PART V

Policy issues and policy choices
Introduction

It was not before the late 1990s that the diversity of post-socialist political economies became a major issue for scholars studying Eastern Europe. Before that time discussions had been dominated by the essential problems the East European countries had to master in order to transition from a planned to a market economy. Implicitly or explicitly, the literature assumed that there were best practices for this endeavour. As a consequence, Eastern Europe’s new market economies were considered to differ in degree rather than in kind. Countries were ranked according to how close they came to the ideal of a market economy without further qualification, characterised by private property rights, and liberalized financial, capital, and labour markets, as well as free foreign trade.

This “transition paradigm” (Stark 1994) has, however, been challenged, as it became increasingly clear that despite partly similar reforms, post-socialist countries exhibit significant differences in the organisation of the economy, production profile, skill level of their populations, social security systems, and state capacities. Thus, for instance, in the eyes of many Russia has morphed into a typical “petrol state” (Karl 1999), while the four Visegrád countries Poland, the Czech Republic, Slovakia, and Hungary have turned into veritable “manufacturing miracles” (Bohle and Greskovits 2012: 161), which increasingly compete with advanced capitalist countries in complex industrial segments. The second section of this chapter will take a closer look at the East European varieties of capitalism identified in the literature. 1 It will show that the literature offers a large number of classifications, but there is also agreement that a deep dividing line exists between capitalism in the former republics of the Soviet Union (with the exception of the Baltic states), and the East Central European (ECE) countries. Further distinction are often made between resource-rich and manufacturing-based former Soviet republics and between capitalisms in the Baltic and the Visegrád countries. 2

The literature has identified three major explanations for this capitalist diversity after the breakdown of communism: legacies and path dependency, early economic and social reforms, and international integration. While most approaches focus only on one of these explanations, in the third section of the chapter I will argue that it is precisely the combination of all these
factors that explain capitalist diversity in Eastern Europe. The fourth section assesses the merits of the research agenda on East European varieties of capitalism and points to directions for future research.

The worlds of East European capitalism

During the first decade after the breakdown of socialism, transition research mostly focused on essential problems of liberalisation, privatisation, and the building of capitalist institutions, and it ranked countries according to how close they came to the ideal of a Western-type market economy. By the end of the 1990s, however, it became clear that transition had resulted in rather different types of capitalism. Drawing on diverse theoretical traditions, authors started to compare East European capitalisms with each other. This section gives an overview over existing approaches and typologies.

Neoclassical sociology

The earliest systematic comparative analyses of East European capitalisms develop what Eyal, Szelényi and Townsley (1998) call a neoclassical sociological perspective. As they explain,

[n]eoclassical sociology, much like the classics of sociological theorizing, will primarily be concerned with the origins and character of modern capitalism. With the fall of communism, however, there is an important shift in emphasis. For Marx and Weber, the question was: what are the preconditions which give rise to modern capitalism? . . . Neoclassical sociology is less concerned with preconditions. . . . What neoclassical sociology emphasizes is the diversity of modern capitalism – in short the subject matter of neoclassical sociology is comparative capitalism.

Drawing on Szelényi’s earlier work on class power under socialism (Konrád and Szelényi 1979, Szelényi 1988), and more broadly on classical notions of capital and class as developed by Marx, Weber, and Bourdieu, this perspective argues that what sets East European capitalism apart from its Western counterpart is that it is created without capitalists. The question then is who the new capitalists are, and which resources they build on. Eyal et al. (1998) identified a dividing line between East Central Europe and the former Soviet republics. In ECE, the former technocracy in alliance with intellectuals successfully transformed their inherited cultural capital into economic capital and thus became top of the new capitalist hierarchy. However, “the former communist technocracy do not hold ultimate decision making powers as owners, . . . rather they exercise power as experts and managers” (Eyal et al. 1998: 14). Hence, in this part of the post-socialist world, marketisation outpaced the creation of a private propertied class and thus a managers’ “capitalism without capitalists” emerged. Later work argues that subsequently, foreign capitalists were invited to become the new owners, and the variety of capitalism was called liberal capitalism (King and Szelényi 2005, King 2007, Szelényi 2015). In contrast, the former Soviet republics exhibited the opposite mismatch. Here, new “capitalists” expropriated state property “without capitalism,” that is, before all the core institutions of a market economy were put in place (Eyal et al. 1998: 4–5). Thus, the former nomenklatura was busy liberalizing and privatizing the economy and turning it into an economic opportunity for itself and its clients. This form of capitalism is labelled political
capitalism, patrimonial capitalism, or capitalism from above (King and Szélényi 2005, Szélényi 2015, see also Robinson 2013).

