

## I

# Hybrid Capitalism in the Making

### 1.1. On the Transformation Track: Varieties of Capitalism and Tripartite Coordination

With the collapse of state socialism in 1989, the formerly communist countries of Eastern Europe initiated dramatic changes in their political and economic settings and state-society relations, in an attempt to claim a new place in a world characterized by globalization and increased regional integration within three economic blocs: the United States, Europe, and Japan/Asia. Ten years after the dramatic breakthrough of 1989, the nations of Central and Eastern Europe (hereafter CEE) are actively preparing for membership in the European Union (EU). Accession negotiations for the “fast-track” countries (Poland, Hungary, the Czech Republic, Slovenia, and Estonia) started in spring 1998, and those for the “slow-track” countries (Bulgaria, Slovakia, Romania, Latvia, and Lithuania) opened in February 2000.

The accelerated preparations for accession to full EU membership are cause for reflection on some old questions and consideration of some completely new ones. What is the direction of change in CEE, and what conditions frame and shape emerging capitalism in the region? Have the legacies of state socialism and postcommunist transformation brought into being a new form of capitalism? Alternatively, under the pressures of increased globalization and regional integration, could the nations of CEE be moving toward already established capitalist variants?

Mainstream political and economic analyses on the transition from socialism to capitalism that have emerged in the ten years of transformation deal largely with domestic factors of path dependence and transformation.<sup>1</sup> The bulk of this literature analyzes the pros and cons of political

<sup>1</sup> See in Haggard and Kaufman 1995; Dawisha and Parrott 1997; Holmes 1997; Elster et al. 1998; Stark and Bruszt 1998; Tismaneanu 1999.

and economic reforms, of democratization and property transformation.<sup>2</sup> Emphasizing the organizational metamorphosis of state ownership during the privatization process and the “recombinant” character of postcommunist property relations, D. Stark has argued for the emergence of “recombinant” capitalism in CEE. He discovers the existence of networks of firms characterized by decentralized reorganization of assets and centralized management of liabilities, and asserts that this “viable public-private hybrid” “will differ as much from West European capitalisms as do contemporary East Asian variants” (Stark 1996: 993).

This book brings a different perspective to the CEE variant of capitalism. Its analysis focuses on the new roles and interrelationships of social actors such as the state, labor, and emerging business. An interpretive framework that gives them a central place is well suited to analyzing state socialism and its transformation into capitalist democracy. That the harbinger of state socialist collapse – Poland’s Solidarity – was a labor union cannot, in my view, be coincidence. The broad reference in the literature to Solidarity as a “social movement” or a “political party” overstates its domestic support – immense though that certainly was, allowing Solidarity to absorb practically all of Polish civil society – and fails to recognize its narrower essence as a vehicle for organized *worker* protest directed at specific fail-ures of state socialism. Since state socialism – at least as an ideology – was largely about the “dictatorship” of labor, the transitions away from it have a lot to do with labor’s changing position in politics, economics, and society. With the collapse of the regime, the underlying question of transition was thus path-dependent: What is the nature of the new type of relationship we see emerging in CEE, with a democratizing postcommunist state on one side and, on the other, a dramatically mutating working society in the throes of economic restructuring? The particular types of democratization and democracy, of ownership transformation and markets, to be adopted were matters of secondary contention, compared with the particular roles of the state, labor, and private employers in the emerging capitalist order. The parts played by those actors and their relative prominence would determine most of the other details of the future capitalist societies.

This book investigates the nature of the new type of relationship between the state and the working society in CEE, as a defining characteristic of the emerging new capitalist order. Comparing the Polish and Bulgarian new state-society configurations, the book inquires into the interaction of domestic and international effects in shaping that relationship. Are the emerging new state-society arrangements purely path-dependent and transformation-driven, or they are also significantly influenced by well-established foreign models and, accordingly, the foreign aid conditionality of various international organizations?

<sup>2</sup> See in Comisso 1991; Bartlett 1992; Stark 1992, 1996.

