ENLARGING THE VARIETIES OF CAPITALISM
The Emergence of Dependent Market Economies in East Central Europe

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Introduction

DURING the last few years, comparative typologies of capitalisms (comparative capitalism)[1] have become canonical among students of the political economy of Western societies.[2] This research field has been pioneered by scholars such as Andrew Shonfield[3] and popularized by Michael Albert,[4] and the landmark volume compiled by Peter Hall and David Soskice[5] has both built upon and inspired many related studies. The idea that the basic institutions of capitalism differ from one country to another and that these differences are not accidental but linked to strong institutional complementarities, has led to a very sophisticated, holistic, and easily understandable picture of the institutional complexity of advanced capitalism. Many empirical studies depart from the juxtaposition of liberal market economies (LMEs), typically represented by the U.S., and coordinated market economies (CMEs), typically represented by Germany.

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[1] Jackson and Deeg 2006.
[2] Blyth 2003, 215.
[3] Shonfield 1965.
[4] Albert 1991.
[5] Hall and Soskice 2001a.

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Given that the original varieties of capitalism (VOC) research program was developed for analysis of the U.S., Japan, and Western Europe, scholars may wonder whether the approach is as useful for analysis of countries outside of this traditional core of the world economy. As cases for an extension of the VOC framework, we have chosen the countries of East Central Europe (ECE), namely the Czech Republic, Hungary, Poland, and the Slovak Republic. In these countries the period of "transition" has come to an end and it is time to reflect on their position in the wider context of global political economy. They are different from the countries further to the east, such as Russia and the Ukraine, that have experienced a specific type of economic and political transformation and occupy a different position in the capitalist world economy. From a comparative political economy perspective, the Czech Republic, Hungary, Poland, and Slovakia are increasingly considered as four cases of the same basic variety—sharing very similar socioeconomic institutions while being distinct from, for example, the Baltic states, the Commonwealth of Independent States (CIS), Romania, or Slovenia.[6]

The VOC research program is currently quite popular within comparative political economy and it is no surprise that quite a few scholars have already started to apply the VOC approach to the economies of East Central Europe. After all, it was the collapse of real-existing socialism that paved the way for the ongoing explosion of research on inner-capitalist diversity. This is not to say that prior to 1989 the question of what defines modern capitalism was neglected, but a large part of comparative research focused on the differences between capitalism and socialism.[7] It is therefore not without irony that the VOC approach has now entered the former socialist area with much force. The outcomes of these applications, however, are puzzling because they have led to somewhat contradicting conclusions. While some studies claim a convergence of East Central Europe on the CME type,[8] others observe a convergence on the LME type,[9] and a third group argues the rise of a bastard or hybrid variety of capitalism that combines features of both types.[10]

These outcomes are not only confusing, but also challenge the basic assumption of the VOC approach that strong institutional comple-

[6] Whitley 1999, chp. 8; Bruszt 2002; McMenamin 2004, 269; Lane 2005, 245; Cernat 2006; Mykhnenko 2007; Bohle and Greskovits 2007a, 2007b; Hancké, Rhodes, and Thatcher 2007b; King 2007; Drahokoupil 2009.

[7] Feldmann 2006, 830.

[8] McMenamin 2004; Lane 2005.

[9] Cernat 2002; Crowley 2005.

[10] Palda 1997; Neumann and Egan 1999; Iankova 2002; King and Sznajder 2006; Mykhnenko 2007.

mentarities exist between the central elements of a successful variety of capitalism. It is exactly this core hypothesis—that the character of institutions within a successful economy are mutually reinforcing, balanced, and complementing—that is at the heart of the VOC theory.[11] As seen from the traditional VOC perspective, bastard or hybrid varieties of capitalism that combine features of both models should lead to suboptimal outcomes if compared to a coherent variety.[12] We argue that these different and contradictory inferences are partly explained by a somewhat premature, mechanistic preference for quantitative approaches.

Many studies simply take the basic characterization of the two dominant models of political economy (CME and LME) as a given and apply their dominant categories to the economies of ECE.[13] But given the fact that statistical correlations as such do not necessarily imply causal interrelationships between the institutional elements involved, this may lead to producing methodological artifacts.[14] Alternatively, studies that focus on only one institution[15] may also lead to problematic conclusions because a narrow focus does not allow for an identification of the quintessential interdependencies between different institutions within one capitalist model.[16]

We depart from a somewhat more complex reading of the VOC approach and focus on the most crucial institutional complementarities within these models. Based on this reading, we conclude that the emerging ECE capitalism does not fit well with the established varieties since fitting in would entail an exclusion of the central characteristic of the region, its external dependency. From our perspective, the identification of individual institutional parallels between ECE capitalism and either the CME or the LME model is misleading. We suggest that ECE signifies the emergence of a third basic variety—a dependent market economy (DME) type of capitalism. DMEs have comparative advantages in the assembly and production of relatively complex and durable consumer goods. These comparative advantages are based on institutional complementarities between skilled, but cheap, labor; the transfer of technological innovations within transnational enterprises; and the provision of capital via foreign direct investment (FDI). Given these complementarities, the superior performance of a DME, for instance,

[11] Hall and Soskice 2001b, 17–21; Amable 2003, chp. 3; Höpner 2005.
[12] Hall and Gingerich 2004; Cernat 2004, 2006.
[13] E.g., McMenamin 2004; Lane 2005; Knell and Srholec 2007.
[14] King and Sznajder 2006, 761–62.
[15] Such as industrial relations, e.g., Iankova 2002; Crowley 2005; Feldmann 2006.
[16] Höpner 2005.

compared with the rather incoherent "cocktail capitalism"[17] of Romania, becomes understandable.