The most encompassing typology of East European capitalism building on the conceptual tools developed by Szélényi et al. is that by Norkus (2012). Norkus distinguishes between a rational entrepreneurial capitalism in the Baltic states, Visegrád countries and Slovenia; a political oligarchic capitalism in some Central Asian countries, Russia, Ukraine, and the Eastern and Western Balkans; and a state capitalism in Belarus, Uzbekistan, China, and Vietnam.

While accounts of East European varieties of capitalisms developed by Szélényi et al. focus on the trajectory of various elites who convert their endowed capital into new forms of capital and power, another early influential approach that also falls into the neoclassical sociological paradigm concentrates on networks and informal structures and asks about how these influence the new capitalist institutions (Stark and Bruszt 1998, Stark and Grabher 1997, Chavance 2008, for a recent analysis see Schoenman 2014). Arguably, however, the major contribution of this approach is not so much the identification of different types of capitalism within Eastern Europe. Rather, especially the early work in this tradition compares selected East Central European countries with the aim of identifying a “distinctively East European variant of capitalism” (Stark and Bruszt 1998: 4). The major claim is that informal structures and networks that had emerged as a reaction to the inadequacies of state socialism and in the early phase of post-socialism have left their distinctive marks on East European capitalisms. Different ECE countries exhibit different networks. However, beneath these differences lies a commonality: economic coordination in these capitalisms is based neither on markets nor hierarchies, but on networks.

“Varieties of Capitalism” travels east

During the second half of the 2000s, the influential “Varieties of Capitalism” (VoC) research agenda as developed by Hall and Soskice (2001) increasingly superseded the neoclassical approach to East European comparison. Hall and Soskice distinguish between a liberal market economy (LME), which is characterised by the prevalence of market relations in capitalisms’ core institutions, and a coordinated market economy (CME) which relies on consensual and cooperative relations between major economic actors. Furthermore, Hall and Soskice argue that in each capitalist model, institutions are complementary in the sense that the efficiency of one institution is reinforced by the functioning of other institutions.

A number of authors have tested whether Hall and Soskice’s classification can be transferred to Eastern Europe (for an overview see Bluhm 2010, the contributions in Lane and Myant 2007, King 2007, Mykhnenko 2007, Feldmann 2007, Crowley and Stanojević 2011). Thus, Feldman (2007) and Buchen (2007) were among the first to suggest that two tiny countries on Eastern Europe’s western rim – Estonia and Slovenia – are clear cases of LMEs and CMEs respectively, even if they do not fit the models in all respects. Other western rim countries however do not seem to fit as neatly the Hall and Soskice typology. Some authors, for instance, classify Poland, Hungary, and Bulgaria as liberal capitalisms (e.g. Knell and Srholec 2007), while others see Hungary, Poland, and the Czech Republic much closer to the CMEs (e.g. Lane 2007). Mykhnenko (2007) argues instead that post-communist countries are best analysed as mixed-market economies with weak coordination capacity.

An original application of the VoC framework to Eastern Europe was developed by Nölke and Vliegenthart (2009). Departing from a more complex reading of the VoC literature, and...
also drawing on dependency theory (Cardoso and Faletto 1979, Schneider 2009), they add a
third category – the dependent market economy (DME) – to the original classification, and
demonstrate its presence in the Visegrád region. In Nölke and Vliegenthart’s view, the Visegrád
economies are largely coordinated by transnational corporations (TNCs). Taking advantage of
an abundance of skilled labour, TNCs have turned these economies into export platforms of semi-
standardised industrial goods.

