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Post-Communist Transformations Revisited: Ideal Types of Socio-Economic Transformation Strategies in Post-Communist Countries of Central and Eastern Europe

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Abstract

The following article explores to what extent the variety of national systems of innovation and innovation policies in Central and Eastern European countries can be explained by their divergent development paths, which are shaped by their post-communist socio-economic transformation strategies. The theoretical references include the concept of path-dependent institutional change, the literature on comparative capitalisms and the national systems of innovation approach. It is assumed that certain opportunity structures and constraints arise in the course of 1st wave reforms (marketisation, internationalisation and privatisation), which in turn determine the focal point and direction of 2nd wave reforms (specific areas like competition or educational policies). For the purpose of analysing transformation processes in post-communist countries, two ideal types of socio-economic transformation strategies have been constructed: the Neo-Liberal Radical and the Negotiated Gradual transformation strategies. The article concludes by considering the limitations of the presented ideal types and prospectively applying the analytical framework to two post-communist European member states, Estonia and Slovenia.

1. Introduction

The beginning of the 1990s saw the collapse of the Soviet block, followed by multiple economic and political crises in all post-communist countries. The adoption of strategies for crisis management and economic reform were among the most important tasks of the new political elites in these countries, but differences in political preconditions and economic starting points resulted in different understandings of stabilisation and structural reform. Controversies between radical and gradual reformers materialised in their views on the speed, scope and sequencing of the reforms. The following article will present the Liberal Radical and the Negotiated Gradual ideal types of transformation strategies as a framework for analysing socio-economic transformation processes and the evolution of national systems of innovation in Central and Eastern European countries. An introduction of the main theoretical concepts that form the basis of my study will be followed by brief explanations of the assumptions underlying the construction of the above-mentioned ideal types. I will then present the Liberal Radical and Negotiated Gradual strategies of post-communist socio-economic transformation and conclude with a short overview of the theoretical and empirical limitations of the suggested typology.

2. Theoretical references

My study on post-communist socio-economic transformation strategies draws on the theoretical concepts of path-dependent institutional change, comparative capitalisms literature and national systems of innovation approach. Due to limited space, these theoretical concepts cannot be presented in their full complexity. I will therefore briefly summarise the central theses of the above-mentioned concepts and explain their relevance for my study.

Douglass C. North argues that understanding institutional change enables us to analyse and explain long-run economic change.¹ North defines institutions as rules of the game for human interaction, consisting of informal constraints, formal rules and their enforcement characteristics.² Their functions involve defining and enforcing agreements, thus reducing uncertainty and “establishing a stable (but not necessarily efficient) structure to human action.”³ North distinguishes between institutions and organisations – if institutions are the rules of the game, organisations have to be seen as the players, bound by some common purpose to achieve objectives. The institutional framework influences the emergence and evolution of

1 North, Douglass C.: *Institutions and Economic Performance*, in: Mäki, Uskali/ Gustafsson, Bo/ Knudsen, Christian (eds.): *Rationality, Institutions and Economic Methodology*, Routledge, London and New York 1998, pp. 242–261, p. 259.

2 North, Douglass C. 1998, p. 245.

3 North, Douglass C.: *Institutions, institutional change and economic performance*, Cambridge: Cambridge University Press, 1990, p. 6.

organisations, as well as their viability, profitability and survival by providing them with opportunity and constraint sets. Conversely, organisations have to be perceived as major agents of institutional change by virtue of their attempts to achieve their goals.⁴ In the long run, institutions connect the past with the present and the future through the path-dependent mechanism of incremental institutional change. North allows for discontinuous or radical institutional change as a result of conquest or revolution. Still, he stresses that discontinuous change tends to be a surface phenomenon. The tension between new formal rules and informal constraints results in inconsistencies, but in the long run, both formal and informal institutions will undergo restructuring and result in more compatible restraints.⁵

The comparative capitalisms literature views national economies as interdependent sets of institutions. These are regarded as “specific, non-random configurations of capitalism”⁶ that shape the behaviour of economic actors. The evolution and change of institutional complementarities is subject to incremental and long-term path-dependent developments, which leads to discrete and internally consistent models of national economies.⁷ It is assumed that different institutional configurations have major comparative advantages in fostering distinct production strategies, forms of economic co-operation, innovation strategies, etc. and therefore explain certain strengths and weaknesses across economic sectors in national economies. Several typologies of distinct national economic models have been presented over the years. The best-known and most controversially discussed stream of comparative capitalisms research is the varieties of capitalism approach, which divides national economies into co-ordinated market economies and liberal market economies.⁸ Until recently, such categorisation was reserved for the advanced capitalist economies of Western industrialised states. Attempts have been undertaken to detect institutional complementarities and comparative advantages in post-communist economic systems that would allow their classification as one type or the other.⁹