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An interpretive framework that gives government-labor-business relations a central place has distinguished three major variants of contemporary capitalism: corporatism as practiced in most of Western Europe, U.S.-style neoliberalism, and Japanese statism (Katzenstein 1978; Hart 1992). That widely used typology of capitalist variants does not capture the details of, for example, firm or bank organization, or the range of public/private property distributions within capitalist societies. It underscores, instead, how governments, labor, and business are linked differently and can have varying roles in state governance and market processes, with labor marginalized and the state playing only an indirect part in the neoliberal United States, governments actively engineering economic development in Asia, and strong interventionist states incorporating policy inputs from labor and business in most of western Europe.

More particularly, neoliberalism favors individualism, rational self-interest, the primacy of freedom over equality, a minimal state role in the economy, and marginalization of labor by powerful businesses. Neoliberal solutions do not rely on political intervention but treat the interplay of demand and supply in functioning markets as the most efficient and, in the long run, most viable approach to the problems of capitalist evolution. In contrast, Asian statism emphasizes collective interest, social equality, and the merits of extensive government intervention. Corporatism as practiced in Western Europe envisages a similar active role for the state, but in tandem with employers' organizations and trade unions. Thus, corporatist arrangements are based on the view that markets are always socially and politically embedded. Involving the peak associations of business and labor unions in consensual compromisal arrangements, according to this view, will facilitate implementation of the structural and monetary policies the government and central bank choose to adopt and will reduce social inequality. In contrast to the invisible politics that supports neoliberalism, economic policy-making in the Western European social market economies is visibly political.<sup>3</sup>

The early years of transition reveal that most of the formerly communist countries approached global capitalism using corporatist-like institutions on

<sup>3</sup> The work of David Soskice incorporates these variables into a broader typology of political economies. He distinguishes two main types of political economy, which he refers to as "coordinated market economies" (CMEs) and "liberal market economies" (LMEs). CMEs include the Scandinavian countries, along with much of continental Europe (though Italy and France are, according to him, somewhat anomalous). LMEs comprise mostly the Anglo-Saxon economies (the United Kingdom, the United States, Canada, New Zealand, and Australia). See in Soskice (1999). Similarly, Michel Albert (1993) presents a broader typology of capitalist variants – the Rhine (German-Japanese) model and the Anglo-Saxon model – based on two main differences: the role of the government in the economy and the social safety net. He finds the Rhine model in countries such as Germany to be more successful in the long run, due to growing ideological hegemony, increasing capital mobility, and the search for short-term profits that characterize the Anglo-Saxon model.

a large scale and at both national and subnational levels. So-called tripartism, based on the idea of “social partnership” among governments, unions, and employers’ organizations, has appeared in all of the postcommunist countries, whether economically devastated or economically struggling but sound, left-wing or right-wing in government, or having strong or weak civil societies.<sup>4</sup> After the 1989 breakthrough, there was a broad social consensus that the society at large should move away from one-party rule, central economic planning, and a central focus on egalitarianism, and should build a new order based on democracy, the rule of law, and a market economy, with a readiness to accept greater social inequality as part of the price for economic prosperity. The transition plan worked out by “tripartite coordination,” with government, labor, and emerging business interests as the three main voices in a system of compromise that was, in broad terms, to preserve social peace by distributing the burden and pain of transformation across the population as fairly as possible, with successful political and economic restructuring the anticipated reward.

Hungary was the first to introduce tripartite arrangements that differed qualitatively from the typical state socialist experience. As early as the 1960s and 1970s, the Hungarian communist party, in connection with the preparation of Hungary’s Economic Reform (1968), set a precedent by formally recognizing that differences and conflicts of interest existed even under socialism (Hethy 1994b: 1). At the end of 1988 a tripartite National Council for Reconciliation of Interests was set up as part of the party-state’s deliberate attempt to soften unpopular economic measures and to incorporate broader social groups in the process of government decision-making. The tripartite National Council for Reconciliation of Interests was revived in 1990, and at present it holds regular sessions on social, economic, and labor issues (Hethy 1994b; Lado 1997).