Another interpretation of ECE’s dependent capitalism draws on more heterodox approaches,
especially the French Regulations School (Aglietta 2000, Boyer 2000). Becker and Jäger (2010,
2012, see also Becker et al. 2010) introduce an important difference between “dependent indus-
trialisation”, which is characteristic for the Visegrád countries and Slovenia, and “dependent
financialisation”, characteristic for the Baltic states and to a lesser degree Romania and Bulgaria.
This difference is crucial for understanding the growth patterns during the 2000s and also the
different crisis experiences in Eastern Europe (Becker and Jäger 2010, 2012, Becker et al. 2010,
Myant and Drahokoupil 2012, Bohle and Greskovits 2012).

Polanyian varieties of capitalism

As the preceding section shows, a number of authors posit that it is possible to analyse some
features of Eastern Europe’s most successful and advanced capitalist political economies with
the VoC approach. In this view, the difficulty of classifying countries is not unique to Eastern
Europe, as witnessed by the rich literature on “mixed market economies” (Molina and Rhodes
2007), “state capitalism” (Schmidt 2003), or the identification of several instead of two varieties
of capitalism (Amable 2003) for advanced capitalist economies. A number of authors, however,
doubt the usefulness of the VoC approach for analysing East European capitalisms. An important
alternative is articulated by Bohle and Greskovits (2007a, 2007b, 2012).

Bohle and Greskovits argue that a major flaw in the VoC literature is that it does not take
cognizance of the fact that Hall and Soskice’s approach has explicitly been developed for
advanced capitalist economies, and that it is an open question in how far it can be simply trans-
posed to peripheral societies. A second criticism relates to the fact that all attempts at applying
the original or enlarged VoC concept to Eastern Europe suffer from VoC’s shortcomings when
it comes to understanding the emergence of institutions; a crucial issue in post-socialist econo-
 mies where the market order has only recently taken shape and its consolidation cannot yet be
taken for granted. In the context of the radical change that has occurred across the region, the
origins of the post-socialist order must partly be located outside of the realm of existing insti-
tutions. Any meaningful conceptualisation of the new configurations must therefore include
propositions about transformative political agents and their interplay with transnational and
supranational actors.

Bohle and Greskovits (2007a, 2012) propose an alternative, Polanyian approach to studying
ECE varieties of capitalism. Building on Karl Polanyi’s (1957 [1944]) idea of the development of
capitalism as a conflictual double movement towards liberalisation and social protection, they clas-
sify the new regimes according to the vigour with which and the forms in which transformative
actors have used state power to build market economies pursuing the goals of liberalisation, and
to simultaneously preserve social cohesion and political legitimacy in line with the agendas of
welfare capitalism and industry protection. Concretely, they trace the emergence of three capi-
talisms: a neoliberal type in the Baltic states, Romania and Bulgaria; an embedded neoliberal type
in the Visegrád countries and Croatia; and a neo-corporatist type in Slovenia.
Varieties of capitalism in Eastern Europe

