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Political Economy of Reforms in Eastern Europe

Prof. Viachaslau Yarashevich
Belarusian State University
University of Bologna Erasmus-Mundus

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Prof. Viachaslau Yarashevich
Belarusian State University
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Table of contents

Abstract	5
Introduction	7
Public interests, social groups and class	9
Political economy of neoliberalism as the mainstream of post-communist discourse	12
Alternative political economy approaches to post-communism	19
What kind of capitalism needed for post-communism in the globalised world?	21
Bibliography	25
Author	29

Abstract

Reforms in Eastern Europe, launched in the early 1990s, have touched upon all spheres of former communist societies, but their greatest impact has been on politics and economies. It is the complex nature of these reforms which makes political economy the most relevant tool for understanding such a phenomenon as post-communism. Above all, it should reveal the concept of reforms, their principles and driving forces. Then it can help with identifying what went wrong and what can be done to make post-communist transformation more successful in the long term. In other words, political economy approach to post-communism should amount to a critical interpretation of links between politics and economics in Eastern Europe, formed by various public interests. The latter essentially reflect the views of major social groups with regard to how economy should be run so that public wealth is maximised and fairly distributed. And whereas the configuration of public interests during post-communism was shaped by many factors, it seems that the most important among them was a failure of political elites to balance the interests of major social groups in a fair and efficient way. As time has passed, it proved a serious challenge for all post-communist countries, especially those in the former Soviet Union. It is argued that this was caused by the wrong capitalist model implemented in post-communism. Notably, rather than embracing rather crude and idealised forms of neoliberalism, East European countries should have adopted more socially-oriented alternatives which were put forward by progressive academics yet in the early 1990s and may be still aspired to by majorities across the region.

Introduction

The recently commemorated fall of the Berlin wall marked a new era in the history of Eastern Europe – the post-communism. Nearly thirty countries, most of them having just gained independence, launched historically unprecedented reform programs aimed at replacing one political and socio-economic order with another. Capitalism, or market economy, had to be introduced into economies where private property was virtually banned as an institution for several generations, while state sought to control almost everything. Simultaneously, Eastern Europe embraced democratisation, in most cases having no meaningful experience of democracy. In some sense post-communism amounted to a region-wide capitalist revolution, though different from similar revolutions in Western history in one crucial aspect – there were no capitalists or bourgeoisie to drive it:

This upheaval is a revolution without a historical model and a revolution without a revolutionary theory... This “capitalism by design” (or capitalism without capitalists as active promoters of their class interests)... cannot rely on blind evolutionary emergencies, which has largely been the pattern in the history of pioneering Western capitalisms (Offe 1991, pp.866, 879).

The outcomes of reforms in Eastern Europe have been controversial. On the one hand, it seems that some countries, notably those 11 that joined the EU in the decade since 2004, have been more successful than those left out of the EU. On the other hand, even more successful post-communist countries still face structural economic and social problems which transition to capitalism was about to solve, not to speak about less successful reformers in the Balkans and the former Soviet Union (EBRD 2013). In the economic sphere such problems include persistently high unemployment, budget and trade deficits, as well as lack of investment and competition. In the social sphere

the biggest concern perhaps is rapidly aging population and the strain on the pension systems it puts. And in politics it is diminishing trust in democratic institutions and the rise of populism which seem to be most salient issues. What is wrong with post-communism then, why a generation after it started people of Eastern Europe still doubt about their future (Tupy 2006, p.5)? Because post-communism has been both political and socio-economic phenomenon, it seems that answers to these questions can be found only by using the methodological framework of political economy.

According to classics, political economy is a science which determines the laws regulating the production and distribution of wealth (Mill 1987, p.1; Ricardo 1963, p.1), “an important division of the science of government” (Sismondi 1991, p.1). And it is not “natural wealth”, supplied by nature, which is the subject of political economy, but “social wealth”, which is “founded on exchange and the recognition of the right of property, both social regulations” (Say 1964, xv). In a similar but rather critical way political economy was defined by Engels, a colleague of Marx: “Political economy came into being as a natural result of the expansion of trade, and with its appearance elementary, unscientific huckstering was replaced by a developed system of licensed fraud, an entire science of enrichment” (Engels 1844). Nowadays “it is natural to think that the name [political economy] refers to a discipline that studies how politics affects the economy and vice versa” (Landesman 2008, p.302). To sum up, then, political economy can be understood as a “study” of how countries are “managed or governed, taking into account both political and economic factors” (Balaam 2011).