In Germany, which has what is generally considered a weak and anomalous neocorporatist system (Thelen 1991), the challenges of unification and instability in the east have brought a renaissance of neocorporatism (Webber 1994; Turner 1998). In 1991 the privatization agency THA (Treuhandanstalt), state governments, unions, and employers’ associations negotiated an agreement, and a Solidarity Pact was concluded in 1993. The roundtable negotiations on the Solidarity Pact took place between September 1992 and March 1993, and involved the major political and social forces – the federal government, the state governments, the trade unions, the principal business associations, the Social Democratic Party (SPD), and the major opposition party Christian Democratic Union (CDU) – in discussions of measures for coping with the East German crisis and rebuilding the East German economy (Sally and Webber 1994).

<sup>4</sup> See in Thirkell and Tseneva 1992; Freeman 1993; Hausner et al. 1993; Pankert 1994; Hethy 1995; Thirkell et al. 1995.

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In Bulgaria, social dialogue emerged in December 1989, and in March 1990 a General Agreement was concluded between the government, the Confederation of Independent Trade Unions in Bulgaria, and the Union of Economic Managers. The agreement was designed to manage the economic crisis and control the social unrest and disaffection that were anticipated in the wake of pending economic reforms. In April 1990 the signatories of the General Agreement became partners in a National Commission for Coordination of Interests. After changing several times its name and scope, finally, in the beginning of 1993 the National Council for Tripartite Cooperation was formed following the adoption of the new Labor Code, which made social partnership mandatory. The council continues to function today (Thirkell and Tseneva 1992; Petkov and Gradev 1995; Iankova 1998, 2000).

In Czechoslovakia the federal tripartite Council for Economic and Social Agreement (CESA) was established in October 1990, and from the beginning of 1993 the republican councils for economic and social agreement of the Czech Republic and of Slovakia continued to function separately. The main task of these councils, which are known broadly as the “Tripartite,” is to conclude annual general agreements defining conditions of employment and incomes policy (Cambalikova and Mansfeldova 1997).

In Romania a joint government–trade union commission has existed since the end of 1990, with participation of twelve unions, the government, and emerging employers. It functioned regularly in 1991 and 1992 and concluded annual national labor accords, but failed to conclude an accord for 1993. At present, regular tripartite consultations continue in a national economic and social council on issues such as pay indexation and minimum wages (Stefan 1994).

Similar tripartite negotiation bodies were also created in the states of the former Soviet Union. In Russia a national tripartite commission for the regulation of social and labor relations was set up in January 1992, and each year it negotiates national wage agreements (Kirichenko and Koudyukin 1993; Kubicek 1996; Christensen 1999). National tripartite commissions were also set up in Belarus,<sup>5</sup> Moldova,<sup>6</sup> Ukraine (Kubicek 1996), and Latvia,<sup>7</sup> among others.

In Poland, however, whose civil society was a front-runner in the extrication from state socialism, institutionalized social dialogue emerged only in 1994. Before then, relations among social partners were complicated by Poland’s monolithic and “ethical” civil society (Linz and Stepan 1996) or the lack of divisions within the civil monostructure that fought against the

<sup>5</sup> *BBC Summary of World Broadcasts*, 15 March 1994.

<sup>6</sup> *BBC Summary of World Broadcasts*, 2 October 1993.

<sup>7</sup> *RFE/RL Daily Report*, no. 248, 29 December 1993.

communist regime in the 1980s. There was informal bargaining between the unions and the Ministry of Labor, while a tripartite forum – the Main Employment Council – was institutionalized by law only in regard to the most explosive social problem of restructuring, that is, unemployment. A formal tripartite arrangement on broader issues of social and economic restructuring had to wait for the Enterprise Pact, signed in February 1993. In February 1994 a Tripartite Commission on Socio-Economic Issues was formed and became a forum for constant negotiations between the government and the Confederation of Polish Employers, Solidarity, the All-Poland Trade Union Alliance, and seven branch unions (Hausner and Morawski 1994).