Sectoral varieties of capitalism

A number of authors have taken Eastern Europe’s increasing international openness and integration as an analytical starting point for their inquiry and ask how concrete forms of international integration have shaped the new capitalist order. To answer this question, they draw on a diverse body of developmental theories and develop them into comparative capitalism frameworks. One early influential formulation stems from Greskovits (2005). Combining sectoral political economy (Shafer 1994) and world system theory (Wallerstein 1979, Gereffi 1996), he analyses the leading industrial sectors through which a number of East Central European countries have been integrated in the international economy. Greskovits identifies four “sectoral varieties of capitalist political economies”. The heavy basic sectoral political economy originates from state socialisms’ specific industrialisation path in heavy industries. The light basic sectoral political economy is populated by traditional labour-intensive industries, such as textile and clothing. The heavy complex political economy is the result of foreign direct investment penetration in a number of capital intensive industrial sectors that rely on skilled labour and sophisticated production methods, such as car, pharmaceuticals machinery, or chemistry. Finally, the light complex political economy, made up of relatively skilled but labour-intensive leading sectors, such as the electronics sector, has also emerged as a result of trans-nationalization strategies of foreign companies. While these sectoral varieties of capitalism was developed for the new EU member states, with the Visegrád countries being characterised by different complex leading sectors, and the Baltic states, Romania and Bulgaria by basic ones, Bohle and Greskovits (2007b) extended this framework to a number of former republics of the Soviet Union characterised by a traditional peripheral insertion in the world economy, where international integration is shallow, and trade is overwhelmingly based on raw material exports and industrial goods imports.

The most comprehensive mapping of East European capitalisms from a sectoral political economy perspective to date is the one proposed by Myant and Drahokoupil (2011). They distinguish complex product exporters, financial flow dependent economies, commodity exporters, and remittance- and aid-based economies, and analyse the institutional requisites that account for the different insertion in international markets. Thus, political and social stability, a functioning legal and business system, as well as a pool of skilled labour has allowed the Visegrád and Slovenia’s unique complex specialisation, and these institutional features have been reinforced by the EU accession and the geographic proximity to Germany. These features were present to a somewhat lesser extent in the Baltic states, Romania, and Bulgaria, which consequently exhibit lower competitiveness and a stronger dependence on financial flows. Competition in commodity markets, especially gas and oil, allows substantial earnings without requiring institution-building, and therefore often works at the expense of other export sectors. This also reflects the interests of oligarchs who built their wealth from resource exports, and are not concerned with developing other segments of the economy. Russia and a number of Central Asian countries have followed this path. Finally, a few countries have not developed the capacity to build an economic system that would allow them to generate significant resources other than from remittances. Myant and Drahokoupil also complement this taxonomy with an analysis of welfare state configurations and the enterprise sector. Based on all of this, they distinguish five East European varieties of capitalism: FDI-based; peripheral market economies; oligarchic-clientelistic capitalism; order states; and remittance-based economies.

Taken together, the literature offers a wide array of typologies, and diverse set of criteria that allow to distinguish between East European capitalisms. Table 20.1 summarises the main approaches and typologies.
### Table 20.1 Typologies of East European varieties of capitalism

<table>
<thead>
<tr>
<th>Approach</th>
<th>Types</th>
<th>Distinguishing variables</th>
<th>Geographical scope</th>
<th>Main authors</th>
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</thead>
<tbody>
<tr>
<td>Neoclassical sociology</td>
<td>Liberal vs. patrimonial capitalism</td>
<td>Elite’s conversion of endowed capital into new forms of power and capital</td>
<td>Selected fSU and ECE countries</td>
<td>Iván Szélényi, Lawrence King</td>
</tr>
<tr>
<td></td>
<td>Rational-entrepreneurial; political-oligarchic, and state capitalism</td>
<td>Origin of entrepreneurs, state-entrepreneur relationship</td>
<td>Entire post-socialist world</td>
<td>Zenonas Norkus</td>
</tr>
<tr>
<td></td>
<td>East European “network capitalisms”</td>
<td>Characteristics of networks between economic and political actors</td>
<td>Selected ECE countries</td>
<td>David Stark, László Bruszt, Roger Schoenman</td>
</tr>
<tr>
<td>VoC</td>
<td>Liberal vs. coordinated Mixed market economies</td>
<td>Coordinating mechanisms</td>
<td>Selected ECE countries, sometimes selected fSU</td>
<td>Martin Feldmann, David Lane, Martin Myant, Vlad Mykhnenko</td>
</tr>
<tr>
<td></td>
<td>Dependent market economy</td>
<td>Coordinating role of transnational capital</td>
<td>Visegrád countries</td>
<td>Andreas Nölke, Arjan Vliegenthart, Joachim Becker, Johannes Jäger</td>
</tr>
<tr>
<td></td>
<td>Dependent industrialisation vs dependent financialisation</td>
<td></td>
<td>Visegrád vs. Baltic states</td>
<td></td>
</tr>
<tr>
<td>Polanyian varieties of capitalism</td>
<td>Neoliberal, Embedded neoliberal, neo-corporatist</td>
<td>Confictual double movement towards liberalisation and social protection</td>
<td>All ECE countries</td>
<td>Dorothee Bohle, Béla Greskovits</td>
</tr>
<tr>
<td>Sectoral political economy</td>
<td>Heavy basis, light basic, heavy complex, light complex</td>
<td>Characteristics of the leading export sector</td>
<td>ECE countries</td>
<td>Béla Greskovits</td>
</tr>
<tr>
<td></td>
<td>FDI – based; peripheral market economies, oligarchic clientelistic capitalism, order states, and remittance- or aid-based economies</td>
<td>Leading export sector and other forms of external revenues</td>
<td>Whole post-socialist world</td>
<td>Jan Drahokoupil, Martin Myant</td>
</tr>
</tbody>
</table>

