Review Article

After transition: Varieties of political-economic development in Eastern Europe and the Former Soviet Union

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The Transformation of State Socialism: System Change, Capitalism or Something Else?
D Lane (ed.)
Palgrave Macmillan, Basingstoke, 2007, 368 pages
ISBN-13: 978-0230520882 (*TOSS*), £65.00 (Hardback)

Varieties of Capitalism in Post-Communist Countries
D. Lane and M. Myant (eds.)
Palgrave Macmillan, Basingstoke, 2007, 288 pages
ISBN-13: 978-1403996411 (*VOCIP*), £60.00 (Hardback)

Beyond Varieties of Capitalism: Conflict, Contradictions, and Complementarities in the European Economy
B. Hancké, M. Rhodes and M. Thatcher (eds.)
Oxford University Press, Oxford and New York, 2007, 456 pages
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While the excitement of investors in the opportunities in all parts of what used to be the Soviet block has been growing rapidly, the interest of the global academic industry in the region can hardly compare to the hype of 'transition' times at the end of the last century.[1] Yet, those who have not left with the tide have no reason to regret. The area is rife with under-researched problems and yet-to-be-resolved puzzles. The post-transition economies and societies of the early 2000s are very different from what the 'transitologists' analysed 10 years ago. This time, however, we seem to be dealing with social and economic structures, which are there to stay and shape the developments for some time to come (cf. Greskovits, 2003).

The three edited volumes under review bring together a set of contributions that is largely representative of a new generation of scholarship on Eastern Europe and the former Soviet Union. A number of important and interesting post-transition research agendas were opened. These include the study of variation and sources of social inequality and human suffering, investigation of class formation and its link to democracy consolidation, political economy of dependent internationalization in Central and Eastern Europe (CEE), and the study of political capitalism, state-led capitalism and predatory regimes in the former Soviet Union. While the focus of the volumes is broader (most notably that of *BVOC*), this paper discusses their contributions to our understanding of politics and political economy of Eastern Europe and the former Soviet Union. For students of post-communist developments, *TOSS* and *VOCIP* also offer chapters on Cuba, North Korea, China, and other (post-)communist countries in Africa and East Asia.

Offering the state of the art of the 'varieties of capitalism' (VoC) approach, *BVOC* provides a useful theoretical companion to individual analyses in the other two books. Economic systems differ, the argument goes, and there are a number of ways how an economy can be competitive in the environment of globalization. Mutually interlinked institutional subsystems shape trajectories of political-economic evolution, often reinforce each other, and a proper mix of institutional 'complementarities' can provide distinctive 'comparative institutional advantages' for competitive strategies of firms. The core ideas of the approach not only offered analytical tools that have become a leading paradigm in the comparative political economy of Western societies, but also provided rationale for saving European capitalisms from the ideological attack seeing no alternative to the Anglo-Saxon model of capitalism. Although the 'liberal market economy' (LME) variety, typically represented by the United States and the United Kingdom, is superior in providing advantages to 'radical innovators', the 'coordinated market economies' (CME), of which Germany is the leading example, can compete with products relying on 'incremental innovation'. *VOCIP*, in particular, uses the VoC approach as its major theoretical reference. Surprisingly, however, almost all of its contributors conclude that the approach is not very helpful in analysing the region. The decision of the editors to employ the VoC framework as the underlying reference point only to demonstrate its limited utility indicates how strong the appeal of the approach is. Its application in CEE, however, not only produced interesting insights on political-economic diversity in the region, but also pointed out to its limits and research directions to follow.

I first discuss the substantive findings on human, political and economic developments in the region. Second, I deal with the analyses of class formation. I point out that they offer interesting insights on the link between class formation and democratic consolidation. Although the process of democratic consolidation is hampered by a lack of an autonomous capitalist class in Russia, intricacies of working class formation have negative repercussions for the democratic processes in CEE. Third, I discuss accounts of hybrid and statist regimes in Eastern Europe and Central Asia. Then, I deal with varieties of capitalist development in CEE. In the final sections, I elaborate on what I see as missing links in the studies and identify the agenda for future research. Particular attention is given to the opportunities and limits of the varieties of capitalism approach.

Social Inequality and Human Suffering

The massive economic contraction that followed the disintegration of the Soviet system took a dreadful human toll. King and Stuckler's analysis in *TOSS* brings our attention to the peacetime morality crisis that the transition experience entailed. With life expectancy declines of up to 6 years within the first half-decade of the reform, it struck particularly hard countries in the 'mortality belt', spanning from Estonia to Ukraine, and countries of Central Asia, Kazakhstan in particular. It is estimated that over 3.2 million deaths would not have occurred, had the mortality remained at 1989 levels. While the economic output started to pick up in most countries by 1995, Russia and several other countries have experienced further decline in mortality in the midst of economic recovery. Stress-related diseases and phenomena, such as cardiovascular diseases, alcohol over-consumption, violence and suicide, had prominent effects on mortality increase. Lane's introduction to *TOSS* shows that countries in the Soviet bloc were able to channel more of GDP into health and education than advanced capitalist states. They performed well in Human Development Index rankings relative to their level of economic development.[2]