It is the complex nature of post-communism which makes political economy quite appropriate for the study of reforms in Eastern Europe. First, it should reveal the concept of reforms, their principles and driving forces. Then it can facilitate the understanding of what went wrong and what can be done to make post-communist transformation more sustainable. Thus, in the context of post-communism political economy can amount to a critical interpretation of links between politics and economics in Eastern Europe, formed by various public interests. The latter essentially reflect the views of major social groups with regard to how economy should be run so that public wealth is

maximised and fairly distributed. And whereas the configuration of public interests during post-communism was shaped by many factors, it seems that most important among them was a failure of political elites to balance the interests of major social groups for the long-term benefit of the whole society. As time has passed, it proved a serious challenge for all post-communist countries, especially those in the former Soviet Union. We argue that this was determined by the wrong capitalist model chosen for post-communism.

Public interests, social groups and class

Before we start our analysis, some explanation is required with regard to the use of such concepts as public interest and social group, which seem quite intelligible and worth using in the context of the present paper. Social group can be viewed as a type of a peer group, i.e. “collection” of individuals “who define themselves, and are recognized by others, as a distinct social group” (Hansen 2011). Since any peer group should have shared norms and culture, it is possible to distinguish between post-communist social groups on the basis of their attitudes to reforms. Indeed, a similar argument was developed by Herbert Kitschelt (1992), who essentially proposed what Evans (2006) called a “unidimensional model” of social cleavages in the region (p.250). As such, positive attitude to reforms would be expected from all those who disliked socialism and had entrepreneurial spirit. As a social group, it would mostly comprise of working-age individuals with above-average qualifications, good social connections and entrepreneurial outlook. The opposite attitude to reforms would be expected from working-age individuals with average qualifications, lack of social connections and entrepreneurial outlook. It would also include most of the retired, most students (since only some of them would have entrepreneurial spirit), unemployed and other socially and economically disadvantaged groups (Kitschelt 1992, p.26). Thus, in the course of political economy analysis of post-communism two large social groups can be constructed – entrepreneurial and non-entrepreneurial ones.

Since the attitude to post-communist reforms is essentially an economic concern, social groups in the present paper are identified by their interests and are not restricted on identity grounds. And since the interests of social groups lie in the public domain, they can be considered public interests. In other words, it is argued that public interests represent social groups' expressions of ideas on how, if at all, post-communist reforms should be done, or to rephrase the classics, on how national wealth should be created and distributed in Eastern Europe.

With class arguably being the largest and politically most important type of a social group, it would seem appropriate to use class analysis as the methodological foundation for the present study. Indeed, despite its relative unpopularity in the late 20th century, class analysis could be an important theoretical toolkit for explaining political economy issues of post-communism (Lane 2007, pp.57-9). But is it possible to distinguish classes in post-communist societies? Class, or to be more precise, social class, is indispensable from ideology, and a social group cannot be called a class if it lacks distinct political identity, or class consciousness (Crompton 2011; Savage 2000, pp.37-40). With regard to post-communist workers, it is doubtful whether they have a working class consciousness today, as it was probably gone with the fall of communism (Stenning 2005). In turn, post-communist entrepreneurs are still a relatively new social phenomenon to give them a separate class identity, especially if they themselves do not seem to organize along class lines (Evans 2006, p.248; Lipset 1994, p.15). Post-communist middle class would be even more difficult to define (Dubin 2009) given that the exact profile of the middle class is still debated even in more advanced Western societies (Eder 1993, p.168; Eisenhauer 2008; Savage 2000, pp.155-9).