Characterizing ECE countries as DMEs not only clarifies the confusion noted above, but also helps to eliminate some pitfalls of the VOC approach that have been noted in the literature.[18] First, it broadens the original Hall and Soskice framework's narrow focus on the U.S. and Western Europe. Second, it overcomes the overly strict dualism of this framework. Third, it incorporates transnational influences—in particular the role of transnational companies (TNC)—in an approach that traditionally tends to consider socioeconomic systems as closed containers and contributes to an emerging literature on the interaction between "national capitalisms and global production networks."[19] However, not all typical shortcomings of the VOC approach can be addressed at the same time. The most important omission in this article concerns the domestic class struggles and transnational politics that have historically led to the emergence and transformation of specific economic institutions.[20] Since we cannot give a complete picture of the emergence of ECE capitalism in these pages, our broad account needs to be complemented by more historically detailed and country-specific articles on the domestic political origins of these institutions, including the role of the state, domestic bourgeoisies, and unions, and their interplay with multinational corporations.[21]

Still, when compared with the existing literature, our extension of the varieties-of-capitalism approach leads to different policy conclusions. Against transitology studies from mainstream economics,[22] our extension of the VOC approach argues that there are different models for economic success and that it would be futile to expect or to hope that the ECE economies converge on the liberal model. Against more orthodox Marxist analyses,[23] our approach highlights the existence of a rather coherent segment within ECE economies that can successfully compete in world markets for the time being, as long as inconsistent institutional frameworks are avoided. Thus, we see some potential for taking the VOC approach as a basis for the development of economic strategies for emerging market countries. After all, the concerns of the

[17] Cernat 2006.

[18] Phillips 2004, 12; Crouch 2005, chp. 2; Feldmann 2006, 830–31; Jackson and Deeg 2006, 37–39; Bohle and Greskovits 2007a; Hancké, Rhodes, and Thatcher 2007b, 4–9; Drahokoupil 2009.

[19] Lane 2008.

[20] See Streeck and Yamamura 2001; Thelen 2004; Crouch 2005; on ECE see Jacoby 2006; Drahokoupil 2008.

[21] Drahokoupil 2009.

[22] E.g., Balcerowicz 1993, 1995; Frydman et al. 1993.

[23] E.g., Nesvetailova 2004; Raviv 2008.

contemporary VOC debate and important strands of development theory are strikingly similar.[24] But our analysis highlights some challenges for the long-term future of these DMEs: their comparative advantages are constantly being threatened by countries located further to the east and will continue to remain limited to segments of their economies, thereby leading to increasing social and political tensions.

To support our argument, we briefly introduce the two basic models put forward by the established VOC literature. Next we apply these models to the ECE countries thereby demonstrating that they do not fit either model, that they are not simply bastard combinations of the two basic models, and that they form a distinct third model we call dependent market economy. We also provide an analysis of the institutional complementarities within DMEs, based on the analytical categories of the VOC approach, which explains the comparative advantages that these countries currently enjoy. Our conclusion focuses on future perspectives for the sustainability of the DME variety of capitalism and for research. In addition, given that the main purpose of this article is conceptual development, we outline some options for a more systematic empirical test of our argument.

Dependent Market Economies as a Third Variety of Capitalism

The most widely used and comprehensive comparative typology of capitalism is still the varieties-of-capitalism model developed by Hall and Soskice.[25] Although there are a number of comparative capitalism alternatives that propose a much larger number of types of capitalism,[26] most authors still prefer to depart from the juxtaposition of CMEs and LMEs. Besides offering a rather balanced and comprehensive framework, one of the most important advantages of this typology is its parsimony;[27] while the two basic models clearly are unable to give full justice to the intricacies of, for example, British, French, or Italian capitalism, they still grasp the most important differences between the basic ideal types of "Anglo-Saxon" and "Rhenish" economies. Moreover, not even the scholars that highlight the particular features of state-enhanced capitalism in France or Italy would claim that these socioeconomic systems entail a third type of coordination mechanism—a necessary

[24] Phillips 2004, 16–20.
[25] Hall and Soskice 2001b.
[26] E.g., Hollingsworth and Boyer 1997; Whitley 1999; Coates 2000; Amable 2003; Schmidt 2003.
[27] Jackson and Deeg 2006, 31–32; Hancké, Rhodes, and Thatcher 2007b, 16.

precondition for a third basic variety of capitalism (see below); instead these economies are mostly described as "in between" or "mimicking" features of CMEs and LMEs.[28]

The main theoretical task of the CME/LME juxtaposition is to explain the marked differences in the comparative advantages of advanced capitalist economies. These advantages are most easily demonstrated by focusing on the different types of innovation processes that are central to the two production systems.[29] CMEs such as Germany or Austria are assumed to have a premium on incremental innovation, whereas LMEs such as the U.S. and the U.K., in contrast, are supposed to focus on radical innovation. Of course, these patterns of specialization do not comprise the whole of the economy. Basic services, for example, are produced throughout all economies, but are hardly covered by any of the VOC models.[30] Furthermore, it is problematic to equate a whole industry with a certain specialization pattern in innovation given that there are more- and less-innovative activities within the same industry and that these can vary over time.[31] Correspondingly, the VOC models are meant as broad ideal types.

The basic hypothesis of the varieties-of-capitalism approach is that the inherent institutional complementarities of the two different types of market economies can explain these broadly conceived innovation patterns. Each element of the two basic types has strong institutional complementarities with other elements of the same model and differs clearly from its functional equivalent in the other model. Usually, five interdependent elements can be highlighted:[32] the financial system (the primary means to raise investments); corporate governance (the internal structure of the firm); the pattern of industrial relations; the education and training system; and the preferred mode for the transfer of innovations within the economy. More generally, the two models differ with respect to the basic mechanisms available for the solution of coordination problems within national economies. In liberal market economies, the most important forms of coordination are competitive market arrangements and formal contracts. In coordinated market economies, nonmarket forms of coordination, such as interfirm networks and national or sectoral associations, play a crucial role.[33]

[28] Schmidt 2003, 547; Della Salla 2004, 1045.
[29] Hall and Soskice 2001, 38–44.
[30] Blyth 2003, 223.
[31] Taylor 2004, 613; Crouch 2005, 31.
[32] Hall and Soskice 2001b, 17–33; see also Jackson and Deeg 2006, 11–20.
[33] Hall and Soskice 2001b, 8, 33–36.

Given the importance of a parsimonious scheme for the success of the Hall and Soskice model, new varieties should not be added without hesitation. In order to qualify as a distinct variety of capitalism, three conditions have to be met:[34] (1) the existence of an alternative overall economic coordination mechanism closely related to (2) a relatively stable set of institutions based on marked institutional complementarities, that leads to (3) a set of specific comparative advantages (in relationship to CME and LME) and a superior economic performance over comparable, but less pure, socioeconomic systems. We address each of these conditions in turn to demonstrate that we can identify a third basic variety of capitalism that is emerging in ECE, although it is perhaps still too early to judge the long-term stability of this variety and its ability to provide an equal alternative to CMEs and LMEs.