### Explaining East European varieties of capitalism

The literature has developed a number of explanations for the capitalist diversity in Eastern Europe. Authors have focused on historical legacies, and argued that these have shaped the paths post-communist states could embark on. Early reform choices constitute a second important explanation, while a third explanation looks at the form of international embeddedness. While different authors typically focus on one of these explanations, I will combine them into an encompassing explanatory framework.³
Varieties of capitalism in Eastern Europe

**Legacies and path dependency**

Legacy explanations of East European capitalist diversity originate in the early research agenda formulated by evolutionary and institutional approaches to transformation (Chavance and Magnin 1997, Stark 1994, Stark 1996, Stark and Grabher 1997, Stark and Bruszt 1998). Arguably the most influential formulation is that of Stark, who outlined his research agenda as follows:

instead of transition we examine transformation, in which the new emerges through adaptations, rearrangements, permutations and reconfigurations of existing organizational forms. Instead of institutional vacuum we examine institutional legacies rethinking the metaphor of collapse to ask whether differences in how the pieces fell apart have consequences for rebuilding new institutions.

*(Stark 1994: 3)*

The major contributions of this research agenda has been to “bring history back” into the transformation debate. East European transformations are seen as path-dependent, in that the development paths a system could embark on was limited by inherited institutional and organisational legacies, and that different societies followed different development paths. Instead of moving towards one “optimal” model of market economy, path dependency also suggests multiple ways or national trajectories.

The views on which legacies matter and how for capitalist diversity differ (Beissinger and Kotkin 2014). Stark and Bruszt (1998, see also Stark and Grabher 1997, Schoenman 2014) look at how informal structures and networks that had emerged as a reaction to the inadequacies of state socialism have been put to use during the phase of transition, and how this has shaped the developmental potential and institutions of the new capitalisms. Others focus on the differences among socialist systems (e.g. Chavance and Magnin 1997). They argue that countries with reform socialist legacies – such as Hungary, former Yugoslavia or Poland – allow the incorporation of past elements in the capitalist system, whereas more orthodox legacies required a cleaner break with the past. Bohle and Greskovits (2012) and Greskovits (2014) stress the importance of socialist and pre-socialist industrialisation, state- and nation-building. These legacies favoured the ECE countries over the rest of the post-socialist world. ECE countries had the longest history of industrial development, as well as longer or shorter spells of independent statehood and democratic regimes. All of this enabled their capitalist breakthrough, compared to the much more problem-ridden patrimonial capitalism further east. Thus, whereas the former Soviet republics have mostly been constrained by their unfavourable legacies, ECE countries mostly had enabling legacies. To understand how legacies matter, we need however to probe further in the relationship between legacies and early reforms.