In their analysis of certain Western societies, some scholars used the term economic rather than social class, which refers to "individuals who, due to a common economic position, share latent interests, but not necessarily anything else" (Oesch 2006, p.3). Perhaps being appropriate for Western societies, "economic class" appears a problematic definition for the study of post-communist ones. As a result of radical communist revolutions and similarly radical liberal reversals, all in a period of less than a century, the latter have much more blurred class lines than in the West to permit even restrained

class analysis. To begin with, there were no "capitalists for capitalism" in Eastern Europe (Eyal 1998, p.7; Offe 1991, p.879). In fact, some Western commentators argued that communist societies did not feature class stratification at all (Eyal 1998, p.7; Ost 2009, p.501). In his analysis of the Polish experience, for example, David Ost claimed that inequalities and structural differences in communist societies could not run along class lines, as there was no private property or "large accumulations of personal wealth". Instead, all social groups could express their own interests only in relation to the state, not to each other. And it is only with the onset of post-communism that "a dramatic period of class formation" was ushered in (Ost 2009, p.502). While these observations have been made with regard to specific Polish experience, one can assume they would apply to most post-communist countries too. Indeed, if communists apparently succeeded in eliminating class divisions even in Poland, which had only two generations of communist experience, what should one say about Russia and most other former Soviet republics, where communism lasted for nearly four generations?

It is important to note, though, that lack of class divisions and conflicts in communist societies could be seen as the reverse side of the formal empowerment of the working class, no matter how illusionary in reality it might have been (Stenning 2005, p.984). Indeed, by asserting that for "state socialism" "the ruling class is also the economically dominant class", and that "the state coincides with the dominant class", Burawoy and Lukacs (1992) implied not only that there was at least one class in communist societies, but that it was this class which was most politically and economically important (p.82). And post-communism meant nothing less than virtual disempowerment of this class, perhaps possible precisely because they lost their distinct consciousness, having de facto disappeared as a class.

Thus, "transition from communism to capitalism is, in principle, a transition ... to class society" (Eyal 1998, p.7). Because this process can hardly be completed in 25 years, pure class analysis seems inapplicable to post-communism yet. However, it does not mean that the latter should not be examined from a more neutral interest-based approach, focusing on social groups (not classes, whether social or economic) and their interests.

Political economy of neoliberalism as the mainstream of post-communist discourse

The predominance of neoliberalism as a theoretical foundation for post-communist reforms stems from its popularity among communist dissidents in the 1980s. Some western scholars claimed that political thought trends in Eastern Europe have frequently been “derivative of intellectual fashions developing elsewhere in the world” (Ost 2009, p.508). Thus, whereas in the late 1970s communist dissidents who later formed first post-communist governments admired works on self-governing socialism, since the early 1980s, when the right represented by Reagan, Thatcher, Kohl and others took over in the West, they fell in love with works by Hayek and other liberals (Ost 2009, p.508). Similarly, Eyal et al claimed that the “ideology” of political forces driving post-communist transition was monetarism, “a liberal art of government” formulated by economists from Chicago School to challenge “mainstream Keynesian theory and practice in the early 1970s” (Eyal 1998, pp.87-8). Neoliberalism might have also become popular among dissident intellectuals due to inadequate knowledge about post-war western political economy, as well as communist anti-capitalist propaganda. As a result, capitalism was understood by post-communist liberals in “an old-fashioned Marxist way” (Ost 2009, p.509), and according to Poznanski (2001), was “built by communist tools” (p.322). In reality, though, modern western capitalism is quite different from its original 19th century form, just as East European socialism was different from communism, and its post-communist emulation would require a lot more sophistication than *Bildungsbürgertum* (East European intellectuals-turned-politicians) could provide.

As a theoretical trend, post-communist neoliberalism was based on a particular vision of economic reforms commonly referred to as the “Washington consensus”, and described as the “conventional wisdom of the day among the economically influential bits of Washington...; the outcome of worldwide intellectual trends... which have had their

most dramatic manifestation in Eastern Europe” (Williamson 1993, p.1329). This policy package, promoted by the leading Washington-based international financial organizations such the IMF and World Bank (Eyal 1998, p.89), suggested a combination of short-term neo-classical stabilisation measures with medium- and long-term structural reforms aimed at decreasing the role of the state and increasing the role of the market in the economy (Pereira 1993, p.19).

