, is that foreign direct legislation was part and parcel to a highly complex, very-large-scale process of social change that involved the erasure of the macro-organizational anomaly of state socialism from the European continent and the re-establishment of the powerful ties that bind the east European capitalist states to western Europe via economic and political dependence. The density of the connections among the components of the graph suggests that various, apparently disparate elements of the process were in fact quite closely interwoven, implying that the post-state-socialist transformation was less under-determined than it may have appeared initially.

Foreign direct legislation is a joint product of the long semiperipheral history of eastern Europe, the emergence of the EU as a global strategy for west European capital, the lack of viable geo-economic alternatives for eastern Europe after the collapse of state socialism and the global ideological hegemony of “free market” liberalism. Foreign direct legislation’s impact on the character of new east European capitalism is modified by the fact that it occurs in the context of informality. This has the capacity to deflect the organisational effects of many of the regulations included in the acquis. One interesting aspect of the informally

mediated imposition of the acquis was exemplified in the way in which some elements in the Hungarian government were visibly shaken when they learnt that Germany would not grant an ad hoc exemption from the seven-year ban on east European labour's mobility to Hungarian citizens, indicating that the expectation of such an informal deal on "back door" access was part of the Hungarian government's understanding when it closed the accession negotiations that included the ban in the first place.

Property vacuum also modifies the east European impact of the acquis so that, to some extent, non-EU-based capital is also allowed to benefit from the tax advantages of the post-state-socialist context. Increasing the power of the EU, on the other hand, is the lack of geo-economic alternatives (which, because of the collapse of the Russian economy and the distance of the non-European parts of the core of the world economy, would drive east European states to the west European system of integration even if they had not had a longue-durée history of dependence on western Europe) and the pervasive "free-market" neo-liberal critique of state socialism that portrays the recent past of the region as a civilisational failure in toto.

So, what was the impact of foreign direct legislation in eastern Europe? It made the east European economies, clearly, compatible with the requirements of membership in the EU. Because the societies that were opened up in this way are also significantly poorer than the now-entirely core-power EU, because they are vastly less powerful in global terms than the EU (the largest single market in the world economy), and because they have histories of dependence on some states that now constitute the EU, the dependence that had emerged is extremely

asymmetrical. Eastern Europe's post-state-socialist capitalism has become, at the same time, much more liberal than the EU's centre of gravity, creating an interesting new tension within the EU in terms of models of capitalism. The social, economic and cultural role of the east European states is reduced very substantially, and in the few areas in which it has retained some functions, its capacity to act is diminished significantly. Whether membership in the EU will move the societies of eastern Europe closer to, and eventually into, the core, as it did with the initially semiperipheral states of western Europe a good two-three decades before, is a wide open question, and we shall not be able to answer it until quite some time after the establishment of full formal rights for eastern European labour (i.e., after 2011). Until then, we are left contemplating the global viability of the externally dependent, neo-liberal model of capitalism in the semiperiphery.

Figure 1. World-System Position of the States of Eastern Europe & Russia before State Socialism, Select Years 1820-1950 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)