After the collapse of state socialism, only the states in CEE, Cuba and China were able to maintain or better their positions in the human development ranking. The states of the former Soviet Union have suffered relative decline in levels of human development. Many of the transition countries – China, Russia, Hungary and Poland in particular – had lost much of their positive bias in allocating national resources to human welfare. Only Cuba, Bulgaria and Romania improved their relative position in this respect. It has to be noted in this context that Lane's peculiar methodology based on the comparison of human and economic development rankings arguably tells us something about social properties of respective political-economic systems and their transformation in general. However, such methodology tells us very little about the emergent capitalist diversity. Thus, a comparison of social expenditure spending in individual states would show that despite significant welfare retrenchment Hungary and Poland developed much more progressive systems of social protection than Bulgaria and Romania (Vaughan-Whitehead, 2003). Such comparison also show that the states in post-communist area still tend to have a positive bias in social spending relative to other countries at the same level of development (EBRD/WB, 2007). As discussed in *TOSS,* post-socialist countries have retained higher level of public health provision relative to their wealth despite the fact that health services in many countries deteriorated to a large extent. Slowness of life expectancy to improve was linked to rapid increases in health inequality. In Estonia, for instance, mortality declined in higher-education group, but it increased markedly among primary school group. In Poland, marketization of health care was accompanied by mortality increases in low-income groups (Watson in *TOSS*). Mortality increases caused by economic downturn, scaling back of state provision, state collapse, marketization and surges in inequality could have been predicted. However, King and Stuckler's original analysis shows that mortality increases can be attributed also to particular policy choices, mass privatization in particular.

Inequality has risen all around the former Soviet block. Its levels in small Central European states (but not in Poland), Uzbekistan, Ukraine and Belarus are comparable to that of the industrialized Western countries (Gini <30). Russia, Turkmenistan, China and Cuba experienced extreme inequalities (Gini >40). Manning's study of the rapid growth of inequality and poverty in Russia (in *TOSS*) establishes wages (with private sector premium) as the major source of inequality. Russian elites accumulated considerable wealth, but the middle class is small and weak. While the growth in inequality somehow slowed and even reversed in the early 2000s, significant layers of society are stuck in long-term poverty. Despite an economic orthodoxy, Manning suggests, such levels of inequality may not hamper Russian economic growth as it is driven by export-oriented raw materials sector that are less sensitive to domestic inequality. Variation in inequality outcomes within very different political-economic systems points indicates that particular policy decisions can make a difference (cf. Mykhnenko in *VOCIP*, discussed below).

As analysed by White, Schmidt and Lane in *TOSS*, the rises in inequality and human suffering made many people in the East relate to the Soviet economic system with considerable nostalgia. White's chapter presents comprehensive survey evidence showing that only Belarusians preferred the political system as it was in 2006. Respondents in Russia and Ukraine would choose a 'more democratic Soviet system' (p. 48).

Intricacies of Class Formation and Democratic Consolidation

Elite approaches, as noted by Lane in *TOSS*, dominated scholarship on post-communist countries. Indeed, 'lonely reformers' within the state enjoyed considerable autonomy from societal actors in the path-shaping moments of the early 1990s (Greskovits, 1998). However, as foreseen by reformers themselves (Balcerowicz, 1994), the times of lonely reformers and weak societal actors did not last long. The seminal contribution on post-communist ruling class formation in the early 1990s, *Making Capitalism without Capitalists*, concluded that it was too early to say who will become a new property class. Class formation was contested and there were too many good candidates for a new property class (Eyal *et al*, 1998, Chapter 5). A decade later, we are in a position to identify winners. In CEE, foreign investors became dominant economically. Careers within multinational corporations (MNCs) attracted large part of the elites (King in *BVOC*). Unfortunately, domestic political and economic implications of the 'compradore intelligentsia strategy' (Eyal *et al*, 1998, p. 142) are not considered in any of the chapters (for that, see Drahokoupil, 2008). In Russia, the ruling class constitutes of 'patron-client ownership networks' and 'parasitic financial-industrial groups' dependent on their relations with the state (King in *BVOC*, also Shkaratan in *TOSS,* Hanson & Teague in *VOCIP*). By the end of the 1990s, King observes, more than 50 per cent of the economy's output was concentrated into only 10 'integrated business groups', controlled by an 'upper oligarch' with ties to senior state office holders. During its short history, Russian capitalism managed to generate the largest group of billionaires after the United States and Japan. Business networks are less autonomous (but equally corrupt) in Kazakhstan where the President's office retains direct control over large enterprises (Charman in *VOCIP*). Finally, in her study of Georgia, Christophie (in *BVOC*) shows how economic collapse on post-Soviet periphery gave rise to a unified, rent-seeking political class dependent on predation of externally generated wealth.

In order to account for the emergence of systemic differences between what King conceptualizes as 'liberal dependent post-communist capitalism' in CEE and 'patrimonial post-communist capitalism' in the rest of the post-communist world, King and the *BVOC*'s editors pursue the elite-theory line of argument. Accordingly, in CEE where a (degree of) elite circulation took place,[3] the *nomenklatura*, communist political elite including enterprise managers, was defeated by an alliance between 'enlightened technocrats' within the communist party and critical intellectuals. In Russia, 'Yeltsin chose instead to align with enterprise managers and implement Shock Therapy from above' (King in *BVOC*, p. 318, also Shkaratan in *TOSS*). As predicted by the political capitalism thesis, nomenklatura was in charge of the reform and made sure it was able to reproduce its elite position by converting political capital into economic one. In the other words, it used its office to acquire private property, 'giving rise to "patrimonial system" in which economic control [...] is exercised by the nomenclature and domestic producers through patron-client ownership networks' (Hancké, Rhodes, and Thatcher in *BVOC*, p. 35).