**Early reforms**

Early reforms aimed at establishing a market economy, privatisation, institution-building, and social protection are another important element in the explanation of capitalist diversity. While legacies had an impact on early reform choices, the latter were not predetermined. Rather, the impact is mediated by how actors relate to the legacies. For instance, Stark (1996) famously brought attention to the ongoing bricolage which resulted in peculiar ownership patterns. Bricolage refers to how economic actors recombine elements of the past with those of the present to create something entirely new. With respect to the new ownership patterns, this “recombinant property” (Stark 1996) in some places resulted in hybrids between states and markets more reminiscent of East Asian conglomerates than Western corporations.

However, not all East European capitalisms are characterised by this recombinant property. Also, as we have seen, East European capitalisms differ by how marketised they are, how robust
their institutions are, and how much they protect their populations against social hardship, all of which is the results of early reforms (Frye 2010). To explain how ECE countries, which had similar legacies yet embarked on different reform paths, Bohle and Greskovits (2012) argue that this is the result of how policy-makers perceived existing legacies. Thus, policy makers in the Baltic states perceived existing legacies as a threat to their newly acquired independent statehood. Rather than “building capitalisms with the ruins of socialism” (Stark 1994), they opted for radical reforms and established institutions that secured a radical neoliberal order, such as currency boards, flat tax rates, or a commitment to balanced budgets. In contrast, reformers in the Visegrád countries and Slovenia perceived existing legacies more positively, and embarked on more gradual reforms. This allowed economic actors to recombine their inherited and new economic resources much in the way that Stark (1996) analysed. In contrast, as argued above, legacies were constraining rather than enabling for most of the former Soviet republics. Most importantly, these countries lacked capable states which resulted in inconsistent reforms, stop-and-go policies, and de-institutionalisation. These countries entered a vicious circle, in which the former nomenklatura expropriated state property for private gains. The result were captured states and “industrial involution” (Burawoy 1996, see also Ganev 2007) and eventually patrimonial capitalism.

**Internationalisation**

A further factor in the explanation of capitalist diversity in Eastern Europe is the role played by transnational actors and institutions. From the early 2000s onwards, scholars have recognised the initially ignored salience of transnational aspects of ECE transformations (Jacoby 2006a, Orenstein et al. 2008). Especially in the early years of transformation, international policy advisers and institutions such as the International Monetary Fund and the World Bank played a major role in shaping reforms (Greskovits 1998, Pop-Eleches 2009). It is not least due to their advice and policy conditionality that almost all post-socialist reformers embraced neoliberal policy ideas focusing on privatisation and creating market economies. Neoliberal international policy advice however did not result in convergence on a single model of capitalism, as it interacted with different legacies and capacities to reform. Thus, neoliberal reforms were clearly detrimental to economic development in most of the former republics of the Soviet Union, while they seemed to serve the ECE countries comparatively well. Furthermore, the existence of diverse neoliberal capitalisms in ECE – pure neoliberal in the Baltic states and embedded neoliberal in the Visegrád countries – also shows that there is room for diversity within the neoliberal paradigm.