Post-communist neoliberalism was more than just an economic policy agenda – its ultimate goal was no less than replacing one political economy system with another – capitalism in place of socialism/communism (Sachs 1999, pp.4-5). Referring to the rapid and total disintegration of the latter, as well as an allegedly significant public support for reforms, neoliberalism argued that a new order had to be brought about quickly, so as not to miss what a famous Polish reformer Balcerowicz called a “historical window of opportunity” – a rare and precious mandate of electorate’s reform enthusiasm (Blejer 1995, pp.81-2).

In terms of interest-based political economy, neoliberalism clearly favoured entrepreneurial groups, comprising energetic individuals who were not happy with the egalitarian bias of socialism, and sought better remuneration for their work and skills:

These are workers and new entrepreneurs, originally from state-owned enterprises, who have the skills to become new entrants in the competitive market; they face initial losses from discipline as they adjust to the decline in the state sector; however, they are likely to see gains from entry into the market if encouragement is effectively implemented and sustained (World Bank 2002, p.92).

These groups were hoped to become the social base of post-communism, the foundation for the new middle class, capable of providing sufficient public support for reforms to make them irreversible. But it soon became clear that post-communist entrepreneurial groups were rather heterogeneous. Indeed, neoliberal economic policies allowed millions of talented and energetic people to uncover their potential and become decent entrepreneurs. However, many individuals chose to use post-communism with less decent, or even criminal goals, to privatize state assets and convert their

new economic powers into political ones. Thus, oligarchs appeared, particularly prominent in Russia, who were happy with their new social positions and not interested in further economic reforms in fear of economic competition and legal prosecution. In his seminal article on winners and losers from post-communism, Joel Hellman (1998) identified these people as:

...enterprise insiders who have become new owners only to strip their firms' assets; *...commercial bankers* who have opposed macroeconomic stabilization to preserve their enormously profitable arbitrage opportunities in distorted financial markets; *...local officials* who have prevented market entry into their regions to protect their share of local monopoly rents; and... so-called *mafiosi* who have undermined the creation of a stable legal foundation for the market economy (p.204).

Referring to the case of Russia, Eyal et al (1998) called them “capitalists without capital”, arguing that they were unfortunate by-products of neoliberal reforms (pp.4-5). However, emergence of such groups appeared quite natural given a weak political and legal culture in many post-communist countries, and the absence of adequate external constraints, such as EU or NATO membership. Neoliberalism realized that it is such groups which posed the greatest risk for post-communist reforms (World Bank 2002, p.94), and it sought to constrain them by austere structural policies and deepening democratisation. However, once the genie of oligarchy was let from the bottle, policy measures to get it back in the absence of external constraints seemed to be by and large inefficient, with Russia being the most notorious example. Notably, this largest post-communist country now has at least three times more oligarch billionaires than in the early 2000s: despite the global financial crisis and continuous neoliberal reform commitment, their number surpassed 100-mark in 2011 (Forbes 2011).

Distinguishing between “bad” and “good” entrepreneurial groups became central to neoliberal interpretation of post-communist interest-based political economy. In the influential World Bank (2002) study of the first decade of reforms in Eastern Europe, it was argued that oligarchs should lose their clout and give way to decent entrepreneurs (“new entrants”) provided that more neoliberal reform is undertaken to discipline the weak and encourage the new economic

actors. However, more than a decade after the World Bank study post-communism in Russia and some other countries has still been dominated by rather “bad” entrepreneurial groups (Sakwa 2008; Balmaceda 2008), overshadowing growing but self-doubting middle class (Dubin 2009; Remington 2011).

The obvious neoliberal focus on new entrepreneurial groups as the driving force of post-communist reforms inevitably reduced the importance of non-entrepreneurial groups, or the working class, who were characterized as follows:

These are workers from state-owned enterprises without the skills to become new entrants in the competitive market; they face significant losses initially because of discipline (unemployment, price increases) and are unlikely to realize any gains from encouragement (World Bank 2002, p.92).