Lane, however, challenges this way of thinking. In *TOSS*, he claims that elite approaches do not tell us why elites choose policies they do. Instead, he investigates systemic links between class positions (with occupation as a proxy) and ideological orientations. Although it identifies wider societal support for the capitalist system in Ukraine and Russia, Lane's analysis says little about the mechanisms of regime change. Thus, it cannot account for the variety of political-economic outcomes. At the same time, his criticism is valid: in fact, the structural constraints and incentives seem to explain the preferences and strategies of main actors *regardless their career paths*. These structural constraints and incentives are indeed largely product of transition strategies; however, these cannot be attributed to career paths of respective reformers either. Comparison of Russia and the Czech Republic is telling in this context. King's actual account of asset stripping and formation of patrimonial networks governing non-market means coordination in Russia is centred on supply and demand shocks for enterprises, which were produced by the policies of rapid liberalization and mass privatization. Loss of tax revenues from enterprise failure and the rise of hard-to-tax barter then led to a decomposition of the bureaucratic nature of the state. In Central Europe, where political elites in fact largely abandoned their neoliberal precepts, the mass privatization programme was implemented in the Czech Republic alone. Only high foreign direct investment (FDI) inflows, King argues, saved Czechs from the patrimonial trap (p. 325). However, the Czech case in fact contradicts the thesis about the effects of elite replacement: while Czech nomenklatura was defeated to the same extent as in Poland and Hungary (Eyal *et al*, 1998, pp. 117–128), the structural incentives produced by transition strategy then often led the new elites to adopt similar patterns of behaviour as their Russian nomenklatura counterparts (Myant, 2003).

Although their strategy owes more to the structural incentives than to their nomenklatura past, the dominance of patron client cliques, as King observes, puts an enormous strain on democratic institutions, if not hamper democratic consolidation. Given the lack of rational-bureaucratic state, owners in Russia may lose property rights if their patron loses office (King in *BVOC,* Shkaratan in *TOSS*). Elections thus could matter so much that the dominant cliques have all incentives to make them neither particularly free nor fair. In addition, in his chapter on Russia, Shkaratan argues that industrial collapse, disintegration of Soviet military industrial complex in particular, and a shift to the economy of natural resource extraction resulted in a loss of urban educated middle class, the most active supporters of a law-based state and democracy. In addition, he identifies a large group of upper and middle-level officials with vested interests in the reproduction of the despotic state. Recruited largely from nomenklatura, they not only receive considerable material benefits directly from the state, but also benefit from rent-seeking opportunities.

The cumulative evidence of the early 1990s shows that the significance of class positions in shaping life chances, behaviour patterns and ideological outlooks increased significantly both in Eastern Europe (see Lane in *TOSS*, pp. 59–61) and in Russia (Manning in *TOSS*). At the same time, working class weakness institutionalized as an inherent feature of Eastern European capitalism (King in *BVOC*), with profound implications for its social content. The chapters by Ost and Schmidt (both in *TOSS*) show how ideological and political factors condition the intricate process of (working) class formation. In his chapter on East Germany, Schmidt claims that a comprehensive interest representation in Germany is hampered by the particularistic strategy of East German unions that promote a distanced relationship between works council and the unions by focusing on the individual company rather than on industry-wide collective agreements. Unions in the East often prefer to side with their employees in order to keep cost advantage and safe their jobs. Schmidt's generalizations notwithstanding, collective action problems caused by regional inequality are equally if not more convincing explanations of predicaments of German labour than differences in political and social orientations of East and West Germans.

In contrast, profound implications of post-communist ideational legacies for labour in Eastern Europe can hardly be disputed. A long-term observer of Polish trade unions, Ost shows that class position indeed became an important force shaping people's lives and ideological outlooks, with workers often finding themselves on the losing side of the new order. This, however, did not give rise to a strong leftist labour movement articulating class frustration. Instead, because of anti-communist sentiments among the labour leaders and little sense of class identity and interest among the workers, 'class anger became transformed by political entrepreneurs into nationalist, religions, and ideological anger' (p. 82). Working class thus became constituent of illiberal populism. Although transitions studies generally disregarded underpinning class arrangements, Ost argues (drawing on Luebbert, 1991), political mobilization along the class lines is vital for stable democratic consolidation. The alternative, an identity-based mobilization – blaming the ideological, ethnic or ethnic other (for example, the communists, Gypsies and Jews, respectively) – is essentially undemocratic and politically destabilizing. As it is directed personally against other citizens rather than unfairness of the system, the solutions it offers not only profoundly divide polities, but also ignore underlying problems that caused the anger in the first place. In contrast, class mobilization is politically inclusive and conducive to resolving 'the economic issues that get workers and other non-elites mad' (p. 78).