The common denominator of the third variety is the fundamental dependence of the ECE economies on investment decisions by transnational corporations. Though we accept that the CME and the LME models are embedded in the global economy, we will demonstrate that the DMEs are—in both quantitative as well as qualitative terms—more deeply dependent on foreign capital than any of the core CMEs and LMEs. We baptized the third variety "dependent market economy" because it is similar to the label "liberal dependent post-communist capitalism" coined by Lawrence King;[35] it was inspired by earlier works on dependent development in Latin America.[36]

The point of departure for our argument is a recent literature on the relationship between transnational corporations and capitalist variety.[37] The main conclusion derived from this literature is that TNCs tend to look for a combination of low labor costs and the acquisition of "tacit knowledge embedded in local industrial districts."[38] As we demonstrate below, it is a combination of relatively low labor costs and a skilled population with substantial knowledge of a medium level of technology that constitutes the comparative advantage of the DME model. Similar to previous studies on the origin of economic institutions,[39] we highlight the crucial importance of an extraordinary crisis for the emergence of new socioeconomic institutions—in this case, the collapse of communism. TNCs always strive to create an institutional setup conducive to their needs. The political situation in ECE was uniquely well

[34] We owe this point to two anonymous reviewers.
[35] King 2007, 309.
[36] Evans 1979.
[37] E.g., Morgan and Kristensen 2006, 2007.
[38] Morgan and Whitley 2003, 610.
[39] Streeck and Yamamura 2001; Höpner 2005, 343.

suited for a full-blown institutional design geared towards the preferences of these corporations, given the absence in the region after 1989 of strong domestic bourgeoisies that could resist such a development.[40] The ideology of the leading political class fostered the development of an economic system that catered to the interests of TNCs as this class adhered to economic policies that spurred economic restructuring and economic growth through foreign investments.[41] Correspondingly, we identify the hierarchy within transnational corporations as the central coordination mechanism in DMEs,[42] in contrast to competitive markets and formal contracts as the central coordination mechanism in LMEs, or interfirm networks and associations having that role in CMEs (see Table 1). The notion of hierarchy not only complements markets and networks as the classical coordination mechanisms of modern societies,[43] but it is also closely linked to the complementarities between the most important socioeconomic institutions within the DME variety. Following earlier works in the VOC tradition,[44] we take corporate governance (specifically the hierarchical control by TNC headquarters) as our focal point and demonstrate its complementarities with the other four major institutions identified within the VOC framework.

First and most obvious are the complementarities between corporate governance and the primary means for rising investment within DMEs. Given the extremely huge volumes of FDI, TNCs prefer to hierarchically control local subsidiaries from their headquarters as an alternative mode of finance and governance rather than to accept financing by international capital markets and outsider control by dispersed shareholders (LME), or to accept financing by domestic bank lending as well as retained earnings and insider control by networks of concentrated shareholders (CME).

Second is the close relationship between the corporate governance institutions—the primary means of raising investments—and the system of industrial relations. On one side, TNCs need low labor costs for the DME model to work well and therefore will not accept costly institutions such as comprehensive collective agreements or cumbersome procedures for layoffs. Given the heavy competition for FDI, TNCs are in an excellent position to bargain on these issues. On the other side, the integration of corporate decision making into transnational commodity

[40] Eyal, Selényi, and Townsley 1998.
[41] Drahokoupil 2008; Vliegenthart and Overbeek 2007.
[42] For a remarkably similar concept see the notion of Hierarchical Market Economy (HME) as coined by Schneider 2008.
[43] Thompson, et al. 1991.
[44] E.g., Hall and Gingrich 2004; Höpner 2005.

chains leads to TNC interest in keeping workers in the distinct subsidiaries fairly satisfied. Widespread labor unrest would not only hinder the functioning of the distinct subsidiary, but might also have an effect on other parts of the commodity chain. We assume that the position of the subsidiaries is not so rooted within the national societies as to require a general arrangement with regard to labor issues. As a result, rather selective company-level agreements should dominate; ones that allow for catering to the needs of TNCs and create stable relationships between management and labor within the individual firm.

Third, we expect to observe an intrinsic interconnection between the education system, the system of corporate governance, the primary means for investment, and the innovation system. Given that FDI into this variety of capitalism pays off with rather low labor costs as well as with considerable tax breaks, TNCs will not be in favor of a generous public education system or of their own substantial investment into their labor force. In addition, they do not see the need to invest heavily into innovation-relevant skills, given that they prefer to transfer innovations into the region from abroad (see below). Furthermore, the strongly individualized system of company-level industrial relations in the DME as well as a system of corporate governance strongly geared toward the corporate hierarchies of individual TNCs would hardly allow for the introduction of a CME-style system of vocational training institutions, given that effective training institutions require national (or at least sectoral) coordination within interfirm networks and associations.

Fourth, TNCs prefer to keep the most innovation-heavy activities at their headquarters or to acquire them via takeovers (LMEs) or joint ventures with other companies in their country and sector (CMEs). Dependent market economies are expected to be used as assembly platforms based on innovations that are made at TNC headquarters and transferred within TNC hierarchies. This again entails complementarities between the DME institutions. Investment financing by FDI and hierarchical control by TNC headquarters allow for the transfer of innovations to DMEs without the risk of the intellectual-property-rights problems associated with joint ventures, for example. Moreover, given the limited amount of innovative activity, there is no need for an LME-type system of general-skill education combined with massive research and development (R and D) expenditures, or for a CME-type system of comprehensive vocational training. The same applies for industrial relations; TNCs do not need highly flexible labor markets to acquire

innovations (as in LMEs) or long-term investment into skill acquisition based on inflexible labor contracts (as in CMEs). DMEs work particularly well with a medium level of labor-market flexibility; TNCs retain the ability to adjust employment levels to demand in order to avoid too much labor-market fluidity for their skilled staff and avert a breakdown of their assembly platforms.

Taken together, the complementarities outlined above should give rise to a specific type of comparative advantage that is not based on radical innovation (LMEs) or incremental innovation (CMEs), but rather on an assembly platform for semistandardized industrial goods. While the highly innovative parts of the business cycle remain at TNC headquarters, fully developed technologies are transferred to the TNC's subsidiaries in the DMEs and remain under the control of the corporate hierarchy. At the same time, based on extremely favorable conditions for FDI (for example, tax breaks financed by low public expenditures), moderate labor costs, and a fairly skilled workforce, the region can successfully compete in the global market for this kind of investment.