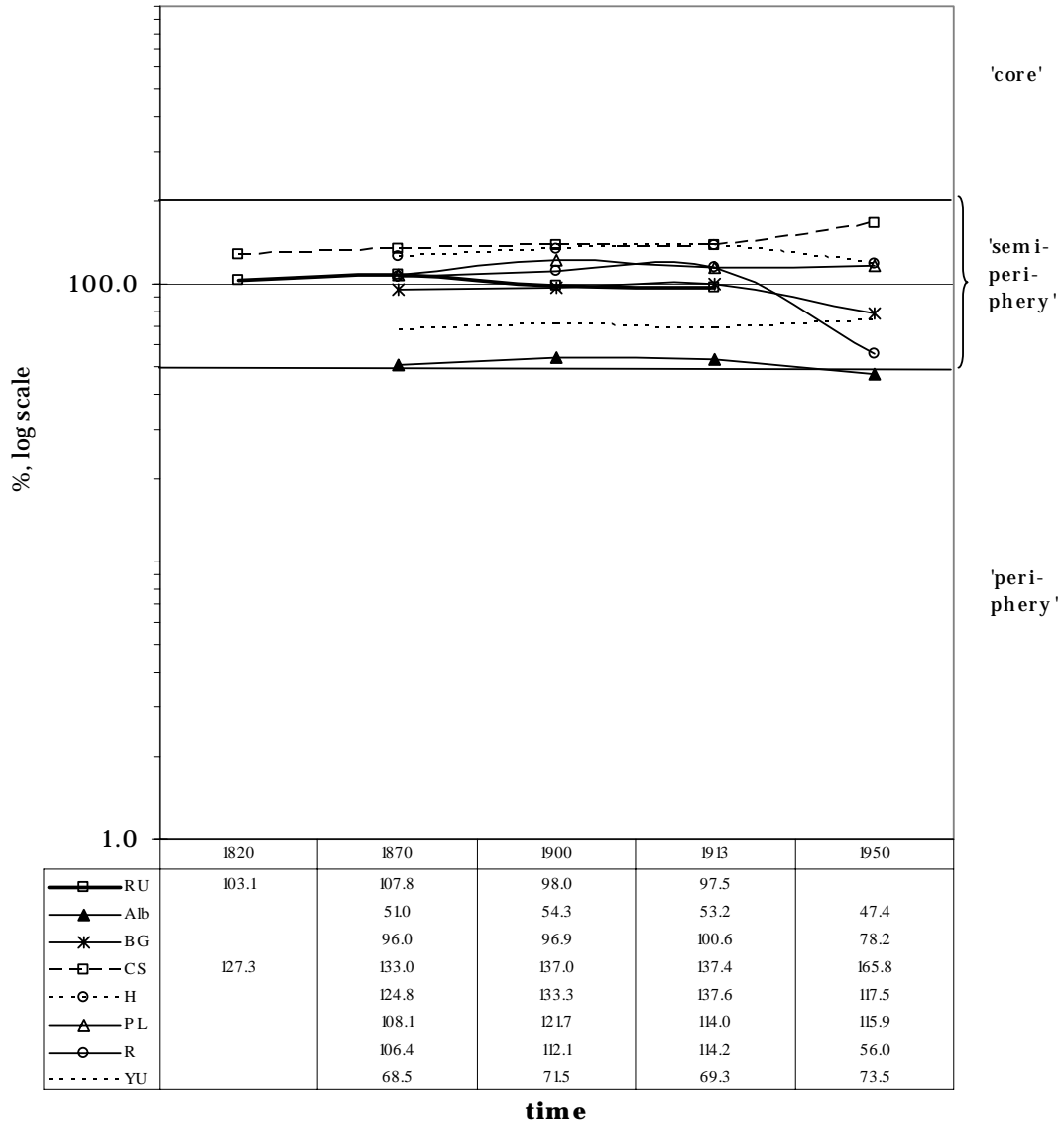
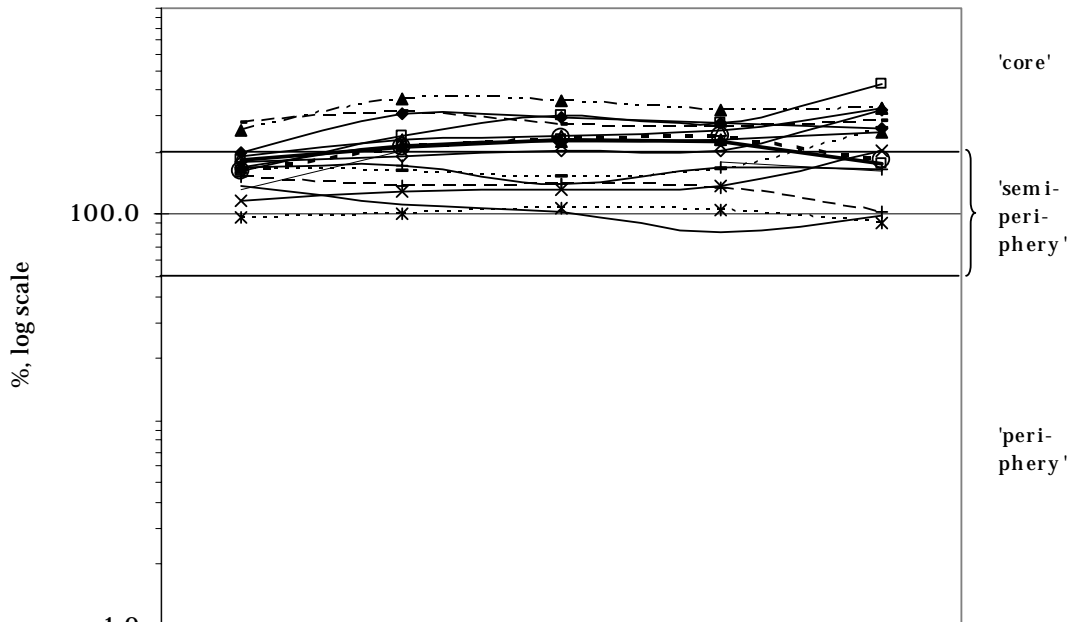