Varieties of Capitalist (Under-)Development

Starting from a comprehensive definition of the capitalist system, Lane's chapter in *VOCIP* considers to what extent the post-communist states can be characterized as capitalist. Observing that all countries have a higher level of state ownership and economic control than their Western counterparts, he concludes that only Slovenia, Estonia and the Visegrd, four countries developed market economies based on private ownership of the means of production comparable to what is known from the OECD countries. The group of consolidated market economies also includes Lithuania, Croatia, Latvia, Romania and Bulgaria, which have a greater state coordination and lower levels of privatization. However, such distinction within consolidated market economies does not seem to be tenable as the actual shares of private sector contribution to GDP and privatization indices in respective countries are very similar or even equal (EBRD, 2007). Political-economic systems in Russia, Ukraine, Kazakhstan, Georgia, Turkmenistan and Moldova can be characterized as 'hybrid state/market uncoordinated capitalism', not with necessarily lower level of privatization as the second subgroup of consolidated market economies, but, crucially, without the psychological, political and societal underpinning of modern capitalism. Individual country studies add some empirical support for Lane's claims. Shkaratan (*TOSS*), King (*BVOC*), and Hanson & Teague (*VOCIP*) identify 'patron-client ties between state officials and their crony capitalists' (as in King) as the crucial feature of the governance regime in Russia. Business, it is claimed, has recently become 'unusually dependent on, and in some respects even subservient to, the state' (Hanson & Teague, *VOCIP*, p. 151). Shkaratan even contends that contemporary Russian society has a specific, non-capitalist system of values, which is derived from a particular Euroasian civilization, distinct from the European/Atlantic model (*TOSS*, p. 149). In Kazakhstan, according to Charman's analysis (in *VOCIP*), the state, rather than state-business networks, has important coordination role. In Georgia, in contrast, the state seems to be concerned more with predation than coordination (Christophie in *BVOC*).[4] Finally, Uzbekistan, Belarus and Turkmenistan remain statist market (rather than capitalist) economies. They are heavily reliant on the state as a mode of economic coordination and have low levels of private ownership.

What can we learn about the nature and prospects of these economies, regulatory regimes and respective modes of internationalization? From a 'varieties of capitalism' perspective, Knell and Srholec (in *VOCIP*) provide an overview of institutional diversity and variation in the modes of coordination in post-communist and advanced-capitalist countries. They show that among post-socialist countries, Belarus, Ukraine, Slovenia and Croatia seem to be examples of countries with prevailing strategic coordination, while Russia, Estonia and Armenia come out as the main examples of liberal economies. However, most of the analysis is based on quantitative indicators, which are not only limited by data and indicator availability, but also involve application of measures that may have some relevance in the capitalist core, but have very limited validity when applied elsewhere. Showing that all cases mentioned – with the notable exception of Estonia and Slovenia – are far remote from the LME/CME models, individual country studies demonstrate the limits of such quantitative approach.

As far as the statist market economies in Eastern Europe and the former Soviet Union are concerned, the volumes under review offer detailed discussion of Belarus only (Korosteleva in *VOCIP*, Nuti in *TOSS*). With its lack of natural resources and relatively low dependence on primary sector exports, Belarus can hardly be representative of this, otherwise natural resources dependent group (cf. Lane in *BVOC*). However, Belarusian superior economic and social outcomes make this country poor in natural resources an interesting case. Negative consequences of the transition policies of the early 1990s, which included rocketing prices, layoffs, erosion of savings and real incomes, together with enrichment of *nomenklatura* elites, triggered a social backlash, which brought a populist leader, Alexander Lukashenko, into power. He then oversaw installation of an authoritarian regime and a development of command economy without central planning, with dominance of administrative controls over prices, outputs and foreign trade. At the same time, there was some move towards market, there is some degree of enterprise decision decentralization, and prices are near-market-clearing and not so distant from relative international prices. Economy has been stimulated by an expansionist monetarist policy of credit expansion through negative real interest rates. As observed by Nuti, Belarus has a record of economic performance superior to other, more committed, reformers in the former Soviet Union. It saw a rise in real national income, low unemployment and inequality. A former senior economist in one of the Belarusian banks, Korosteleva, is much less optimistic. She points out to allocation inefficiencies, such as the widespread liquidity problems, and finds the Belarusian growth pattern ultimately unsustainable. She also brings to our attention a 10 per cent increase in poverty in 1999–2002 (keeping at 50 per cent of Russian levels). Nuti, in contrast, finds the Belarusian solution ‘perfectly feasible and sustainable’ as long as there are no endemic shortages on the Soviet scale, administrative prices are not too far from relative international prices, state enterprises are give managerial autonomy and subjected to competition, and there is continued access to energy and materials (from Russia) at prices lower than those paid by its competitors (pp. 222–223).

Countries in the hybrid-economy group can be characterized as primary sector exporting countries with a very low integration into the global economy, with a particularly low level of domestic investment; yet, those with a large energy sector have significant FDI (Lane in *VOCIP*). However, there is a considerable diversity in political-economic structures within this group. Understandably, Russia receives most attention from the volumes under review. It can be characterized by predominance of the patron-client relationships in the economy and by a decomposition of the Weberian bureaucratic state. As nodal points of

Russian coordination system, integrated business groups typically have bases to generate money in the finance sphere, holdings in the exportable raw materials sector, other large firms, media outlets, as well as links with federal and regional legislative and executive officers (King in *BVOC*, Shkaratan in *TOSS*). With the beginning of Yukos nationalization in 2003, Hanson & Teague (*VOCIP*) claim, the nature of Russian oligarchic capitalism changed qualitatively. In this process, business groups were subordinated to the state and the high time of Russian tycoons was over. Emphasizing the importance of the economic role of the state, Hanson & Teague characterize contemporary Russia as a Weberian political capitalism in which profits are prerogative of political administration. However important the attack on the oil giant was for Russian politics, it is a question if it is possible to read so much about transformation of Russian capitalism from this affair, which constitutes a focal point of Hanson & Teague's analysis. From Shkaratan's account, there seems to be more continuity in the role of the state in Russian economy.