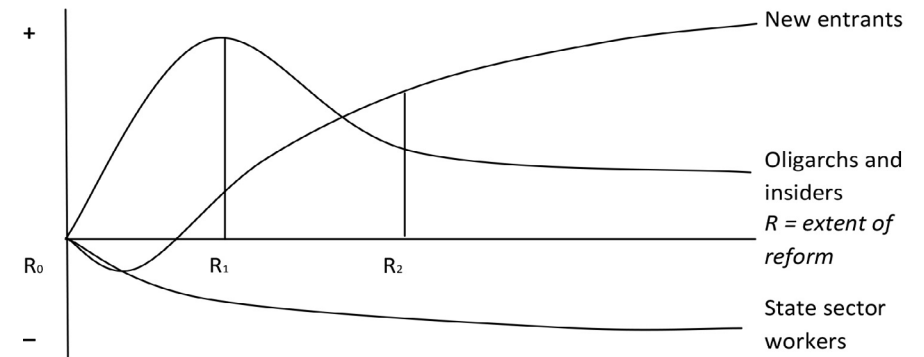
In the “winners versus losers” framework devised by Hellman (1998) to analyse political economy implications of post-communism for various social groups, the working class was accompanied by the unemployed, impoverished pensioners, and “superfluous” state bureaucrats to form what he called the “traditional losers” (p.217). In accordance with neoliberal thinking, these groups would have to adapt to the new order by either becoming “new entrants”, i.e. decent entrepreneurs, or by preparing to bear social costs of post-communism in the expectation of a better future (World Bank 2002, p.92). Obviously, among hundreds of millions of post-communist workers and pensioners now comprising non-entrepreneurial groups of “traditional losers” only a limited number could be expected to become “new entrants” in the neoliberal order, while absolute majority would have to suffer in the specific post-communist “trade-off between opportunity and security, ...poorly understood and bitterly disliked” (Balcerowicz 2002, p.50).

Neoliberalism did take into consideration the political enfranchisement of non-entrepreneurial groups brought about by post-communist democratisation, and the risks it posed to reforms should “traditional losers” vote out reformers. These concerns were expressed in a J-curve model by Przeworski as early as in 1991, but they largely failed to materialize. Post-communism proved a more complex

process than originally thought, with non-entrepreneurial groups, however unhappy about their losses, failing to overturn it using their democratic powers. Neoliberals explained it by inclusive nature of reforms, made possible by democratisation, and reconciliatory effects of compensation mechanisms, introduced by reformers at an early stage (Alsund 2007, p.213).

One can argue that social cleavages inflicted by post-communism were inevitable in the specific historical context, whether imposed by neoliberals or anyone else. They reflected a wider process of deindustrialisation and tertiarisation of developed economies that began in the 1970s (de Groot, 2000, p.13; Kollmeyer 2009). Communist countries had some of the most industrialised economies in the world, yet losing out in competitiveness on the global market, they were doomed to deindustrialise (Kolodko 2000, p.11). As such, workers would suffer anyway, and neoliberal “shock therapy” has simply speeded up this suffering (Rutkowski 1995). However plausible this argument may seem, it does not consider the fundamental difference between post-communism and modern western capitalism. The latter is a mature political economy system, with advanced institutional settings to balance different public interests by providing sufficient compensation and preventing unfair advantages or outrageous corruption. By contrast, Eastern Europe has been undergoing historically unprecedented process of moving from state socialism to capitalism, a system change requiring new institutional settings which would hardly provide timely and adequate compensation for deindustrialisation. As such, post-communist workers and other non-entrepreneurial groups were condemned to suffer much more than similar groups in the West, and neoliberalism has made this suffering worse by virtually neglecting so-called “traditional losers”. One could see it, for example, in the World Bank illustration of post-communist dynamics: only the new entrants, i.e. entrepreneurial groups, would win from neoliberal reforms in the long run, whereas state sector workers, or non-entrepreneurial groups, would lose (see Figure 1).

Figure 1. World Bank's perception of winners and losers from post-communist reforms



Source: World Bank (2002), p.92

Notes: R_0 – No reforms.

R_1 – Point at which income gains of oligarchs and insiders are maximized.