At the same time, the postcommunist countries have developed tripartite institutions at lower branch and regional levels. Additional single-issue tripartite forums also were created, mostly at the national level, but some spread to lower levels as well. Each of these forums addressed pressing problems in a particular area: employment and unemployment, vocational training, labor protection and work conditions, health and safety at work, social assistance, social security and social rehabilitation, and social issues of particular professional groups, such as employees in the civil service and budgetary institutions.

These easily observable tripartite-corporatist configurations of state-society relations across the CEE region have prompted, however, a confusing variety of interpretations, from pure neoliberal pluralism to neostatism and corporatism, with multifarious mixtures in between. The problem actually surfaced earlier, with CEE observers' conclusion in the late 1980s that the quickening of civil society, and especially the rise of Solidarity, heralded conflicting outcomes. On the one hand were observers who saw the "demise" of corporatism as a "political project and as an immoral practice in political life," clearing the way for "genuine democratic institutions" (Chirot 1980; Staniszkis 1984). On the other hand were authors such as David Ost, who concluded, on the contrary, that the 1980 Gdansk Agreement between Solidarity and the regime, as well as the agreement signed in the spring of 1989 in Poland that legalized the Polish opposition, point in the direction of an "inevitable" corporatist outcome in Poland (Ost 1989, 1990).

In the early 1990s, the quick institutionalization of tripartite forums for social dialogue across the region has led many observers of the post-communist transformations to conclude that *corporatist-like* practices have been established in the formerly communist countries, especially in Hungary, the Czech republic, Bulgaria, and Poland (Pedersen et al. 1993; Gradev 1994; Hethy 1994a; Thirkell et al. 1995). Following the initial liberal phases of economic reform, however, some authors argued for the emergence of a typical *neoliberal pluralism* in Poland, Hungary, and

Romania, one that has persisted into later phases (Tatur 1993; Schienstock and Traxler 1994; Millard 1999: 113). The supporters of this view emphasized the impressive organizational pluralism and the weakness of trade unions in these countries.

Other authors, while acknowledging the institutionalization of tripartite forums but also their allegedly “inefficient and meaningless” policy-making outcome, argued for the emergence of *neoliberal tripartism* (see in Thompson and Traxler 1997). Others saw a similar mixture of neoliberal pluralism and corporatist tripartism, but one that was determined by country variation rather than conflicting institutional and policy ensembles. Thus, some observers argued for the emergence of pluralism in Hungary and Romania but the prevalence of tripartite concertation in Poland, as in Bulgaria and, to a less elaborated extent, in Russia. Hungary has qualified as a pluralistic regime on the grounds that its interest reconciliation council “has no rule-making competence” (Morawski 1994; Schienstock and Traxler 1994; Thompson and Traxler 1997). Another observer has concluded, in contrast, that Poland developed a confrontational-pluralist model and Hungary a compromise-corporatist one (Seleny 1999).

And finally, there were authors who emphasized Asian developmental-style practices and outcomes in the postcommunist region. The prevalence of state ownership and the important role played by the state in the process of postcommunist restructuring have moved them to regard postcommunist governance as basically statist in character (Amsden et al. 1994).

The next section attempts not only to sort out the merits and weaknesses of these contrasting interpretations, but also, and more important, to establish a sound basis for analytical explanation and policy responses to existing tripartite arrangements.