According to Charman (in *VOCIP*), Kazakhstan has developed a state-led capitalism not seen in advanced capitalist states and developing Asian countries. Without implementing administrative restrictions on prices and trade, the state exercises direct control over largest enterprises, mainly in the natural resources sector. It provides a sound business regulation, reminiscent of a LME-type and channels resources into education, health care and diversifying industrial policy. Charman concludes that the Kazakh solution could be a way for the resource rich countries of Azerbaijan and Turkmenistan to develop. However, comparative indicators do not support Charman's analysis: the percentages of GDP spent by the Kazakh state on education and health remain low and they are lower than in Russia (UN, 2006; Cook, 2007). Christophie's study of Georgia (in *VOCIP*) provides an account of a predatory state that emerged after the economic collapse in the small state on the Soviet periphery. Georgian state retreated from providing education and health care. Its economy is largely dependent on remittances and aid. With organized chaos as a state strategy, integrated elite within the state predates value created elsewhere. The funding may be generalizable to countries like Moldova, which is even poorer and has a similar record of economic destruction and sluggish growth. However, they would probably apply less so to Armenia, Georgia's neighbour with a good, post-1990s growth record, independent of natural resources. None of the chapters, unfortunately, addresses these differences.

Varieties of Dependent Capitalism

FDI flows had a major role in economic restructuring in, and international re-integration of the consolidated market economies in all parts of Eastern

Europe. With the exception of Slovenia, as editors of *VOCIP* observe, Eastern European countries have a very low level of domestic capital formation and are more dependent on FDI than low income countries. Drawing on his research on Hungary and Poland, King (in *BVOC*) argues that the liberal dependent capitalism in the region can be characterized not only by dependence on foreign investors in providing credit and organizing inter-firm relations, but also by labour weakness, dysfunctional education systems and LME-type firm-employee relations. However, he leaves us wondering about the political-economic implications of these features: 'Basically, there will be capitalist growth, but it will depend on the investment strategy of particular MNCs, the lending decisions of foreign-owned banks, and the ability to import industrial inputs and capital from, and export manufactured goods to, the core of the capitalist world economy' (p. 325). As other chapters in the volumes show, there is a great diversity in dependent capitalism in Eastern Europe. The volumes under review tell us a considerable deal about institutional structures and economic dynamics in Estonia, Poland, the Czech Republic, Estonia and Ukraine. South Eastern Europe, unfortunately, is not covered at all.

Two Central and Eastern European 'outliers', Slovenia and Estonia, attracted particular attention from the researchers employing the VoC approach. Apart from having impressive growth records, each of them developed relatively coherent institutional frameworks with striking similarities to the two ideal typical VoC, CME and LME, respectively (Feldmann in *BVOC*, Buchen in *VOCIP*). Employing a theory of network promotion and disruption, Feldmann offers a convincing account of the origins of these VoC in the process of transition. He provides important insights on micro-foundations of the two modes of coordination and on the importance of state strategy in constituting their regulatory underpinnings. Yet, the Estonian case reads more as a story of destruction of 'the old' and reliance on a new generation of actors, most notably foreign investors, to take over. Strikingly, however, Feldmann ignores what King in the same volume identified as the crucial feature of capitalisms in the region: the dependence on FDI in corporate governance and inter-firm relations. Although this may be justifiable in the case of Slovenia, where FDI penetration is still relatively low, FDI dependence can hardly be ignored in Estonia, the most internationalized country in the region. For Buchen, in contrast, foreign ownership constitutes a crucial feature that distinguishes Estonian capitalism from a typical LME. The functional implications of corporate governance being controlled by multi-national corporations rather than by a stock market are left for 'future research'. According to Buchen, Slovenia also departs from its ideal typical VoC counterpart. In Slovenia, partially state owned investment funds seem to have important coordinating role in the sphere of corporate governance – rather than banks as in a CME. However, the degree of their functional equivalence is not explored.

While Feldman analyses the institutional forms only, Buchen focuses also on their economic effects. His analysis of the mid-1990s shows that both of the countries had revealed comparative advantages in sectors dependent more on low cost rather than on activities that would require a specific institutional underpinning. The analysis of trade data from the early 2000s, however, reveals interesting differences in comparative advantages. While Slovenia was developing a specialization in more advanced manufacturing sectors, such as road vehicles, electrical machinery and rubber, Estonia exhibited comparative disadvantages in these sectors. At the same time, Estonia developed a strong comparative advantage in the telecommunications sector. As far as FDI flows are concerned, Slovenia was doing better in attracting investors in manufacturing; Estonia had large share of investment into sectors with a stronger service character, such as financial intermediation and real estate. It thus seems that the coherent institutional configurations identified in Slovenia and Estonia actually do provide distinct comparative advantages to the companies operating there. What we are still missing, however, is an analysis of the position of these countries in the value chains of the respective sectors. How far are the economic activities of Estonian exporters from the ‘radical innovators’ associated with LMEs? To what extent do the Slovenian manufacturers compete with the sophisticated products relying on ‘incremental innovation’ and, arguably, institutional underpinning of the CME? Answering these questions is important for understanding the real contents of Slovenian and Estonian comparative advantages and specificity of these economic models (if any). Moreover, it is crucial for understanding the implications of the emergence of these low-cost competitors for traditional European CMEs and LMEs (see Bohle, 2008).