R_2 – Level of reforms that allows the winners from reforms beyond R_1 (new entrants) to compensate for or exercise enough political pressure to neutralize the resistance of oligarchs, insiders, and state sector workers.

It can be stressed that World Bank considered only workers from the state sector, and did not mention private sector workers, as well as pensioners or students to interpret its model for all non-entrepreneurial groups. However, the very failure to mention other non-entrepreneurial groups highlights neoliberal preoccupation only with entrepreneurial groups, either good (“new entrants”) or bad (“oligarchs and insiders”).

Perhaps this seeming neoliberal disregard for all those dependent on the state was not intentional, as democratisation could be expected to resolve any serious social cleavages in post-communist societies. Indeed, neoliberalism never opposed it, constantly arguing for more democracy in Eastern Europe. However, post-communist experience showed that simultaneous democratisation and “marketisation” did not prevent but rather exacerbated social cleavages, most likely

because both processes were too hasty and too many mistakes were made. Yes, disadvantaged non-entrepreneurial groups received voting powers to choose politicians who could defend their interests, but as it turned out there were not many of those, as post-communism initially produced only two types of politicians – either former communists, who were not trusted, or former dissident intellectuals, so-called **Bildungsbürgertum**, who largely shared neoliberal ideas. And when the third type of a post-communist politician emerged later to express wider public discontent at reforms, it was a populist, again, most often neoliberal rather than leftist (Ost 2009; Tupy 2006). As such, post-communist democratisation has largely failed to alleviate social cleavages and establish decent political process, whereby politics would reflect the real balance of interests in a society.

Admittedly, the situation has been better in those countries that joined the EU, as the latter to some extent disciplined post-communist politicians, making them more accountable to their voters. Yet in those countries which lacked western incentives and discipline domestic politicians frequently ignored their public commitments, allying with big business and making fools of their voters. In some, democratisation has even been reversed, with Russia being the most unfortunate case. This, however, should not be surprising, as politically immature and economically weak post-communist states lacked institutional arrangements that could facilitate social partnership. Ideology may have also played a role-adopting neoliberalism in Eastern Europe was like taking cold shower after hot one for people strongly influenced by communist ideology (Burawoy 1992, p.85). Many simply refused to accept it, especially if they came across personal material suffering, which unfortunately was the case for most who failed to discover entrepreneurial talents and quickly adapt to the new economic order.

Alternative political economy approaches to post-communism

Backed by resources from international financial institutions, neoliberalism continues to be the mainstream policy approach in most

post-communist countries. At the same time, it came under intense academic criticism yet in the early 1990s, with many authors raising concerns about its ambitious policy agenda. Some of these authors could be considered social democrats (Kolodko, Ost, Przeworski), others were evolutionary economists (van Brabant, Murrell, Poznanski), with quite a few also appearing to be institutionalists (Bartlett, Stark, Bruszt). The extent of criticism towards neoliberalism from these authors was different, but they all shared an important political economy predisposition to pay more attention to non-entrepreneurial groups. It was feared that simultaneous transitions to democracy and capitalism in post-communist countries could open “a Pandora box” of legitimate public resistance to reforms, which would overturn the whole post-communist project (Offe 1991, p.881). To prevent this “worst case scenario”, social democrats emphasised the need for appropriate compensation mechanisms to be introduced early in transition (Przeworski 1991, p.76); evolutionary economists argued for gradual speed and sequential mode of reforms (van Brabant 1995, p.162; Murrell 1992, p.42), while institutionalists obviously focused on social and economic institutions as underlying blocks of post-communism (Bartlett 2000; Stark 1998). However, none of the critics to neoliberalism has actually offered an alternative reform agenda which would have the interests of non-entrepreneurial groups at the centre. Instead, they tried to explain what has already happened as a result of neoliberal policies, and how these groups should adapt to their new “subordinate” roles.