In line with the critique that the comparative capitalisms literature presents a static analysis of capitalist economies while neglecting the origins or evolution of the institutions themselves,¹⁰ I am less interested in applying the existing models of different capitalisms to my case studies. Instead, I intend to capture the socio-economic transformation processes of the post-communist societies as a simultaneously path-dependent and path-creating development by generating ideal types of socio-economic transformation strategies. Following the assumptions of institutional complementarities and comparative advantage central to the comparative capitalisms concepts, I will attempt to explain the evolution of institutional matrices, which set constraints and create opportunity structures for innovative performance.

The issue of differences between the innovative performances of states is also central to the national systems of innovation theory. According to Susana Borrás, these differences can be explained “on the basis of the diverse, historically developed sets of formal and informal institutional arrangements that form the context for innovation”.¹¹ For the purposes of my study, a national system of innovation is defined as the institutional basis of economic and innovation activity, organised as a network of formal-informal/public-

4 North, Douglass C. 1990, p. 5.

5 North, Douglass C. 1998, p. 257.

6 Deeg, Richard/ Jackson, Gregory: Towards a more dynamic theory of capitalist variety, in: *Socio-Economic Review*, Vol. 5, No. 1, 2007, pp. 149–179, p. 152.

7 Deeg, Richard/ Jackson, Gregory 2007, p. 150.

8 Hall, Peter A./ Soskice, David (eds.): *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press, 1998.

9 Lane, David/ Myant, Martin (eds.): *Varieties of Capitalism in Post-Communist Countries*, Palgrave Macmillan, 2007. The varieties of capitalism concept has been applied to Estonia and Slovenia by Clemens Buchen: Buchen, Clemens: *East European Antipodes: Varieties of Capitalism in Estonia and Slovenia*, August 2007, Internet download: <http://www.paisley.ac.uk/business/cces/documents/clemensbuchen.pdf>, last accessed in July 2007.

10 Deeg, Richard/ Jackson, Gregory 2007, p. 150.

11 Borrás, Susana: *The Innovation Policy of the European Union: From Government to Governance*, Edward Elgar, Cheltenham and Northampton 2003, p. 13.

private institutions.¹² It is assumed that there are strong complementarities between individual components of the system. The systemic interdependencies of institutions facilitate certain patterns of co-ordination/interaction and constrain others. The resulting feedbacks to the system can lead to the reinforcement of the existing structure along a specific developmental path. Jan Fagerberg underlines the responsibility of policy-makers to ensure the openness of the system to external impulses and exchange with the environment to avoid path-dependent lock-ins, which tend to exclude promising new developments.¹³ Following this line of argumentation, a comparative study of differences in the innovative performance of states cannot be limited to an analysis of the differences in the respective institutional setups. The explicit reference to the role of policy-making and policy-makers in preventing or overcoming counter-productive lock-ins underlines the importance of analysing innovation policy instruments/goals and the diversity of policy solutions.

3. Two ideal types of post-communist socio-economic transformations

The 1st wave reforms of economic transformation in post-communist countries were devoted to marketisation, privatisation and internationalisation. They were followed by 2nd wave reforms, which focused on specific areas like enterprise restructuring, competition policy, infrastructure and health/educational/pension systems. I argue that the 1st wave reforms had consequences for the conceptualisation and implementation of the 2nd wave reforms. This approach assumes that the institutional framework that evolved as a result of the 1st wave reforms created certain opportunity structures and constraint sets, which in turn determined the focal point and direction of the 2nd wave reforms. Factors like political constraints and choices contribute to the understanding of economic transformation paths; however, because the study focuses on the post-communist economic transformation processes from a comparative perspective, the respective political transformation processes will be taken into account only as a general background for economic reforms.

The issues of innovation strategy and policies were bound to become important only in the course of the 2nd wave reforms, since they could only be conceptualised taking into consideration the effects the reforms would have on the innovative capacity of the society. Following my argument of complementarity, there is a strong link between the course of the 1st wave reforms and the direction of innovation policies. In other words, I assume a strong relationship between the furnishing of the economic system and the setup of the national system of innovation. The assumption of institutional complementarity between an economic system and the national system of innovation is to be verified by studying the R&D as well as the education and skill formation systems of two countries with distinctively different transformation paths. The study of the formation of the knowledge base and national system of innovation will provide a litmus test for the success of political and economic transformation processes.