Figure 2. World-System Position: States of Western Europe, Select Years 1820-1950 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)



| | 1820 | 1870 | 1900 | 1913 | 1950 |
|---------|-------|-------|-------|-------|-------|
| —□— A | 182.6 | 212.9 | 228.3 | 227.2 | 175.5 |
| —◆— B | 197.7 | 307.6 | 295.6 | 276.7 | 258.7 |
| —△— DK | 190.9 | 228.9 | 239.0 | 256.5 | 328.8 |
| —×— SF | 117.1 | 130.2 | 132.2 | 138.4 | 201.4 |
| —▲— F | 170.2 | 214.4 | 227.8 | 228.5 | 249.7 |
| —○— D | 161.4 | 210.2 | 236.5 | 239.2 | 183.8 |
| —+— I | 167.5 | 171.4 | 141.4 | 168.1 | 165.9 |
| —- - NL | 275.6 | 315.1 | 271.2 | 265.5 | 284.0 |
| —· - N | 165.5 | 163.7 | 153.5 | 164.0 | 258.8 |
| —◇— S | 179.7 | 189.9 | 202.9 | 203.0 | 319.2 |
| —□— CH | 163.4 | 240.2 | 303.7 | 279.7 | 429.3 |
| —▲— UK | 255.8 | 364.6 | 355.9 | 322.7 | 328.7 |
| —+— IRE | 131.6 | 202.9 | | 179.4 | 163.5 |
| —×— GR | 96.1 | 100.6 | 107.0 | 104.4 | 90.7 |
| —+— P | 138.4 | 111.4 | 103.2 | 82.0 | 98.8 |
| —+— E | 151.1 | 138.0 | 141.5 | 134.8 | 103.7 |

time

Figure 3. World-System Position of the States of Eastern Europe & Russia during State Socialism, Select Years, 1950-1989 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)