A second major international actor that has helped to consolidate existing varieties of capitalism is the European Union (EU). Eastern enlargement of the EU has initially been highly contested because of the large number of countries, their socialist legacies, their comparatively poor and backward yet potentially competitive economies, and their unconsolidated political systems. Core EU actors perceived these countries as threats to their established economic and social compacts. Consequently, they sought to “attenuate, weaken and manage” the threat potential (Jacoby 2014: 10) by setting a hitherto unprecedented amount of requirements to the new entrants. Compliance with the EU’s requirements was assured through accession conditionality, painstaking monitoring of the applicant’s progress, and measures that aimed at the socialisation of the new members into the EU (Schimmelfennig and Sedelmeier 2005). How have these conditions shaped Eastern Europe’s emerging capitalisms and their variation? The literature makes two claims. First, it argues that the EU has overall helped especially the weaker economies to strengthen their core economic institutions and capacities. Thus, many authors (Bruszt 2002, Vachudova 2005, Jacoby 2006b, Bruszt and Vukov 2014) have shown that the EU has used its influence in ECE to create strong and capable regulatory states. This has helped them to develop and upgrade their economies.
Second, the EU had an important impact on shaping ECE’s policies towards foreign direct investment (FDI), as well as the FDI inflow. In its accession partnerships, the EU specifically promoted privatisation via foreign ownership in a number of strategic sectors, and openness to FDI crystallised as one important condition for membership (Medve-Bálint 2014). In addition, the EU sponsored national investment promotion agencies, and initially trained their staff (Medve-Bálint 2014: 41–2, see also Bandelj 2008). From the late 1990s onwards, these agencies have played a major role in attracting FDI (Drahokoupil 2008). However, it was not only industrial capital that entered the region. From the 2000s onwards, investment in services, particular financial services, started to also play a major role. Once again, it is the interaction of legacies, early reforms, and international influences which explain why some countries – the Visegrád countries and to a lesser extent Slovenia – have turned into veritable foreign-dominated manufacturing miracles, whereas the Baltic states have mostly profited from FDI in their service sector, and especially the financial sector (Bohle and Greskovits 2012, Greskovits 2014, Becker and Jäger 2012). Based on the foregoing, it can be argued that the EU served mostly to reinforce the different pathways the ECE countries have embarked upon earlier by strengthening their state capacities and encouraging FDI inflows, while the shallow international integration experienced by the countries further east also reinforces their specific patrimonial variety of capitalism (Bruszt and Greskovits 2009).

All in all then, it is the interplay of legacies, early reforms and different forms of international integration which explain the varieties of capitalism in Eastern Europe. Table 20.2 summarises the main arguments.

Table 20.2  Explaining East European varieties of capitalism

<table>
<thead>
<tr>
<th>Explanatory factors</th>
<th>Mechanism</th>
<th>Patrimonial Capitalism (PC)</th>
<th>Neoliberal capitalism (NLC)</th>
<th>Embedded neoliberal capitalism (ENC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legacies</strong></td>
<td>Path dependency</td>
<td>Legacies constrain reform capabilities</td>
<td>Legacies enable reforms</td>
<td></td>
</tr>
<tr>
<td><strong>Early reforms</strong></td>
<td>Interaction with legacies • Reforms undermine inherited institutions and empower the former nomenklatura (PC) • Reformers reject legacies (NLC) • Reformers build on legacies (ENC)</td>
<td>Inconsistent reforms Emergence of oligarchs and state capture</td>
<td>Radical neoliberal reforms and institutions De-industrialisation</td>
<td>Gradual reforms, recombinant property</td>
</tr>
<tr>
<td><strong>Internationalisation</strong></td>
<td>Policy advice and conditionality EU accession conditionality anchors reforms and channels capital inflow</td>
<td>Neoliberal policy advice reinforces weakening of institutions</td>
<td>Neoliberal advice combines with domestic radicalism</td>
<td>Neoliberal advice combines with domestic gradualism</td>
</tr>
</tbody>
</table>

Absence of external reform anchor reinforces patrimonial features | Reinforces NLC: • Strengthening of regulatory state capacity • FDI inflow, esp. in financial sector | Reinforces ELC • Strengthening of regulatory state capacity • FDI inflow, esp. in manufacturing
Assessment and future research

The research on East European capitalist diversity has produced important insights in the origin, pathways, international constitution, and specific characteristics of East European capitalisms. It has done so by drawing on an eclectic body of literature, which includes institutionalist, structuralist, mainstream and heterodox approaches, and theories developed for advanced as well as peripheral capitalist countries. By doing so, it has started to overcome its original status as “area studies”, where processes of economic transformation have been perceived so peculiar that they defied concepts developed in the analysis of other parts of the world.