For that purpose, I have constructed two types of socio-economic transformation for Eastern Europe, differentiating between a Neo-Liberal Radical and a Negotiated Gradual transformation path. These are understood as “ideal types” in the Weberian sense¹⁴: even though the typologisation of the 1st wave reforms draws considerably on the actual socio-economic reforms and therefore displays empirical references characteristic to real types,¹⁵ most of the post-communist transformations did not demonstrate the degree of

12 Borrás, Susana 2003, p. 221.

13 Fagerberg, Jan: *Innovation: A Guide to the Literature*, in: Fagerberg, Jan/ Mowery, David/ Nelson, Richard R. (eds.): *The Oxford Handbook of Innovation*, Oxford: Oxford University Press, 2005, pp. 1–26, p. 13. However, the possible outcomes of systemic feedback are not limited to lock-ins, but also include change in orientation or dissolution of the system.

14 Kluge, Susann: *Empirisch begründete Typenbildung: Zur Konstruktion von Typen und Typologien in der qualitativen Sozialforschung*, Leske + Budrich: Opladen, 1999, pp. 60ff.

15 The typology of the 1st wave reforms relies to a great extent on the descriptions and analyses of Anders Åslund and Beverly Crawford: Åslund, Anders: *Building Capitalism: The Transformation of the Former Soviet Block*, Cambridge: Cambridge University Press, 2002; Crawford, Beverly: *Post-Communist Political Economy: A Framework for the Analysis of Reform*, in: Crawford, Beverly (ed.): *Markets, States and Democracy: The Political Economy of Post-Communist*

reform consistency, coherence and complementarity inherent to the constructed types. These, along with the aspects of the 2nd wave reforms and the starting point of the transformation, can therefore perform the functions of ideal types. The typology will provide a framework for studying different economic transformation paths and the resulting innovation systems in post-communist countries. In constructing the ideal types, my intention is to demonstrate how path-dependent decisions made in the framework of the Neo-Liberal Radical or the Negotiated Gradual transformation are conducive to a certain type of economic development.

The socio-economic opportunity structures and constraints favouring a certain transformation strategy and rendering it successful are grouped in three categories concerned with economic transformation:¹⁶

- 1st wave economic transformation strategy (aspects of marketisation, privatisation and internationalisation processes with the emphasis on their consequences for the labour market, labour relations and the social safety net)
- 2nd wave reforms (with a focus on R&D, education and skills)

Institutional complementarity also implies that economic reforms can only be successful if they are supported by a particular set of political and economic institutions. The emergence of such institutions can best be explained by:

- Characteristics of the regime preceding the transformation
- Mode of breakdown

The development scenarios presented for both ideal types represent bundled hypotheses. They are built to reflect the possible development paths resulting from the perceived constraint sets and opportunity structures faced by the actors and focus on the learning and innovative capability of the society and the economy. By constructing positive and negative development scenarios, I am incorporating North's realisation that institutional configurations are not necessarily efficient.¹⁷ Therefore, institutional configurations can also produce inefficiencies and tensions in addition to the positive feedbacks arising from institutional complementarities.¹⁸

3.1. Neo-Liberal Radicalism

The blueprint for the Neo-Liberal Radical transformation strategy, also known as the Washington Consensus, is delivered by actors like the IMF or the World Bank. It advocates far-reaching and simultaneous economic reforms. Following from the propositions of neo-classical economic theory, the role of the state is limited to creating a legal and institutional framework for the emergence and evolution of market forces. The aim of the reforms is to reduce the state's role in the economy, but for that to happen, certain state functions important for 'furnishing' the economy have to be strengthened.¹⁹ Large parts of the society and economy are to be regulated by market forces.

1st wave transformation strategy

- Elimination of enterprise subsidies
- Elimination of monopolies
- Establishment of a private enterprise sector
- • Fast pace of privatisation involving foreign capital

Transformation, Boulder: Westview Press, 1995, pp. 3–42.

16 Beverly Crawford undertook a similar attempt in 1995, looking at different distribution modes of economic resources inherent to radical and gradual strategies. Accordingly, the chosen mode was seen to influence the political and economic power relations and determine the continuity of the liberalisation process: Crawford, Beverly 1995.

17 North, Douglass C. 1990, pp. 7; 16.

18 Deeg, Richard/ Jackson, Gregory 2007, p. 151.

19 Åslund, Anders 2002.