East Central Europe: The DME Model in Practice

Our modification of the VOC conceptual framework identifies as the central coordination mechanism within these economies a number of institutional complementarities that are centered on the multinational enterprise core principle of intrafirm hierarchy. In this section we take a closer look at the five institutional components introduced by Hall and Soskice and further develop our idea that a third variety of capitalism is emerging in ECE. We demonstrate the complementarities between these institutions, as well as their mutual reliance on the hierarchical coordination within transnational enterprises, by using empirical data from the ECE region. However, with regard to the specialization pattern in CME and LME as discussed above, our construction of the DME model covers only the dominant industries within the region and cannot represent East Central European economies as a whole.

Primary Means of Raising Investments

In our view, the decisive impact of foreign capital in the restructuring of the former socialist economies symbolizes the primary characteristic of the emerging DME variety.[45] The dependency on foreign capital is best illustrated by a look at the way in which investments are financed.

[45] See also King 2007.

TABLE 1
THREE VARIETIES OF CAPITALISM

Institution	*Liberal Market Economy (LME)*	*Coordinated Market Economy (CME)*	*Dependent Market Economy (DME)*
Distinctive coordination mechanism	competitive markets and formal contracts	interfirm networks and associations	dependence on intrafirm hierarchies within transnational enterprises
Primary means of raising investments	domestic and international capital markets	domestic bank lending and internally generated funds	foreign direct investments and foreign-owned banks
Corporate governance	outsider control/ dispersed shareholders	insider control/ concentrated shareholders	control by headquarters of transnational enterprises
Industrial relations	pluralist, market based; few collective agreements	corporatist, consensual; sector-wide or even national agreements	appeasement of skilled labor; company-level collective agreements
Education and training system	general skills, high research and development expenditures	company- or industry-specific skills, vocational training	limited expenditures for further qualification
Transfer of innovations	based on markets and formal contracts	important role of joint ventures and business associations	intrafirm transfer within transnational enterprise
Comparative advantages	radical innovation in technology and service sectors	incremental innovation of capital goods	assembly platforms for semistandardized industrial goods

In the case of ECE, the primary source of investment is foreign direct investment (see Table 2), not the stock market (as in LMEs) or domestic credit (as in CMEs). FDI is concentrated in complex industries and ECE countries clearly have more of these than other transition economies such as the Baltic states and the CIS.[46]

Although FDI does play a role in the CME and LME models, the degree of external dependency is much more extreme in ECE. This is best demonstrated by an examination of the relationship between inward and outward FDI stock (see Table 3). While the relationship is fairly balanced in both CMEs and LMEs, DMEs are heavy importers of capital.

[46] Bohle and Greskovits 2007a.

TABLE 2
SOURCES OF BUSINESS FINANCE

Country	*Stock Market Capitalization (Percentage of GDP)*	*Domestic Credit to Private Sector (Percentage of GDP)*	*Inward FDI stock (Percentage of GDP)*
DME			
Czech Republic	31.0	33	48.0
Hungary	29.5	46	51.8
Poland	30.1	28	24.9
Slovak Republic	25.0	31	31.5
LME			
U.K.	138.9	156	37.8
U.S.	136.9	249	12.7
CME			
Austria	41.3	106	22.7
Germany	43.7	112	16.4

SOURCES: United National Conference on Trade and Development (UNCTAD); World Investment Report 2007 for inward FDI stock; World Development Indicators for stock market capitalization and domestic credit data for 2005 (Foreign Stock and Market Capitalization) and 2004 (Domestic Credit).

Another indicator of the importance of foreign capital to ECE countries is the measure, by sector, of their exports. In industries in which the ECE states have clear comparative advantages, such as automobiles, manufacturing, and electronics,[47] foreign ownership clearly dominates (see Table 4). In the banking sector, which affects the distribution of capital within an economy (particularly for small- and medium-scaled enterprises), foreign ownership is also omnipresent.

Taken together, these data about the origin of the primary means for raising investments demonstrate the external dependency of the ECE economies. Foreign direct investment is by far the most important source of capital. Domestic bank lending, the second most important source of finance, is also clearly dominated by transnational companies. When compared with ownership relationships in Western Europe, the heavy penetration of the ECE banking sector by FDI is obvious. At the end of 2004 the market shares of foreign branches and subsidiaries in the Euro area amounted to a mere 15.5 percent; the figure was well over 70 percent in ECE economies.[48] While ECE economies include large

[47] Rugraff 2006.
[48] Raviv 2008, 168–70; see also King 2007, 310.

TABLE 3
RATIO INWARD FDI STOCK/OUTWARD FDI STOCK

Country	*2006*
DME	
Czech Republic	15.3
Hungary	6.4
Poland	9.7
Slovak Republic	23.6
LME	
U.K.	0.8
CME	
Austria	1.0
Germany	0.5

SOURCE: UNCTAD.

TNCs as well as mid and small domestic companies, these companies also depend on foreign financing.[49] We can thus safely conclude that the most fundamental financing decisions are not made in the region itself, but in Western Europe and the U.S.

CORPORATE GOVERNANCE

The relationship between management and owners constitutes the central part of any corporate governance system. In most of the literature on corporate governance, ECE countries are considered to be hybrids of CMEs and LMEs.[50] We argue, however, that this assessment is superficially based on an analogy that looks only at formal governance structures such as two-tier boards. We suggest linking corporate governance to the specific ownership pattern of the region. Many larger corporations have been taken over by foreign investors. Especially in Hungary, but also in the other ECE states, privatization has led to a host of foreign takeovers of formerly state-owned corporations.

As a result, with regard to the institutional setup and its dependency on foreign investments, the East Central European DME model is different from the CME and LME models. Foreign ownership leads to important changes in the internal corporate-governance structure within ECE enterprises; major corporate decisions are not negotiated between managers and shareholders, but rather between managers of the ECE

[49] We owe this point to an anonymous reviewer.
[50] Iankova 2002; Neumann and Egan 1999, 175; Palda 1997, 93.

TABLE 4
SHARE OF FOREIGN OWNERSHIP IN THREE STRATEGIC SECTORS

Country	*Automotive*	*Manufacturing*	*Electronics*	*Banking*
Czech Republic	93.1	52.6	74.8	85.8
Hungary	93.2	60.3	92.2	90.7
Poland	90.8	45.2	70.3	70.9
Slovak Republic	97.3	68.5	79.0	95.6

SOURCE: Data for 2004, based on OECD.stat database, measured as a percentage of turnover; banking data for 2002 based on Mérö and Valentiny 2003.

subsidiary and Western headquarters. TNCs "have fully integrated the CEE [Central and East European] subsidiaries into their company networks."[51] As a result, corporate managers of ECE subsidiaries are responsible to internal supervisors in other countries. "Foreign companies… have applied tight budgets…exercised close control on managerial decisions and relied heavily on their appointees to the board of directors."[52] In general, we perceive a strong institutional complementarity between an ownership structure that is dominated by foreign direct investments and a corporate governance structure that demonstrates close supervision of local managers by Western-based headquarters. This contrasts both the LME model, in which there is an active market of corporate control based on financial markets to supervise management, and the CME model, where managers primarily have to deal with holders of large blocks of stock and domestic banks that provide funding as preferred partners (so-called Hausbanken).