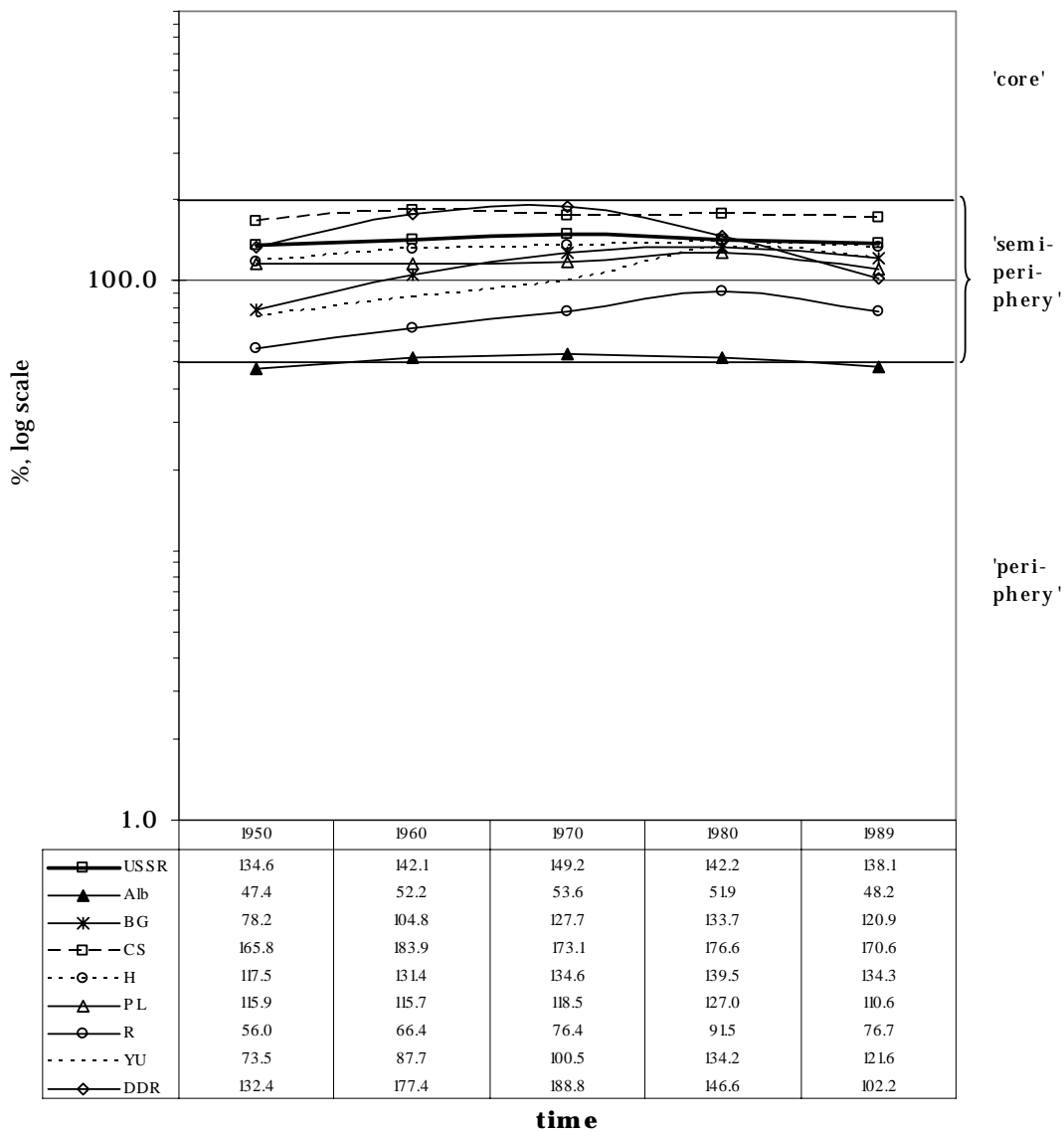
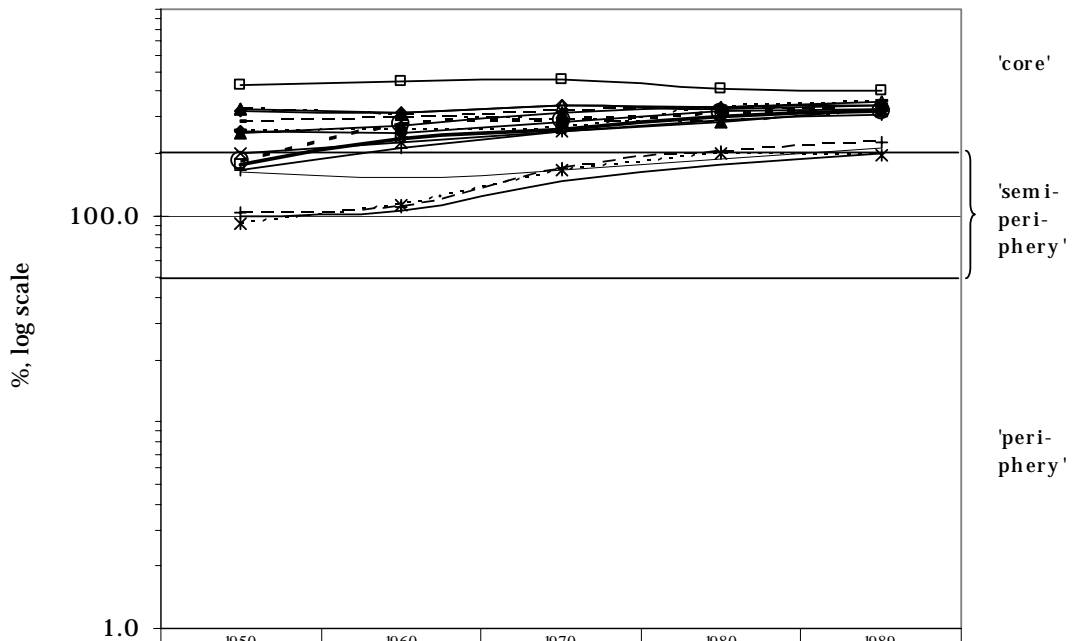


Figure 4. World-System Position: States of Western Europe, Select Years 1950-1989 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)