In fact, all these alternative political economy approaches to post-communism can be considered a part of the so called “adaptation discourse”, which tended to view non-entrepreneurial groups as obstacles to market reforms in the region (Riabchuk 2009, p.55). As argued by Riabchuk (2009), the “adaptation discourse misrepresents post-communist workers by suggesting that their marginal socio-economic positions are due to their lack of adaptation potential” (p.62). In reality, though, it can be seen as concealing social inequalities brought about by post-communism, and promoting individualisation of labour relations. As such, the adaptation discourse, as well as all alternative political economy approaches to post-communism associated with it, indirectly facilitates neoliberalism by refusing to address the fundamental

roots and possible remedies for the conflict between entrepreneurial and non-entrepreneurial groups in post-communism.

This conflict, it seems, lies precisely in the perception of non-entrepreneurial groups representing the majority of people (Offe 1991, p.876) anywhere in the region as impediment to reforms. And this perception, in turn, may stem from the failure to acknowledge the principal deficiency of neoliberalism with respect to the type of capitalism it seeks to impose on Eastern Europe. Rather than emulating modern western capitalism, which implies restraints on private actors in a form of institutional arrangements including rather than excluding workers and other non-entrepreneurial groups, neoliberalism promotes essentially pre-war, rather “primitive” form of capitalism based on the “mythologized histories of... the free market paragons, Britain and the United States” (Amsden 1994, p.3). And it is natural that many people do not like it, especially in those countries which did not join the EU and are left alone with their socio-economic problems.

For as it turned out, democratisation failed to make post-communism a fair and inclusive process, because at the very exit from communism political institutions, according to David Bartlett (2000), were specifically constructed in such a way so that disadvantaged social groups would not alter the course of reforms (p.38). It is not surprising, then, that democratic elections in the region became largely the reflections of popular protest rather than of conscious political choices (Greskovits 1998, p.90), as many people lost faith in politicians as a class. And while this may appear to some as an inevitable and temporary side-effect of simultaneous political and economic reforms, it seems that its consequences may be far-reaching both for democratisation and neoliberal reforms, especially in the absence of strong external constraints.

What kind of capitalism needed for post-communism in the globalised world?

Indeed, there was very little discussion of what kind of capitalism should be built by post-communist societies. Perhaps this resulted from

the lack of aspiration to understand post-communist political economy from the interest-based perspective. In turn, this led to more superficial alternative interpretations of post-communist social and economic problems, whereby they were explained not by “a conflict of interests but [by]... a conflict of identities: liberals, communists, “red barons”, and atheists against the ...nation” (Ost 2009, p.510). These identity-based explanations tended to politically marginalise certain groups of citizens, regardless of their economic concerns. In other words, neoliberal dislike to interest-based interpretation of post-communist transformation might have contributed to populist upheavals in the region, distracting attention from more salient challenges of post-communism.

Among the latter, globalisation can arguably be viewed as the single most important challenge. To provide high standards of living for their citizens, countries have to compete for increasingly mobile capital and other factors of production. And high standards of living require foremost high incomes for non-entrepreneurial groups, whether in the form of wages for workers, or pensions for the retired. Yet this requires attracting more capital and technology in the form of FDI, which is increasingly mobile and sought after by many countries. It seems then that the ultimate tool workers can use to attract transnational corporations and protect against capital mobility is to improve qualifications:

Whereas masses of unskilled workers are available anywhere in the world, skilled labor is relatively scarce. This tends to mitigate capital mobility, which is the most important weapon of businesses against immobile workers in the world of global finance and transnational production (Bohle 2006, p.9; Frieden 1991).

And workers’ opportunities to obtain better qualifications critically depend on welfare, i.e. public provision of such services such as education, health care, social security. However, post-communism has not only failed to learn from the European social model, but also deprived itself of the key sources of wealth to provide for the welfare. Indeed, swift privatisations that took place across the region led to foreign-controlled property structures whereby profits, “a basic source

of wealth... are claimed now by foreign owners of banks and factories” (Poznanski 2001, p.320). As a result, post-communism produced economic systems which may lack internal sources of adjusting to globalisation, and as such significantly differ from more resilient Western economic systems. Indeed, neoliberal reforms in Eastern Europe coupled with EU accession made the region very attractive to global business and finance, but at the same time they constrained public capacity to provide for the physical and social infrastructure necessary to compete on the top-wage level of the global market. So far, most postcommunist countries managed to compete only at the bottom, sweatshop level, with only a few countries making inroads into the middle level (Bohle 2006).