To some extent these observations are also valid for subsidiaries in Western Europe and the U.S., but in East Central European countries the process is more marked. Corporate governance in ECE is more transnationalized than in the core of the world economy. TNCs play a decisive role in total growth as domestically owned small- and medium-scale enterprises (SMEs) are often dependent on foreign partners in supplier-driven and buyer-driven supply chains.[53] As a result, corporate strategies adopted in foreign headquarters have a decisive impact on the whole economy of the region, which reflects the dependent position of the ECE countries discussed earlier. Thus, these investments have an ambivalent character, as indicated by the case of a German paper multinational: "This firm integrates the Polish economy with the Western

[51] Radosevic 2003, 33.
[52] Czaban and Henderson 2003, 182; see also Holman 2002, 414.
[53] Radosevic 2003, 33.

European ones, while simultaneously making it dependent on the decision of a firm with operations in many countries, making investment decisions with its global empire, not Poland's development, in mind."[54]

Finally, the corporate-governance regulatory framework first introduced in the early 1990s has been highly influenced by the process of EU enlargement. In this process, the EU has laid out the kind of corporate-governance reforms needed in order to acquire EU membership. As a result, corporate-governance practices as well as corporate-governance regulations are not pure endogenous products, but have been strongly influenced by transnational agents.[55]

Industrial Relations

Regarding labor relations, ECE economies do not resemble either the market-based Anglo-Saxon or highly cooperative Rhineland models, but constitute a variety in their own right. Again, a study that looks only at quantitative data and formal institutions might classify the region as a hybrid. In general terms, East Central European collective bargaining coverage rates are higher than in the Anglo-Saxon world, but lower than in the Rhineland states (see Table 5).

Indeed, unlike the Anglo-Saxon model, ECE countries do not have a culture of hiring and firing, nor do they have a corporatist structure in which organized labor is incorporated into a complex system of bargaining procedures and enjoys real power in the struggle over wages and collective agreements on the sector level. The position of labor in DMEs is substantially weaker than in CMEs, given the heavy competition for foreign direct investment and the lingering threat of companies being relocated further east. Correspondingly, transnational companies will not accept factors such as high wages, high union density, comprehensive collective agreements, powerful worker representation or cumbersome procedures for layoffs. Given that the incorporation of DMEs as assembly platforms in complex global commodity chains makes strikes very costly, as soon as TNCs invest heavily within the region they become interested in keeping workers fairly satisfied.[56] At the same time, these TNCs cannot easily replace their skilled labor and they cannot avoid worker defection by simply paying higher wages, doing so would cause them to lose the cost advantage of that workforce. Thus, they avoid the rather fluid relationship with workers that can be observed in LMEs, and generally strive for an appeasement of workers

[54] King and Sznajder 2006, 781.
[55] Vliegenthart 2009.
[56] Greskovits 2005, 121–22.

TABLE 5
INDUSTRIAL RELATIONS AND SOCIAL SPENDING

Country	*Collective Bargaining Rate (Percentage of Entire Working Population)*	*Dominant Level of Bargaining*	*Union Density (Percentage of Entire Working Population)*	*Public Social Spending (Percentage of GDP)*
DME				
Czech Republic	27.5	firm	27.0	21.1
Hungary	40.0	firm	19.9	22.7
Poland	40.0	firm	14.7	22.9
Slovak Republic	40.0	sectoral/ firm	36.1	17.3
LME				
U.K.	32.1	firm	29.2	16.2
U.S.	13.1	n.a.	12.8	20.6
CME				
Austria	98.5	sectoral	35.7	26.1
Germany	70	sectoral	23.5	27.3

SOURCES: Collective bargaining rates for 2002, Visser 2004; dominant level of bargaining, European Commission Union Density for 2001, Visser 2004; social spending for 2003, OECD.stat.

in terms of work conditions. A typical phenomenon is the existence of company-level agreements, which make up 80 percent of all collective bargains in ECE, in contrast to Western Europe where most agreements are made at the sectoral or even national level.[57]

In this respect, ECE states can be characterized as countries with incomplete social pacts,[58] a characterization that is also represented in public social spending. ECE welfare arrangements are not as comprehensive as those of CME states, but the ECE governments spend more on welfare than do their counterparts in LME states (see Table 5). In ECE industrial relations and social spending systems are not built on broad-based social struggles, but rather are instituted to selectively appease transnationational corporate employees. The issue of worker representation on supervisory boards poses another example of the incomplete system of employee involvement within ECE industrial relations; such representation is officially part of the institutional setup in countries, but in practice only half-heartedly implemented.[59]

[57] Crowley 2004, 406.
[58] Bohle and Greskovits 2006; Meardi 2007.
[59] Vliegenthart 2008.

If the system of industrial relations is linked with the primary means to raise investments and the system of corporate governance, given the dominant interest of Western owners to keep labor costs low and to safeguard the smooth working of tightly integrated commodity chains, strong institutional complementarities can again be identified. While this preference is well served by company-level collective agreements, sectoral or even national agreements are hardly viable because coordination between the owners of local businesses—situated in a number of various Western capitals—is difficult to generate. In contrast, sectoral- or national-level agreements are fairly typical for CME countries where the existence of a strong domestic bourgeoisie heavily reduces the corresponding transaction costs. At the same time, the increasing scarcity of skilled labor in ECE countries (examined in the next section) would make an LME system—with its high reliance on fluid labor markets and individual contracts—very costly if disruptions of complex commodity chains are to be prevented.

Education and Training Systems

When turning to education and training systems, ECE can again be distinguished from the countries that manifest the LME or CME varieties of capitalism. The 1990s saw substantial cutbacks in government spending on education[60] and a decentralization of the responsibility for education.[61] Between 1995 and 2000, government spending on education was reduced "from 5.5 percent to 5.2 percent in Poland, from 5.4 percent to 4.9 percent in Hungary, and in the Czech Republic from 4.9 percent to 4.4 percent" of the GDP.[62] At the same time the basics of the socialist educational system, with its focus on vocational training, survived but its orientation radically changed. As K. Roberts[63] points out, one of the key elements of the postsocialist education system is that vocational training is structured to meet the labor demands of TNCs. Spending on and structuring the vocational system then, in turn, shape the rest of the educational system.