| | 1950 | 1960 | 1970 | 1980 | 1989 |
|--------|-------|-------|-------|-------|-------|
| —□— A | 175.5 | 234.7 | 260.9 | 304.4 | 318.5 |
| —◆— B | 258.7 | 250.3 | 284.0 | 320.1 | 325.7 |
| —△— DK | 328.8 | 317.3 | 339.5 | 336.9 | 355.3 |
| —×— SF | 201.4 | 224.3 | 256.3 | 286.5 | 329.7 |
| —▲— F | 249.7 | 271.7 | 312.2 | 334.2 | 344.9 |
| —○— D | 183.8 | 277.4 | 290.1 | 312.3 | 322.1 |
| —+— I | 165.9 | 213.0 | 258.0 | 290.9 | 310.7 |
| —- NL | 284.0 | 298.4 | 320.3 | 325.3 | 324.8 |
| —·- N | 258.8 | 259.5 | 268.5 | 334.7 | 353.6 |
| —◇— S | 319.2 | 312.8 | 340.3 | 330.5 | 342.3 |
| —□— CH | 429.3 | 448.5 | 452.4 | 415.5 | 407.2 |
| —▲— UK | 328.7 | 311.3 | 288.2 | 286.1 | 319.3 |
| —IRE | 163.5 | 154.2 | 165.9 | 189.0 | 211.7 |
| —·- GR | 90.7 | 113.3 | 166.2 | 198.5 | 196.2 |
| —P | 98.8 | 106.4 | 146.5 | 178.0 | 201.8 |
| —+— E | 103.7 | 110.6 | 169.1 | 203.6 | 225.3 |

time

Figure 5. World-System Position of the States of Eastern Europe & Russia after the Collapse of State Socialism, Select Years, 1989-2001 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)

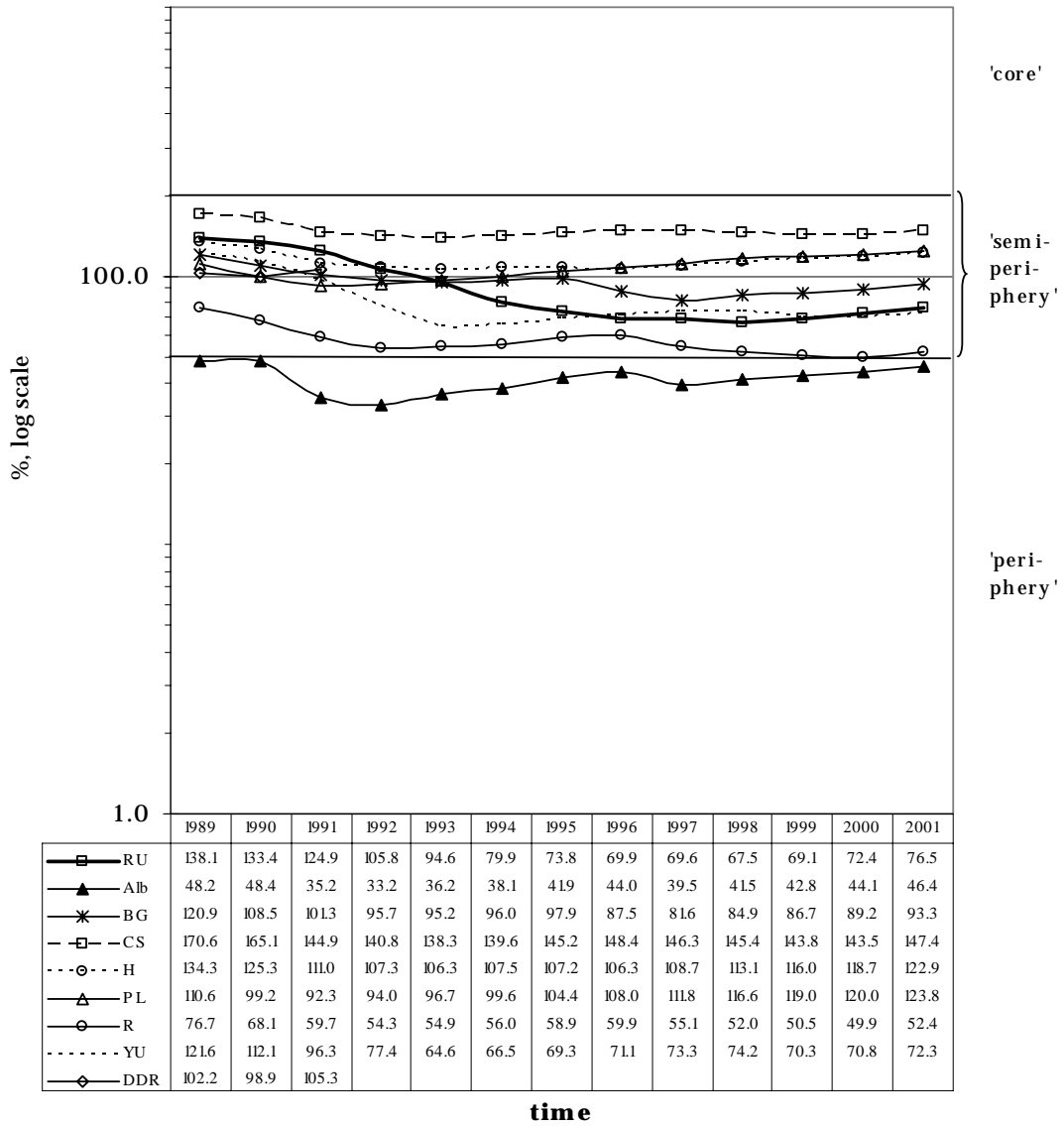
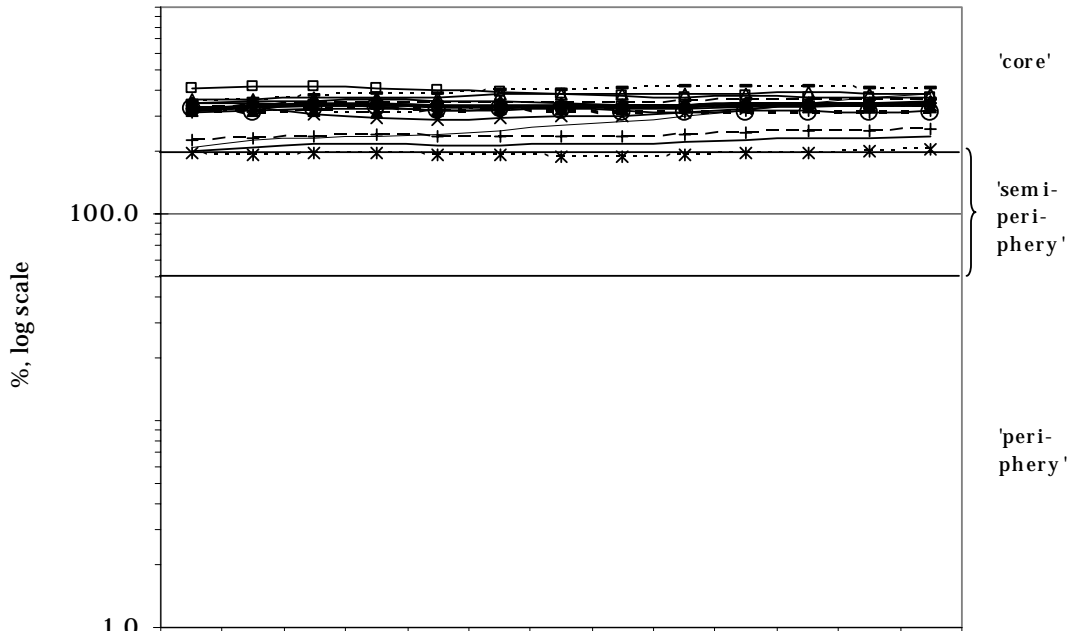