According to Mykhnenko’s analysis, presented both in *BVOC* and *VOCIP,* the economic expansion in Ukraine and Poland was correlated with the establishment of ‘mixed market economies’ or ‘weak CMEs’. Combining market and non-market forms of coordination, state intervention compensates for an absence of complementarities in a mixed market economy (Molina and Rhodes in *BVOC*). With coordination effects ‘weaker’ than in a CME and also in Slovenia, Poland and Ukraine have many institutional structures similar to a CME. Similarly to Slovenia, they lack a complementary financial system – or a bank-based system developed ‘strong enough’. Unlike Buchen in Slovenia, Myhknenko does not find a functional equivalent for the weak finance in either of the countries. This, among others, makes them more susceptible to sharp periodic economic fluctuations. Unfortunately, Mykhnenko does not consider the importance of FDI in the financial sector (as suggested by Buchen). In Poland, FDI stock is higher than domestic credit and stock market capitalization (EBRD, 2006; UNCTAD, 2007). Foreign-owned banks control more than 70 per cent of the market (EBRD, 2006). In Ukraine, domestic sources of credit seem to be more important than FDI. However, foreign ownership of Ukrainian banks has been growing rapidly in the last 2 years (EBRD, 2007).

Addressing the puzzle of Poland's 'poverty trap', Mykhnenko demonstrates explanatory potential of the VoC approach. In *VOCIP*, he argues that Ukrainian superior performance in poverty and inequality indicators can be explained by Polish lack of a social protection system complementary to regulated product markets (that is, coordinated labour markets as in Ukraine). Yet, Ukrainian expanding system of social protection is found too limited to protect against unemployment associated with the regulated capitalism model. However, serious reservations can be raised regarding the substantial validity of the 'poverty trap' thesis. Although differences in unemployment figures provide some support to Mykhnenko's thesis, poverty level in Ukraine seems to be higher than that of Poland (EBRD, 2001, 2007; WB, 2003). Comparing economic performance of the countries, Mykhnenko's analysis indicates limits of the VoC framework. Both Poland and Ukraine have comparative advantage in low- and also increasingly mid-technology manufacturing. However, Mykhnenko reveals that differences between Polish and Ukranian science and technology education and training systems had not generated different comparative advantages that would be reflected in respective economic activities. This may lead us to wonder which institutions (if any) identified as a part of the VoC model in fact matter from a micro-economic perspective. Indeed, as Mykhnenko concedes, 'no particular linkage has been discovered between the current institutional designs of the two economies and their revealed comparative trade advantages and industrial specializations' (*VOCIP*, p. 136).

Taking a more qualitative approach, Myant's account of 'European capitalism' in the Czech Republic provides a number of reasons to be sceptical about the usefulness of the VoC approach in analysing dependent capitalism in Eastern Europe (*VOCIP*). In particular, it puts many doubts on the (unproven) assumption that there is a link between domestic institutions and revealed comparative advantages of respective economies. In Myant's account, domestic institutions do not seem to be particularly relevant as far as their economic effects are concerned. In the Czech Republic, he argues, the link between banks, the stock market and enterprises is progressively less important. Although the domestic financial system is of a little importance for foreign investors, Czech-owned enterprises have only limited chances of getting substantial credits. They have also only a limited opportunity to raise finance by new share issues. In this context, a coexistence of institutional elements that seem to belong to different VoC ideal types does not seem to be particularly problematic. The degree of internationalization, Myant argues, makes it impossible to classify along the LME/CME dichotomy. In fact, the modes of coordination are dependent on strategies of MNC's subsidiaries. Economic competitiveness and prospects of the country are heavily dependent on inward investment by multinationals. In *TOSS*, Myant investigates Czech competitiveness in more detail. This allows him a deeper understanding of Czech comparative advantage than that based on export statistics only. The Czech Republic developed a comparative advantage in motor vehicles and electronics – sectors that classify as skill intensive. However, much of the investment in this sector is in low-skill activities. With productivity at 67 per cent of the EU average, the country is dependent on low labour costs. Car industry specializes in cheap, small cars – a segment with low apparent productivity. Recently, there was a trend towards higher quality services. However, a noticeable lack of skills shortages seems to qualify reasons for optimism.

Finally, Schmidt analyses the actual political-economic content that West German institutions acquired in East Germany. In *VOCIP*, he argues that East Germany is a formal, not real copy of the CME model. Imported institutions do not work as expected as they do not have a political and economic underpinning in a complementary firm base. While West German economy relies on large corporations, which provides more space for worker-management codetermination, East German economy is dominated by small and medium enterprises (SMEs) run by small entrepreneurs rather than by managers. The latter are less open to worker codetermination and implementations of industry wide norms of collective bargaining. Moreover, East German SMEs use inferior working conditions as their competitive advantage. Given that East German unions with their particularistic strategy side with their employers (Schmidt in *TOSS*, see above), there are no social forces, Schmidt concludes, to defend the Rhine model in East Germany. Incorporation of East Germany pushed the country in LME direction also by weakening capacity of German state as the unification costs made it increasingly dependent on credit from financial capital.

Beyond Post-Communism

There is a notable absence of the theories of post-communism in most of the chapters under review. The three collections show that the accounts of post-communism, underlying the specificity of the area and attributing causal primacy to path-dependencies associated with state socialism and/or its dissolution, are of a limited value in understanding the variety of social formations in countries that were once part of the Soviet block. Indeed, the 'transition perspective' (see, for example, Dobry, 2000) has gradually became obsolete as its analytic lenses of the approach centred on different 'paths of extrication' (Stark and Bruszt, 1998), from state-socialism, were no longer able to address major determinations of the political economies in Eastern Europe and the former Soviet Union.