In this respect, it is important to stress that employers usually "are unwilling to bear the additional costs of on-the-job training of inexperienced young workers."[64] It seems that most employers do not find it rewarding to invest heavily in their own workforce.[65] The DME model

[60] Commandor and Kollo 2008.
[61] Barrow 1998.
[62] Feldmann 2004, 278.
[63] Roberts 2001.
[64] Nesporova 2002, 12.
[65] Bohle and Greskovits 2006, 15.

differs from the CME model in the sense that in it, public vocational training, largely outside of corporations, dominates the system; not much vocational training occurs at the workplace. At the same time, the withdrawal of governmental involvement no longer allows for a strong public education system that counterbalances limited vocational training with a high quality general-skills education along Anglo-Saxon lines. ECE governments find it difficult to invest heavily in public education—a major precondition for a comprehensive general-skills education—given the fiscal constraints that go hand in hand with the intense competition for FDI, frequently including massive tax-reduction packages.[66]

All in all, the postsocialist educational system fits neatly with our interpretation that the economies of ECE countries belong to a third variety of capitalism and that this third variety is primarily characterized by its external dependency. Whereas demanding tasks such as research and development are executed in the CMEs and LMEs of the core regions of Western Europe, the DMEs of East Central Europe are used as assembly platforms for semistandardized goods. For these purposes, existing vocational skills are largely adequate; major investment to upgrade required skills would endanger ECE's cost advantages and would be difficult to organize, given the firm-centered system of industrial relations within DMEs. In addition, given the specific corporate-governance and finance systems of DMEs, it hardly comes as a surprise that there are few activities that counter the slowly eroding comparative advantage of these economies—which probably goes hand in hand with low levels of spending on education and training. Whereas nationally owned businesses would be concerned about these long-term developments and might coordinate for reverse action, Western headquarters do not care much about these tendencies, given their potential to relocate production in the long term if local skill levels deteriorate too much.

Innovation Systems

Similarly, for tasks such as assembly platforms for semistandardized goods, major investments in R and D are not necessary and too costly. Decisions regarding research and development are not dominated by concerns about the long-term innovation potential of local economies, but rather by their current profitability within a transnational company. The tendency not to invest into the valorization of the production process is reflected in the total spending on research and development,

[66] Bohle and Greskovits 2006, 20–21.

which falls way below the figures of Western Europe and the U.S. (see Table 6).

The level of spending on research and development is not the only thing that sets dependent market economies (negatively) apart from the other varieties; the organization of the innovation system within them differs considerably from those within LMEs (where innovations are transferred via the market) and CMEs (where innovations are spread by diverse means of business cooperation). In the case of DMEs, most R and D is done outside the region and then imported into the production process through transnational networks that bind together the different places of production. Foreign corporations often import new technologies into the region and do their R and D and design elsewhere in the world because they consider ECE economies as a place for production and not for research.[67] The consequence for local companies within DMEs has been nicely summarized by Ottó Sinkó, president of Videoton, a leading Hungarian company: "Downsize radically, stop developing new products, and focus on labor-intensive manufacturing to serve a hungry crop of multinational investors."[68] Modern technology is transferred to ECE economies under the strict control of TNC headquarters, something enabled by the externally dominated corporate-governance patterns described above. Correspondingly, more than 70 percent of R and D expenditure in Hungary is provided for by foreign-controlled firms.[69] As a further consequence, there has been an increasing shift from joint ventures to majority foreign ownership—the latter accounting for 40 percent of FDI in Poland in 1993, 45 percent in 1995, 50 percent in 1998,[70] and even 100 percent ownership in the technologically most demanding activities[71]—thereby indicating a strong complementarity between innovation systems and the control over the means of investment. Still, technology transfer should not be underestimated, since it has allowed for the modernization of ECE production facilities and thus supported the region's current competitive advantage within global capitalism. ECE economies have been able to attain a relative degree of economic success[72] without massive investment in their own education systems due to a disproportionate amount of foreign direct investment.

[67] For an excellent account of these tendencies in the clothing industry see Pickles et al. 2006.
[68] Quoted after Bohle and Greskovits 2006, 13.
[69] King 2007, 312.
[70] King and Sznajder 2006, 778.
[71] Greskovits 2005, 120.
[72] King 2007, 314.

TABLE 6
GROSS DOMESTIC EXPENDITURES ON RESEARCH AND DEVELOPMENT AS A PERCENTAGE OF GDP

Country	*2000–2005 Average*
DME	
Czech Republic	1.3
Hungary	0.9
Poland	0.6
Slovakia	0.6
LME	
U.K.	1.8
U.S.	2.7
CME	
Austria	2.1
Germany	2.5

SOURCE: *Eurostat*, U.S. and U.K. figures for 2000–2004.

Although we do not go into the details of different types of innovation (product, process, etc.) in this article, the assessment can be broadly supported by an analysis of patent data, as utilized by Hall and Soskice[73] in their analysis of CME and LME innovation patterns. ECE performs relatively poorly with regard to the number of patents when compared to CMEs and LMEs (see Table 7), even when the shortcomings of this broad indicator are taken into account.[74] Moreover, the gap with regard to investments within the enlarged European Union seems to be growing. For all countries in the region, R and D intensity declined between 1990 and 2000.[75] This might also explain the fact that the number of patents in the region has actually decreased during the last ten years.

The absence of large numbers of (high-tech) patents does not mean that there is no innovation activity undertaken in DMEs. Innovation in ECE "has so far been predominantly imitative and not creative. Technological activities in firms are skewed towards downstream nonanalytical and non-R and D activities like testing and standards."[76] This is

[73] Hall and Soskice 2001b, 41–44.
[74] Taylor 2004; Crouch 2005, 28–31.
[75] OECD 2002, 16.
[76] Högselius 2003, 22.