Compared to the literature on advanced capitalist countries, eclecticism might seem a disadvantage. This is particularly true in comparison to the original contributions of the VoC approach. Thus, Hall and Soskice’s (2001) approach is appealing precisely because of its parsimony and rigour, its focus on micro-foundations, skilful incorporation of economic concepts and tools, and its neat predictions about institutional reproduction and change (Bohle and Greskovits 2009, Streeck 2011). Literature on East European capitalism typically lacks these qualities. Arguably, however, what it lacks in rigour, parsimony, and capacity of generating testable hypotheses makes it better equipped to deal with some of the challenges that the VoC approach has faced. Thus, VoC has often been criticised for its inability to conceptualise transformative change, its dichotomous understanding of capitalist models which leaves most of the OECD world in the under-conceptualised grey zone of “mixed regimes”, its methodological nationalism, and, more fundamentally, its inadequate conceptualisation of capitalism as a fragile, contradictory and crisis-prone social system (Bohle and Greskovits 2009, Streeck 2011, Bruff et al. 2015).

Given that fundamental change was at the origin, and that transnational factors and actors have played a constitutive role in the emergence of East European capitalisms, it is no small wonder that these issues play a more prominent role in the East European comparative capitalism literature. Scholars studying Eastern Europe are in general also more sensitive to the fragile nature of capitalist settlements, as is shown in a rich literature on the crisis. What sets the East European capitalism literature apart is that it perceives crisis vulnerability as endogenous to the respective capitalist models, rather than as a random external effect. In this respect it pays off that the literature has been somewhat less blind to the role of finance in diverse capitalist models than the core VoC (Becker and Jäger 2010, 2012, Becker et al. 2010, Drahokoupil and Myant 2015, Bohle and Greskovits 2012, see also Epstein in this volume). However, the difference between finance-led and industry-led models is still far too broad brushed to genuinely account for the role of finance in each of the capitalist varieties. Future research thus needs to develop a more fine-grained understanding of East European “varieties of financialisation”, with due consideration of the role of private, household, and public debt.

While there are advantages in eclecticism, this comes at a price. In the eyes of many scholars focusing on the West, researchers examining Eastern Europe seem to be preoccupied with overly general and complex questions, and not immersed enough in any sub-fields such as industrial relations, monetary policy, or welfare states. Their perceived lack of proficiency in up-to-date and specialised academic debates has been an obstacle to their participation in cutting-edge debates. Their impact is also limited by the fact that their knowledge is still sometimes viewed as hardly generalisable. As a consequence, theoretical innovations developed in the study of East European capitalisms have not made inroads to the study of Western capitalisms. The fallout from the global financial crisis however might well serve as a catalyst for a closer integration of the research on Eastern and Western capitalism. Especially with the crisis of the Eurozone, it has become clear that a fault line also exists between core and peripheral European countries in the West, which begs for comparative research on Eastern and Western peripheral capitalisms.
Varieties of capitalism in Eastern Europe

An important lacuna of the research agenda on East European varieties of capitalism is the scant attention it pays to politics proper, the interaction of politics and the economy, and the relationship between economic and political regimes. The lack of sensitivity to political aspects of diverse capitalist regimes has become particularly noticeable with the turn towards “illiberal democracies” in a number of countries in the region. Comparative capitalism research could potentially make an important contribution to studying illiberal democracies by asking whether and how these are grounded in socio-economic cleavages and power constellations.

Notes

1 This chapter uses varieties of capitalism and capitalist diversity interchangeably. When it refers to the specific varieties of capitalism approach as developed by Hall and Soskice (2001), it uses the abbreviation VoC.

2 This chapter uses former republics of the Soviet Union as an umbrella term for the following twelve countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. East Central Europe (ECE) refers to the eleven East European EU member states: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. Baltic States refers to Estonia, Latvia and Lithuania, and Visegrád countries to Hungary, Poland, the Czech Republic, and Slovakia.

3 For the sake of simplicity, this section will focus on explaining three major distinctive models of capitalism: patrimonial capitalism (predominant in many former republics of the Soviet Union), and the two major sub-groups of ECE capitalism: the embedded neoliberal and the neoliberal varieties.

References


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