Such conclusion is relatively unproblematic as far as the consolidated market economies in CEE are concerned. Prevailing labelling notwithstanding, capitalism in the region seems more 'dependent' than 'post-communist'. Thus, in *BVOC,* King explicitly rejects the validity of 'recombinant property' thesis of specific post-socialist inter-firm relations (p. 312). In *VOCIP*, Myant shows that a specific, post-socialist Czech capitalism did not survive late 1990s and was replaced by a dependent 'European' capitalism, now dominant all around the region. In *TOSS*, however, Ost offers an explanation of trade union weakness that is essentially post-socialist as it puts analytical primacy on ideational and political legacies of state socialism. Yet, recent research has shown that his explanation – which indeed identified important forces that still shape working class formation in the region – has become increasingly more incomplete (Bohle and Greskovits, 2006; Vanhuysse, 2006).

From the perspective of hybrid and statist regimes in Eastern Europe and Central Asia, such dismissal of the post-socialist accounts and the transition paradigm may seem inappropriate. First, Shkaratan (in *TOSS*) represents a body of scholarship that largely attributes 'uncomfortable outcomes' of Russian transformation and relative success in CEE to fundamental differences in civilization traits and to favourable historic legacies, such as market economic skills and civil self-organization, which were at place in CEE. However, as the discussion of the *nomenklatura* explanation in *BVOC* showed, essentialism of post-socialist accounts can be misleading or wrong. Second, a combination of transition strategies, inherited state forms and industrial basis, and geographical location indeed constitutes a plausible and relational (rather than essentialist) explanation of the fundamental variety in political-economic outcomes (Lane in *VOCIP*, King in *BVOC*). Yet, more is needed in order to understand the nature, mechanisms of reproduction and developmental prospects of political capitalism, state-led capitalism and predatory regimes. The studies discussed above tell us a great deal about the nature of these regimes and offer concepts to understand them. At the same time, the nature of concepts such as political capitalism remains largely descriptive and unsystematic.

Giving these concepts analytical content would help to resolve a number of puzzles that emerged in the discussion. First, the actual differences between the modes of coordination in the political capitalism in Russia and state-led capitalism in Kazakhstan need to be understood better. State form in Kazakhstan is found to be distinct from existing theorizations, such as the 'developmental state', but an alternative model is not offered (Charman in *VOCIP*). In the analyses of the Russia case, Weberian concept of 'political capitalism' is particularly popular (Hanson & Teague in *BVOC*); yet, its theoretical content is not unpacked and political economic implications are not considered. We are lacking a theoretically grounded understanding of these state forms that would allow us to understand developmental prospects of respective economies, in general, and the apparent success of Kazakhstan in particular. Moreover, we know only a little about what explains the fundamentally different role the state seems to play in Russia and Kazakhstan. Can this be linked to different social constitution the Central Asian states seem to have (see Collins, 2006)? Second, similar set of questions should be asked about the outcomes and differences in state forms (if any) in Georgia and Ukraine. Finally, the apparent link between resource dependence, political capitalism and Russian form of social stratification deserves to be approached theoretically (cf. Hanson & Teague in *VOCIP*, Shkaratan and Manning in *TOSS*).

Towards Varieties of Capitalism

While the post-transition accounts of hybrid and statist regimes are still largely pre-theoretical, the 'varieties of capitalism' approach seems to fill the theoretical vacuum left by the death of the 'transition' debate in the political economic research on CEE. The VoC perspective provided concepts, theoretical insights and analytical dimensions that can be potentially useful in understanding the political economic dynamics in CEE. It proved to be helpful in thinking about economic effects the institutions may have, investigating possible links between domestic mechanisms of coordination and the nature of international integration, and in understanding possible implications of the (lack of) complementarities among institutional spheres. At the same time, the studies under review demonstrate the limits in taking the framework for granted and applying it, 'as is', in a rather mechanical way.

First, the analyses discussed above showed that a too comprehensive application of the VoC approach can be misleading. It cannot be taken for granted that it is the institutional totality of a VoC model that produces the comparative advantage that a given economy may have (cf. Mykhnenko and Myant in *VOCIP*). Given that the economic dynamics in the region is largely dependent on MNCs that do not need to rely on domestic institutional framework to such extent as the domestic firms arguably do, it may very well be that it is just one institution that does the 'comparative advantage job'. Thus, we need more studies of actual competitive strategies pursued on the firm level (as in Schmidt in *VOCIP*). Second, as the weak position of labour in a relatively strong corporatist institutional framework demonstrates (Ost in *TOSS*, King in *BVOC*), economic and social effects cannot be read from institutional forms. They have to be established through a historical investigation. Third, it cannot be taken for granted that the comparative advantage of individual companies is really *institutional*. It has not been established that the companies active in the region take advantage of the opportunities provided by the specific institutional framework. It is thus an agenda for future research to establish whether the VoC analyses identified a link rather than a correlation. Are foreign investors coming to exploit existing institutions or rather than just cheap labour and an institutional environment guaranteeing stable provision of the very basic pre-conditions for capitalist accumulation? The respective comparative advantages of individual countries in the region may be *structural* (that is, congruence in supply structures) rather than institutional (Greskovits, 2005). It may thus very well be that any relatively stable institutional framework guaranteeing basic regulatory pre-conditions for capitalist accumulation would suffice to underpin the peripheral mode of development. Finally, given the dependence of leading sectors on MNCs, it may be that the crucial coordination mechanisms rely less on domestic institutions and more on strategies of, and institutional structures within, multinational corporations (Nölke and Vliegenthart, 2007).