TABLE 7
TRIADIC PATENTS[a] PER MILLION INHABITANTS

Country	*1990*	*2000*
DME		
Czech Republic	0.71	0.60
Hungary	2.69	1.62
Poland	0.14	0.16
Slovak Republic	n.a.	0.02
LME		
U.K.	25.26	16.78
U.S.	44.57	n.a.
CME		
Austria	22.52	26.61
Germany (including ex-GDR from 1991)	51.74	53.79

SOURCE: *Eurostat*, patent statistics.
[a]Triadic patents are patents acknowledged by U.S., EU, and Japanese patent organizations.

reflected in the number of high-tech patents that are registered in the region (see Table 8). There is a big gap between ECE economies and both LMEs and CMEs.

Again, this is not to say that there is no innovation whatsoever in ECE or that the region produces outdated products. On the contrary, the comparative advantage of the region rests upon its ability to quickly adapt to new trends in the production of qualitative durable consumer goods. Yet most of the new trends come from outside the region; the existing innovation in ECE is rather limited in scale and is conducted by a number of small companies that are active suppliers and final producers for the major transnational companies. Whereas the TNCs deliver the technology to subsidiaries, the subsidiaries in return are widely connected, partly through ownership ties, to their national suppliers. This leads to a rather stable relationship between these firms.[77] The transnational corporations are on the top of the institutional hierarchy, the national suppliers are highly dependent on the TNCs for the continuation of their work,[78] and the practices brought into the region by the TNCs are subsequently introduced by domestically owned corporations.

[77] Czaban and Henderson 2003, 185.
[78] Pavlinek 2004.

TABLE 8
HIGH-TECH PATENTS PER MILLION INHABITANTS GRANTED BY THE USPTO[a]

Country	*1990*	*2000*
DME		
Czech Republic	0.097	0.178
Hungary	0.193	1.139
Poland	0.013	0.039
Slovak Republic	n.a.	n.a.
LME		
U.K.	7.156	11.305
U.S.	34.493	n.a.
CME		
Germany (including ex-GDR from 1991)	7.093	15.75
Austria	1.814	8.292

SOURCE: *Eurostat*, patent statistics.
[a]USPTO patents are patents that are registered at the U.S. patent organization.

This fits the general picture that foreign direct investment is not only important in regards to ownership issues, but also to the region's whole institutional setup.

COMPARATIVE ADVANTAGES AND ECONOMIC PERFORMANCE

Although the limited large-scale innovation capacity of DMEs may be worrisome in the long run, for the time being, the specialization of ECE has allowed for substantial growth in the region. This is reflected by the comparative advantages of the ECE states that are situated in the assembly and production of relatively complex and durable consumer goods. Poland, for example, has undergone a remarkable shift with regard to its export structure, moving from agricultural products and industrial materials to consumer goods such as vehicles and vehicle parts.[79] ECE countries are now increasingly specialized in labor-intensive export industries, such as medium-quality cars, machinery, electronics, and electrical products. As Table 4 demonstrates, these sectors are predominantly foreign owned. They can be considered complex when it comes to the worker skills involved, but the intensity in physical capital varies

[79] King and Sznajder 2006, 779.

from heavy (i.e., cars) to light (i.e., electrical products and electronics).[80] The comparative advantage of the region in component manufacturing and assembly for diverse industrial goods primarily stems from the availability of cheap, but skilled labor.[81] In this respect, ECE has become what John Pickles et al.[82] call "a global assembly platform"—a region where technical products are put together before they are exported (mostly) to more advanced economies. After the collapse of state socialism and the subsequent deindustrialization, the region specialized in the reexport of high-tech consumer goods. For this particular type of activity, no major research and development in the region is necessary.

In order to assess the overall economic performance of the emerging DME model, it must be compared with countries in a similar position, i.e., postsocialist European states. Measured in terms of GDP per capita development, the four major ECE states—the Czech Republic, Hungary, Poland, and Slovakia—are among the best performing countries (see Table 9).[83] A rare exception in the cluster of postsocialist states is Slovenia, which emulates the CME model and also has a high GDP per capita.[84]

While the ECE states have outperformed former CIS states such as Russia and Ukraine in terms of GDP per capita development, their superior economic performance (particularly that of Slovakia) becomes most obvious when compared with Bulgaria or Romania. The DME model of Slovakia has been much more successful than the rather incoherent "cocktail capitalism"[85] of Romania. This superior performance is also exemplified by the export share of complex, human-capital intensive industries; from 1996 to 2005 it rose in Solvakia from 41 percent to 51 percent while it decreased in Bulgaria from 31 percent to 23. Slovakia also reports rapid development in high-tech exports from 2003 on. In contrast, the Bulgarian export structure has been relatively stable for the last five years, with some increase in heavy basic exports. Although

[80] Greskovits 2005.

[81] Czaban and Henderson 2003, 182.

[82] Pickles et al. 2006.

[83] In line with other comparative evaluations of the economic performance of specific varieties of capitalism such as Hall and Gingrich (2004) as well as Kenworthy (2006), we are using data on GDP growth. The utilization of patent data by Hall and Soskice (2001a and b) has been severely criticized (Taylor 2004). Moreover, it would be misleading to use patent data as performance indicators for DMEs since they, by definition, rely less on this type of innovation activity than on CMEs and LMEs. Still, we agree with Kenworthy (2006, 86) that aggregate analyses, e.g., based on GDP data, have limited merits in testing causal hypotheses on economic performance.

[84] Feldmann 2006.

[85] Cernat 2004.

TABLE 9
GROSS NATIONAL INCOME PER CAPITAL PURCHASING POWER PARITY

Country	*1995*	*2001*	*2007*
East Central Europe			
Czech Republic	12,820[a]	15,640	22,020
Hungary	12,830	12,830	17,210
Poland	7,330	10,880	15,330
Slovak Republic	8,380	11,900	19,340
Baltics			
Estonia	6,320	10,160	19,810
Latvia	5,080	8,550	16,890
Lithuania	6,040	9,050	17,180
South East Europe			
Bulgaria	5,480	6,690	11,180
Romania	5,860	6,620	10,980
Slovenia	12,910	18,150	26,640
Commonwealth of Independent States			
Russian Federation	6,360	8,130	14,400
Ukraine	3,160	3,630	6,810

SOURCE: World Development Index, Quick Query
[a]All figures represent U.S. dollars.

the current differences between ECE and the Baltics in terms of GDP development are far less obvious, the long-term prospects for sustainable economic development are brighter for the ECE states, given that they have specialized in complex exports and not in exporting worked primary goods such as wood manufacturing. The Baltics might still be caught in a "postsocialist developmental trap" that hinders structural economic development.[86]