Post-communist political economy shortcomings have partially resulted from the narrow perception of institutions. Indeed, the latter have been emphasised by both neoliberal and alternative approaches, but seldom have they been specified in the interest-based perspective. Yet it seems that in a modern capitalist society institutions are important not per se, but as a framework providing for efficient mitigation of competing public interests, i.e. as a platform for peaceful resolution of economic conflicts between major social groups. As argued by Ost, “modern capitalism” can generate prosperity for all only if “states and societies [are] developing institutions that guarantee extensive labour participation and cooperation with capital. It is these institutions – rules, structures, norms, expectations – that generate and reproduce the awarding of the “benefits” (Ost 2009, p.508). And historically such institutions were developed as a result of Keynesian, rather than liberal economic policies, which led to “disconnecting the class conflict from broader conflicts about citizenship and collective decision procedures” (Kitschelt 1992, p.13). Yet even if most post-communist countries managed to create the formal institutions, few, if any at all, have succeeded in establishing the informal ones, norms and expectations, which are crucial for a modern capitalist economy. The lack of trust and positive expectations, even if it is culturally embedded in Eastern Europe, may be seen as the greatest institutional challenge for post-communism.

However controversial have been neoliberal reforms in Eastern Europe, it is important to understand that 25 years ago there hardly was a meaningful alternative. With the fall of the Berlin wall and eventual

breakup of Soviet Union post-communist countries had nowhere to turn but the West, where neoliberalism was dominant since the mid-1980s as a natural response to the weakening competitiveness on the global market. Eastern Europe was quickly seized as a land of opportunity for many Western corporations restructuring their value chains under global competitive pressures (Bohle 2006, p.10). In this regard the EU’s enlargement policies were partly driven by corporate aspirations as much as by strategic geopolitical concerns. The EU support has so far mitigated the negative consequences of neoliberal policies in the new member states from Eastern Europe, but many more post-communist countries did not have such a privilege. Thus, the contrasting experience of reforms in the region suggests that post-communism might benefit from a different form of capitalism. So far, the region had no alternative but a “primitive”, or “normal capitalism” (Ost 2009, p.507) which managed to deliver in Central Europe due to EU enlargement, and in CIS due to commodities boom in 2001-2008. Now, with the global economic distress still in place, post-communist countries have a good opportunity to revise their neoliberal legacy and embrace a different form of capitalism, advantageous not only for entrepreneurial, but also for non-entrepreneurial social groups.



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Author

Born in Belarus a decade before the USSR break-up, Viachaslau Yarashevich had a living experience of post-communism in his youth during the 1990s. After receiving an honour's degree in international relations from Belarusian State University in 2001, he went to Britain to continue his political economy studies, first at Sussex (2001-2002), and then at Kingston universities (2002-2006). In 2006 Viachaslau returned to Belarus with his British MA and PhD degrees, and has taught at his alma mater BSU ever since, making occasional foreign trips as part of his academic mobility. In 2013 he first met with Prof. S. Bianchini at the University of Bologna, having established good working relationship, which led to a number of open lectures to postgraduate students in Italy on topics devoted to post-communism. At the moment, Dr. Yarashevich is conducting his Erasmus-Mundus-funded research on comparative political economy of Eurasian integration at the Department of Political and Social Science / Center for East-Central Europe and the Balkans at the Forli campus of the University of Bologna.

e-mail: viachasl.yarashevich2@unibo.it

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Tania Marocchi works for PECOБ's research team and is the head of PECOБ's Up-to-Date Alerts section. Inquiries regarding conferences and events, calls for academic papers or applications, and internships with IECOB should be directed to Ms Marocchi at tania.marocchi@pecob.eu.

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Andrea Gullotta is a contributor for PECOБ's scientific library. Mr Gullotta's work can be found primarily in the "Language, Literature and Culture" section of the Scientific Library. Mr Andrea Gullotta can be reached at andrea.gullotta@unive.it.

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