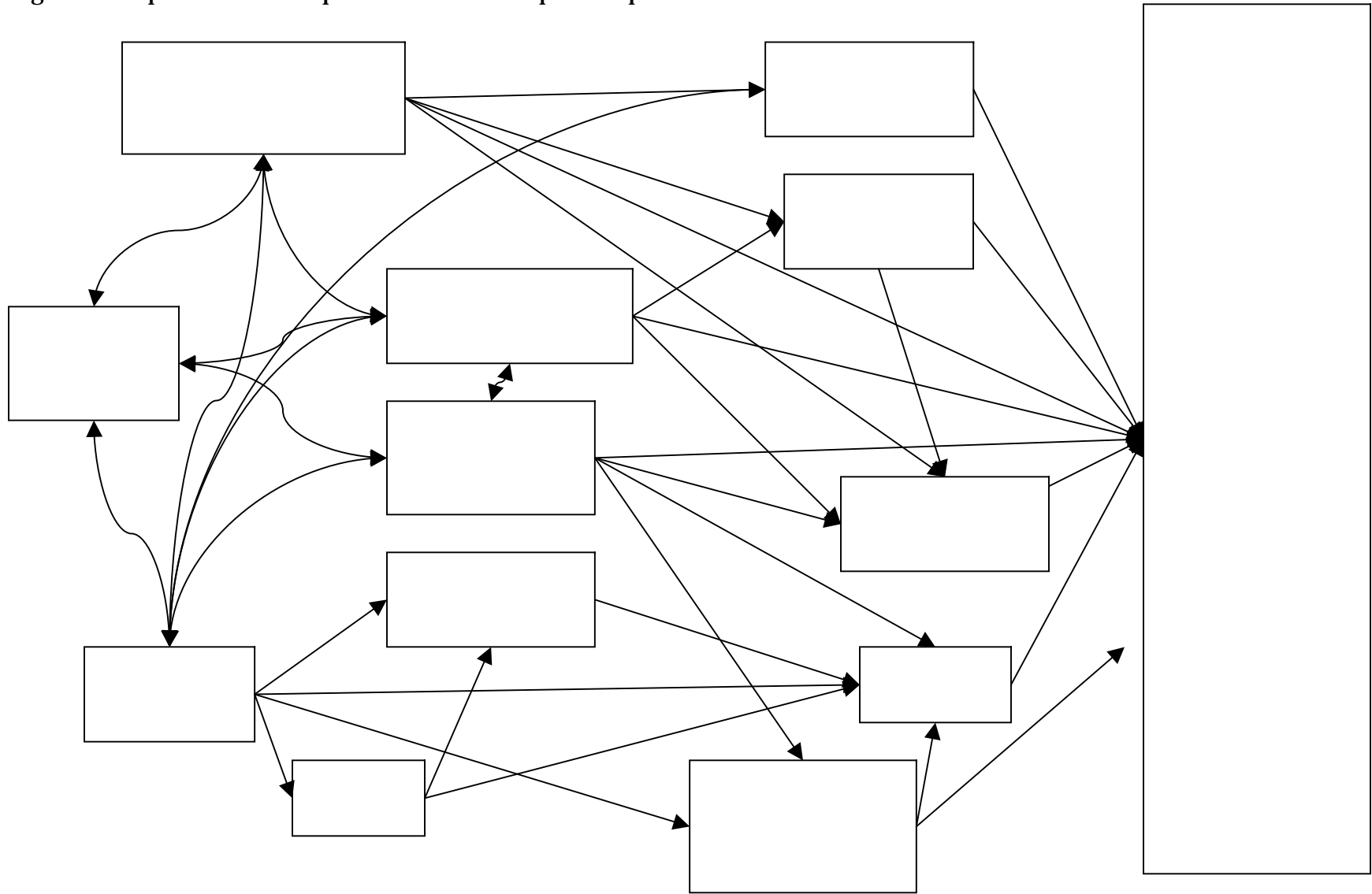
Figure 6. World-System Position: States of Western Europe, Select Years 1989-2001 (Per Capita Geary-Khamis GDP [PPP] as % of World Mean; computed from Maddison 2003; borders as of 1948-1989.)



| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| —□— A | 318.5 | 327.8 | 336.6 | 335.6 | 332.2 | 332.5 | 332.2 | 330.1 | 326.4 | 333.5 | 335.5 | 334.3 | 334.4 |
| —●— B | 325.7 | 333.5 | 340.6 | 343.4 | 335.0 | 337.4 | 339.0 | 334.2 | 336.8 | 339.9 | 342.8 | 345.0 | 345.9 |
| —△— DK | 355.3 | 357.8 | 363.6 | 365.6 | 365.3 | 377.7 | 382.3 | 380.3 | 380.6 | 384.3 | 384.5 | 382.7 | 382.9 |
| —×— SF | 329.7 | 327.1 | 306.4 | 293.5 | 287.0 | 291.4 | 295.7 | 299.3 | 309.6 | 321.7 | 327.7 | 336.6 | 336.3 |
| —▲— F | 344.9 | 350.9 | 354.0 | 355.8 | 348.5 | 347.0 | 344.6 | 338.7 | 335.2 | 341.6 | 344.8 | 346.1 | 348.7 |
| —○— D | 322.1 | 308.9 | 323.5 | 327.0 | 319.4 | 319.6 | 318.0 | 312.0 | 308.1 | 310.6 | 310.1 | 309.3 | 308.8 |
| —+— I | 310.7 | 316.4 | 322.3 | 322.9 | 317.1 | 317.1 | 319.7 | 315.0 | 312.7 | 314.5 | 313.3 | 311.7 | 314.8 |
| —-— NL | 324.8 | 334.8 | 341.4 | 344.5 | 342.8 | 344.6 | 344.0 | 344.3 | 347.0 | 355.8 | 360.1 | 359.1 | 359.1 |
| —·-·- N | 353.6 | 358.1 | 369.3 | 377.7 | 383.5 | 394.5 | 399.9 | 407.4 | 413.7 | 416.5 | 410.7 | 405.2 | 406.4 |
| —◇— S | 342.3 | 343.2 | 338.6 | 330.3 | 319.3 | 324.4 | 327.9 | 322.4 | 320.8 | 328.4 | 336.6 | 338.0 | 339.9 |
| —□— CH | 407.2 | 416.6 | 410.2 | 403.5 | 395.6 | 387.1 | 379.2 | 369.7 | 365.9 | 369.7 | 367.8 | 366.3 | 368.1 |
| —▲— UK | 319.3 | 318.6 | 314.4 | 312.3 | 316.8 | 323.3 | 324.9 | 324.3 | 326.4 | 330.9 | 330.9 | 329.6 | 332.8 |
| — IRE | 211.7 | 229.2 | 233.2 | 238.3 | 241.9 | 249.8 | 268.2 | 280.5 | 300.2 | 318.8 | 342.7 | 366.2 | 383.6 |
| —*— GR | 196.2 | 193.7 | 198.2 | 197.4 | 192.0 | 191.3 | 191.1 | 190.5 | 192.2 | 196.0 | 198.5 | 200.3 | 206.8 |
| — P | 201.8 | 209.9 | 216.2 | 219.5 | 214.9 | 215.5 | 217.3 | 219.3 | 222.0 | 229.1 | 232.4 | 233.2 | 235.2 |
| —+— E | 225.3 | 233.8 | 239.6 | 239.7 | 235.1 | 235.4 | 236.9 | 236.4 | 239.8 | 247.0 | 252.1 | 254.0 | 258.9 |