Alternatives

Theoretical approaches brought together in the volumes under review are largely representative of recent scholarship on the region. Understandably, however, their selection is not exhaustive. As far as the scholarship on the variety of dependent capitalism in Eastern Europe is concerned, cross-fertilization with two alternative perspectives could be particularly fruitful. First, from the VoC perspective, Nölke and Vliegenthart (2007) have argued that transnational capitalisms in Eastern Europe cannot be understood through the conventional LME/CME models. Instead, they identify a third variety with specific mechanisms of coordination and comparative advantage, the dependent market economies (DME). Here, strategies and hierarchies within MNCs rather than domestic institutions are central coordination mechanisms constitutive of comparative advantage in assembly of semi-standardized industrial goods. Starting from the actual mechanisms that produce comparative advantages in the region, the DME perspective brings MNCs in the centre of analysis and avoids pitfalls of the mechanical institutional analysis popular in the VoC paradigm. However, the variation in socio-economic models identified by the VoC research is lost in the DME model. What is more, the coordination mechanisms within MNCs remain black boxed.

Second, investigating actual location strategies of the MNCs in Eastern Europe, Bohle and Greskovits identified three distinct (non-LME/CME) transnational capitalisms in CEE: a neoliberal type in the Baltic states, an embedded neoliberal type in the Visegrd states, and a neocorporatist type in

Slovenia (Bohle and Greskovits, 2007). Such classification is indeed complementary to the findings within the VoC paradigm.[5] However, in contrast to the VoC perspective, Bohle and Greskovits claim that the actual differences in revealed comparative advantages among the three models that institutionalized in the mid-1990s (each being associated with distinct leading export sectors) can be explained by their comparative structural advantages rather than by variation in institutional frameworks.

However, there may be a strong case for bringing domestic institutions back in. While the dynamics of investment-location decisions based on supply structure congruence may indeed explain creation of distinct regional industrial clusters, the ability of those to deal with the challenges of industrial upgrading and their potential to shift from the 'investment-led' to an 'innovation-led' growth (cf. Porter, 1990; Lopez-Claros *et al*, 2006) will be probably more conditioned upon domestic intuitions. There is thus a need to unpack the black box of coordination mechanisms within the MNCs and investigate the interplay between the latter and domestic institutions.

Conclusion

The chapters in the three volumes provide a useful and interesting overview of political-economic developments in the Eastern Europe and the former Soviet Union. Moreover, they offer a state of the art of the scholarship on the region. While the accounts of political-economic development in the former Soviet Union often employed concepts in a pre-theoretical way, the research on Eastern Europe relied heavily on a single theoretical frame, the VoC approach. This discussion has shown that the VoC approach can be useful in understanding political-economic dynamics in CEE only if applied in a most open way, using the approach more as a set of analytical guidelines, identifying questions and showing possible analytical directions rather than a coherent and complete analytical framework and/or a pre-defined set of analytical steps and methodological procedures. Moreover, the analysis drawing on the VoC generated a number of research challenges to be addressed. Most of them concern the actual nature of revealed comparative advantages: are sectoral-level export statistics a sufficient measure? Is a comprehensive institutional approach necessary? Are comparative advantages institutional or structural in nature? The challenges also include the question of institutional forms and their actual effects and the question of institutional functional equivalence and/or a lack of thereof.

As concluded by King and Myhnenko in *BVOC*, the nature of capitalism in Eastern Europe cannot be understood *sui generis*, through the lenses of a nation-state perspective. Instead, the institutional forms in Eastern European dependent capitalisms need to be analysed in relation to the nature of international integration of these countries. Here, the strategies of major MNCs and foreign banks will be key elements linking domestic comparative institutional advantages and international competitiveness. This agenda, as Mykhnenko observed in *BVOC*, has been exogenous to the national state-oriented VoC perspective. Thus, the VoC analytical apparatus needs to be integrated into a transnational political economy approach. The VoC contribution to such approach may be particularly relevant in opening the black box of coordination mechanisms within MNCs, investigating the interplay of structural and institutional advantages, strategies of MNCs and domestic institutions, explaining within-groups 'non-economic' variation, and considering alternative developmental strategies.

Notes

1 I am indebted to CEP's anonymous reviewer for insightful feedback and pertinent suggestions that helped to improve the argument of this paper.
2 This composite measure is based on life expectancy at birth, adult literacy, primary and tertiary education enrolment, and gross domestic product per capita.
3 Many Eastern European sociologists would see the development of new elites rather as a reproduction than circulation (for example, Hankiss, 1990; Staniszkis, 1991; Machonin *et al*, 2006, p. 544). Indeed, the developments described by King can be understood as a (degree of) circulation within elites. A rigid interpretation of the elite theory language is not helpful here (cf. Szelenyi and Szelenyi, 1995).
4 But see a more positive assessment of recent regulatory reform in EBRD (2007).
5 Bohle and Greskovits' analysis of revealed comparative advantage also relies heavily on export statistics. It thus suffers from the same problems as the analysis from the VoC perspective in this respect. Studies of a more qualitative nature could be useful here (cf. Myant in *VOCIP*).

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