## 1.2. The Institution of Postcommunist Tripartism

It is noteworthy that part of the confusing variety of analytical interpretations listed above reflected the underdeveloped and immature “corporatist” nature of the tripartite arrangements that spread so rapidly across the CEE region in the early 1990s. Confusion also comes, however, from contested meanings of the concepts – and in particular that of corporatism – in the Western literature. As Williamson wrote, “corporatism remains an ambiguous concept in the political vocabulary, encompassing a wide range of all too often imprecise definition” (Williamson 1985: 3). On the one hand, there are political reservations with the usage of the concept. The interwar experience left, regrettably, a confusing mixture of corporatist and fascist ideologies. Despite the genuine revival of the concept in the 1970s as “neo-corporatism” (Schmitter 1974), and particularly as “democratic corporatism” in reference to the postwar experience with western European



corporatist settlements (Katzenstein 1984, 1985), it, as Perez-Diaz (1987) notes, can still awaken in Spanish public opinion the echo of the Francoist “Estado Corporativo” (Corporatist State). That burdened historical legacy, despite the addition of prefixes such as “neo-,” “societal,” “liberal,” or “democratic” to corporatism, gives preferences to the usage of terms other than corporatism, such as “concertation” and “tripartite cooperation,” “social partnership” (mainly in regard to the Austrian and German examples of corporatism), “negotiated economy” (the Scandinavian case), and “organized” and “coordinated” capitalism.

Most of these terms stem from various segments of the more encompassing analytical concept of corporatism, thus creating confusing conceptual diversities of its meaning. Lehbruch pointed to three analytically distinct developments of “classic neo-corporatism”<sup>8</sup> that have been labeled as “corporatism”: “(i) the development and strengthening of centralized interest organizations or ‘peak’ associations – which possess a representational monopoly; (ii) the granting to these associations of privileged access to government, and the growth of – more or less institutionalized – linkages between public administration and such interest organizations; (iii) the ‘social partnership’ of organized labor and business aimed at regulating conflicts between these groups, in coordination with government policy (usually in the form of ‘tripartism’)” (Lehbruch 1984: 61).

This study uses the insights of the neocorporatist literature to analyze the emerging tripartite forums for social dialogue in CEE – hereafter referred to as “tripartite coordination” or, interchangeably, “tripartism”<sup>9</sup> – as a new postcommunist species of state-society interaction and a new brand of capitalism that is distinct from the three major variants of contemporary capitalism, including Western European neocorporatism.

<sup>8</sup> It reflects the heyday of corporatist arrangements in Western Europe in the 1960s and 1970s, marked with impressive social and political stability and economic growth, on the basis of centralized negotiations over wages and incomes and social and employment policies.

<sup>9</sup> I have chosen this term, first, for policy and practical convenience. Despite the immature employers’ side in tripartite negotiations, the official policy label for these corporatist-like forums in different postcommunist countries contains, in fact, the word “tripartite”: the National Council for *Tripartite* Cooperation in Bulgaria, for example, and the National *Tripartite* Commission in Poland. Similarly, the International Labor Organization – which has encouraged the promotion of social dialogue since it was founded in 1919 – has in its numerous conventions and recommendations the notion of *tripartite* cooperation as its ideological thread (Trebilcock 1994: 5–6). Second, the concept of tripartism emphasizes some critical differences with the classic neocorporatist arrangements that peaked in Western Europe in the 1970s. In particular, as a more neutral concept in terms of social purpose and policy outcomes, it emphasizes the political-ideological disentanglement of postcommunist tripartite arrangements from the social-democratic thread that was so typical for the Western European “corporatism” – often used interchangeably with “social democracy” – of the 1960s and 1970s.



Central is the understanding of these forums as the *institutionalization of compromise* among social actors in the industrial arena. I apply an institutionalist perspective to their analysis, as part of what B. Guy Peters called “societal institutionalism” (Peters 1999: 20).<sup>10</sup> Although the early corporatist literature did not explicitly advance an institutional analysis, it clearly delineated a “structural relationship” between government and interest organizations in the society that could be interpreted through all the major institutionalist perspectives, such as historical, rational choice, and sociological (normative) institutionalism (Peters 1999: 117). The relationship between government and interest groups could be viewed as “rational” (the rational choice perspective), but also as aimed at an “appropriate behavior” understood as general consensus (the normative-institutionalist perspective) and as “path-dependent” (the historical-institutionalist perspective).<sup>11</sup> The common methodological theme is the institutionalist one, the recognition that the interests held by individuals are in part organizationally – not individually – determined.