time

Figure 1. Dependent Development in East European Capitalism after 1989



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Notes

¹ Computed from Maddison, 2003.

² In 1913, the width of the spread of the scores for western Europe was cca 240% of the world mean per capita GDP (see Figure 2).

³ In 1913, eastern Europe's range was only 63.4% (see Figure 1).

⁴ The decennial results for the European economies of the state socialist bloc, for the period of 1950 through 1989, are as follows: 118.4%, 131.7%, 119.5%, 124.8% and 122.4% (see Figure 3).

⁵ The difference between the wealthiest and least wealthy west European state decreased from an initial 338.5% in 1950 to 211.% in 1989 (see Figure 4).

⁶ For a more detailed discussion of the effects of small size on the proclivity toward informality, see Böröcz 2000a.

⁷ See, e.g., Böröcz 1992a, 1992b, 1993a, 1993b, 2000a, and 2000b.

⁸ http://www.sociology.columbia.edu/people/faculty/stark/papers/career_narrative.pdf .

⁹ It is this feature of the late-socialist economy that Eyal-Szelényi-Townsley project (1998) formalized in the concept of post-state-socialist 'managerialism.' During the initial period of state socialism in eastern Europe—from the late 1940s to the early 1970s in Hungary and Poland and until much later elsewhere—the socialist state also insisted on using bureaucratic, top-down command methods in managing the economy. The Yugoslav worker-self-management scheme was one, early departure from this bureaucratic form of management and the essence of the economic reforms during the mid-sixties through the late seventies was basically about a move from a proprietor (i.e., state-)controlled mechanism to a sort of managerial socialism, a system whereby

managers exercised increased control over somebody else's—the socialist state's—property.

¹⁰ This is of course a simple reversal of the great socialist philosopher Georg Lukács' famous—apocryphal—dictum according to which “the worst socialism is better than the best capitalism.” Adding to the irony is the fact that the new Enterprise Law—enabling the transformation of state-owned enterprises to joint stock companies and, hence, opening them up for private ownership—was accepted with a commanding majority in the last state socialist parliament, i.e., an institution whose legitimacy was severely questioned in the post-state-socialist transformation.

¹¹ **1989. évi XIII. Törvény a gazdálkodó szervezetek és a gazdasági társaságok átalakulásáról**, 2. § (1) e),

<http://www.1000ev.hu/index.php?a=3¶m=8611>

¹² The first post-state-socialist government, of center-right-nationalist-Christian orientation, that was in power in Hungary during 1990-1994.

¹³ The interviewee's first such business venture.

¹⁴ Ferenc and Gyurcsány, 1996 [2004]. Readers closely familiar with the Hungarian context will recognize the contemporary irony of this interview: The interviewee—one of the most successful Hungarian businessmen during the late 1990s, a former national secretary of the Youth Communist League who obtained his wealth through informal contact in the domestic privatization process and shielded it from taxation by channelling it through a number of off-shore companies registered in Luxembourg—is Hungary's Socialist Prime Minister, recently billing himself as a “left alternative” to his

predecessor (who himself was a former CEO of the east European affiliate of the largest French bank).

¹⁵ For more on this, see Böröcz and Sarkar, forthcoming.

¹⁶ For a detailed analysis of the EU's discourse with respect to 'eastern enlargement', see also Böröcz 2000c, the papers included in Böröcz and Kovács 2001 and Kuus 2004.