CONCLUSION AND RESEARCH PERSPECTIVES

We have identified an economic model in East Central Europe that is stable and fairly successful—particularly when compared with most other transition economies. For the time being, this model leads to comparative advantages of parts of ECE economies in sectors such as

[86] Greskovits 2005.

automobiles and consumer electronics. The comparative advantages of the economies can be explained by looking at the complementarities between the different institutions within these capitalist systems. Taken together, these institutions form a rather coherent, stable whole. At the same time it becomes clear that these institutional complementarities do not fit the coordinated market economy or the liberal market economy models and it does not make sense to describe ECE as epitomizing a mixture of CME and LME elements. The latter not only ignores the fundamental argument of the VOC approach (institutional complementarities), but also leads to the identification of superficial similarities that do not cover the basic functions of ECE capitalism. Instead, we have constructed a third variety, based on the original categories supplied by the VOC approach. We have baptized this variety the "dependent market economy" since its overriding feature is the fundamental dependence on investment decisions by TNCs. Thus, the hierarchy between TNC headquarters and local subsidiaries replaces markets (LME) and associations (CME) as a typical coordination mechanism within these economies. Subsequently, we have identified a number of complementarities between these corporate governance features and the other major institutions of DMEs.

This perspective opens a range of avenues for further research including the need to combine it with a more political account of the emergence of these institutions. Conceptualizing the economies of ECE as dependent market economies raises the question as to whether these findings may also be applied to other semiperipheral regions within the contemporary world economy, such as parts of Latin America or South East Asia. This comparison would lead to a more systematic empirical test of our argument and would clarify the role of the timing of integration into the capitalist world economy in the evolution of DMEs. Arguably, this timing has heavily contributed to the extraordinarily dependent character of the ECE economies (when compared to other regions of the semiperiphery), given the weakness of domestic bourgeoisies after the demise of communism. Therefore the ECE region is perfectly suited as an empirical illustration of the development of a DME ideal type, as are Germany and the U.S., respectively, in cases of CME and LME. However, the specific heritage of the recent transition from communism makes it difficult to test ECE's economic performance against less pure cases of DME in other world regions; according to VOC logic, DME performance should be superior.

A second comparative perspective instigated by our theoretical development concerns the ongoing graduation of former semiperipheral

economies, such as Ireland, into the core of the world economy. These countries have experienced sustained economic growth in the context of a prominent role for foreign TNCs. Will this graduation be possible for ECE as well? Given the extraordinarily high degree of external dependency in DMEs, our findings indicate a somewhat skeptical perspective.[87] On the one side, the extreme situation in ECE leads to particular risks, as indicated by the case of Poland (and made more obvious by the recent subprime crisis):

> While some of the smaller European economies are probably similarly dependent, it seems possible that Poland may have a greater reliance on TNCs for technology transfer… It also seems that even more of the "commanding heights" of the Central Eastern European economies—banking, telecom, utilities, and high-tech manufacturing—are foreign owned… Polish growth has become extremely dependent on imported industrial goods, foreign markets, and the investment decisions of foreign-owned firms and banks. It is therefore extremely sensitive to exchange-rate fluctuations and changes in external demand.[88]

Western owners of eastern production sites may well have a certain interest in the short- and medium-term viability of their investments in DMEs, but they have less incentive than domestic bourgeoisies to invest in the long-term sustainability of these economies. Instead, Western owners might relocate their production sites further to the east, driven by the competitive pressures of financial capitalism. At the same time, the current comparative advantages of ECE may gradually be eroded, given the decreasing value of the skill heritage acquired during communism and the absence of substantial investment into R and D and education that have been so crucial for the Irish case.[89] Correspondingly, the movement of DMEs towards CME or LME status does not look likely and the stability of DMEs might even be slowly undermined in the very long run.

A third comparative perspective, however, stemming from the institutional features of many economies of the former Soviet Union states—in particular their high degree of rent-seeking activities—could lead to the conclusion that there may still be limitations to the eastward relocation drive. These economies are marked by the prominent role of informal patronage networks and the overriding role of control over the access to raw goods—their most important economic assets. It is difficult to imagine that they could offer the same institutional

[87] See also Böröcz 2004, 6–9.
[88] King and Sznajder 2006, 790.
[89] Keating 2006.

complementarities that support the competitive position of the ECE economies, in spite of their considerable economic growth. In the logic of our argument one may therefore assume the existence of at least a fourth basic variety of capitalism—based on "clans"—as a fourth basic mode of social coordination[90] and dominating the global periphery of Central Asia[91] and sub-Saharan Africa.

Of course, not all economies have to be institutionally coherent. One might be tempted to use the variety of capitalism approach as the basis for a theory of underdevelopment, explaining it by the absence of sufficient institutional complementarities. This theory would suggest seeking equilibrium in domestic systems and strongly advise against benchmarking "best" institutions across countries.[92] In particular, the transfer of individual institutions from one variety to another has rarely proven successful, as numerous attempts to export the German system of apprenticeships have demonstrated. Moreover, studies exploring the origin of vocational training institutions indicate that the institutionalization of a stable system of firm-based training relies on very specific class settlements.[93] Correspondingly, the usefulness of the VOC theory for the design of development strategies might be somewhat limited, given the considerable difficulties of creating these complex institutions and linkages by policy design.

In any case, the policy conclusions from our investigation are quite ambivalent. The most immediate implication from our assessment would be for the ECE economies to substantially invest in education, training, and research in order to stabilize their current comparative advantages against the relocation of production and to attract new investments. But doubt may still be raised as to whether stabilization of the current position in the world economy is really desirable, given that few countries would explicitly choose an export-oriented development path with a medium level of technology under the domination of foreign capital.[94] Moreover, only part of the society benefits from the success of the externally dominated industries. While the DME model has proven to be fairly coherent and successful for certain sectors, it clearly fails to lift the standard of living of the whole population. Instead, we observe a growing dualism within these societies with rising income disparities between those who participate in the export-oriented industries and

[90] Ouchi 1980.
[91] "Patrimonial postcommunist capitalism," see King 2007, 309.
[92] Höpner 2005, 334.
[93] Thelen 2004.
[94] We owe this point to an anonymous reviewer.

those who are excluded or who have to bear the costs incurred by the generous incentives offered by governments to attract FDI.[95] Most recently, this uneven development has led to increasing political and social tensions in East Central Europe, accompanied by the rise of populism. While massive FDI has undoubtedly contributed to the modernization of East Central European industries, its broader societal implications may be more ambivalent.

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[95] Bohle and Greskovits 2006, 20–21.

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