This study emphasizes the importance of the normative-institutional aspects of tripartite coordination, the pursuit of social peace through compromise on the basis of general consensus among all actors involved over commonly desired political and economic outcomes. In its broad sense, tripartite cooperation implies the inclusion of social groups in the political and governmental decision-making process, in order to minimize conflict and maximize growth. This inclusion is grounded in a shared understanding of the necessity to cooperate in the resolution of pressing common problems. Tripartite compromise implies that the state and all interest groups participating in tripartite bargaining moderate their positions and make trade-offs to achieve “second-best” results.

The normative, consensual-compromisal aspects of tripartism have a special meaning for societies undergoing major sociopolitical and economic transformations, such as the CEE countries. While ruling elites, new opposition movements, and the society at large all agreed to disentangle themselves from the old practices of state socialism, successful accomplishment of this strategic goal was largely contingent on their commitment to maintain social peace. This meant a continuous societal effort to balance the

<sup>10</sup> Peters outlined four basic elements of an institution that distinguish the institutionalist approach from other approaches: (1) the existence of a structured feature of the society and/or polity, which could be formal (a legislature, an agency in the public bureaucracy, or a legal framework) or informal (a network of interacting organizations or a set of shared norms); (2) the existence of some stability over time; (3) evidence that individual behavior is affected by the institutional constraints; and (4) the existence of some sense of shared values and meaning among the members of the institution (Peters 1999: 18).

<sup>11</sup> See the review article by Hall and Taylor 1996; also Thelen and Steinmo 1992; March and Olsen 1984, 1989.

dynamic and intensifying conflicts between the “high” public interest in transforming the old social order and the “low” group and individual interest in keeping wages and living standards at high levels. Among the elements of transition on which consensus was reached was the need to construct the three major capitalist institutions: private property, a market, and wage labor.

My institutionalist methodological framework further emphasizes policy procedures rather than policy outcomes. The tripartite institutions and procedures of transition reflect social dialogue arrangements that might have different policy outcomes: Keynesian of a social-democratic type and leading to active interest group involvement in the decision-making process, or austerity-oriented, neoliberal ones which – as inevitable as they were in order to secure the creation of functioning markets in the CEE region – might also lead to the marginalization of interest group input in government policy-making, or some hybrid in between (Iankova and Turner 2000).

Postcommunist tripartism critically differs from the classic neocorporatist arrangements that peaked in Western Europe in the 1970s. CEE’s tripartite forums for social dialogue could be regarded as a *transitional* form, an *immature* approximation of classic neocorporatism, with important differences in terms of social purpose and policy functions, participating actors, and organizational-institutional structures.

Noteworthy, however, is that the CEE arrangements seem to be “on track” with the most recent developments of corporatist practice in Western Europe. By the early 1990s, when tripartite corporatist-like arrangements peaked in the postcommunist region, the Western European classic neocorporatist arrangements had declined and “withered away,” as a result of increasing flexibilization, internationalization, and globalization of the world economy, combined with the decline of Keynesian economic policies and the rise of neoliberalism. Thus, from the early 1980s, a trend toward an increasingly “disorganized” capitalism ensued in Western Europe (Lash and Urry 1987; Gerlich 1992). From the early 1990s, however, a surprising “renaissance” of Western European corporatist arrangements was observed (Grote and Schmitter 1999). The new forms of corporatism bear clear signs of restructuring and transformation, and point to the emergence of new features such as “decentralization” (Schmitter 1990; Treu 1992), “flexibilization” (Soskice 1988), “segmentation and fragmentation” (Streeck 1984), “less regulation” (Scheuer 1998), and, most important, disengagement with the social-democratic ideology and practice of classic neocorporatism even in the conditions of empowered left-wing governments (Ferner and Hyman 1998). Overall, in an increasingly neoliberal global environment, the Western European corporatist arrangements are still searching for a new identity and role in the domestic political economies of western European countries, with a rethinking and revision of “classic” corporatist theory.