- Price liberalisation
- Minimised budget deficit
- Fixed exchange rate
- Trade liberalisation
- Foreign ownership permitted
- High share of FDI
- Flexible labour market
- Flexible wage levels
- Marginalised trade unions
- Universal social safety net

Large-scale restructuring of the economy results in the decline of whole industrial sectors and old (production) networks. The pace of restructuring is fast, since uncompetitive producers in uncompetitive sectors will not be subsidised by the state. Consequently, the producers are faced with the requirements of the global market at a very early stage of economic transformation. This is complemented by the monetary policy. Monetary security is established by pegging the national currency to a strong international currency or a basket of currencies.²⁰ There is a tendency to undervalue currencies to improve the terms of trade. This approach clearly favours competitive industries, since the reorientation and liberalisation of trade creates opportunities for competitive exporters. As a result of the quick opening and restructuring of the economy, the economy displays a high share of FDI. This development is supported by the dominant modes of a quick and comprehensive privatisation (direct sale and vouchers), which offer further opportunities to foreign investors. High levels of FDI and foreign ownership trigger comprehensive management reform in medium-sized and large enterprises.

The labour market has to react flexibly to the quick changes. As the level of collective bargaining is relatively low and the level of employment can fluctuate heavily, a universal social safety net is established to compensate for the effect of radical restructuring.

Resulting from these developments, the following 2nd wave reforms are introduced in areas of major importance for the national system of innovation:

2nd wave reforms: R&D, education and skills

- No pronounced industrial policy
- Innovation policy focus on bridging institutions for knowledge transfer
- Start-up capital provided by a privatised and modernised bank sector or venture capitalists
- No direct linkages between tertiary education and enterprises
- Declining prestige and importance of vocational education and qualifications
- Marketised and highly unregulated tertiary education sector
- Educational standards are established in competition between different providers of education
- Changing skill pattern
- General skills and qualifications more advantageous
- Liberal migration regime

In the Radical Neo-Liberal type, innovation policy is supposed to create a framework for R&D co-operation. There is a strong focus on establishing bridging institutions to facilitate knowledge transfer between universities, research institutions and industry. This approach also supports the (re)-establishment of production and research networks that were lost in the turbulent 1st wave of economic transformation.

In accordance with the neo-liberal approach, the government implements a skill policy that concentrates on the supply side, expecting the supply of highly educated workers to meet its own demand and trigger a technological upgrade in the country's firms.²¹ The demand for general skills and weak links between

20 Crawford, Beverly 1995, p. 27.

21 Brown, Phillip/ Green, Andy/ Lauder, Hugh (eds.): High Skills: Globalization, Competitiveness, and Skill Formation,

enterprises and educational qualifications draw resources away from vocational education and render it unattractive. There is no comprehensive educational policy or industrial policy to compensate for that development. Low trade union participation and the absence of a tradition of corporatist negotiations contribute to that development.

As a result of rapid restructuring and the subsequent decline of whole industrial sectors, old skills are in many cases rendered obsolete. The demand pattern for certain skills and know-how changes further with the increasing share of FDI in the economy. At the beginning of the transformation, there are strong incentives to concentrate on more general skills and qualifications, since the whole economy is in a state of flux. Even later, general skills prove more advantageous, since the flexible labour market favours those with versatile educational qualifications, flexible skills and the ability to adjust and learn quickly. The long-term unemployed are rendered particularly vulnerable.

A liberal migration regime is an important condition for ensuring the flexibility of the labour market.

Mode of breakdown

- Far-reaching delegitimation of the old regime and elites
- Turbulent breakdown

Point of departure for economic reforms

- History of suppressed political and economic reform initiatives
- Urgent need for radical reforms and restructuring/reorientation of the economy
- Reform-inexperienced new elites advocating quick and comprehensive reforms

The need to embark on a radical course of economic transformation arises from the circumstance of the old institutions having lost their legitimacy and validity. The political base of the opponents of liberalisation is undermined, and consequently, reformers are insulated from organised political pressure until the next elections.²² Discontinuity with the old, highly centralised regime of economic planning leads to radical, comprehensive and fast reforms. The new state grapples with credibility problems and needs to “reach a critical mass of reforms rapidly”²³— otherwise, it might be paralysed with inefficiency.²⁴

Positive scenario

In a more optimistic scenario, old industrial practises are abandoned. Instead, the latest managerial practises and technological know-how are transferred. When combined with the retraining of abundant skilled labour, this is a recipe for instant development, resulting in a competitive advantage in high value-added goods. Combined with high levels of FDI, this economic development path will lead to integration into the global network of multinational corporations. The resulting technological spill-overs and diffusion of practises and know-how will benefit other sectors.

Innovation policy will concentrate on setting up a framework for actors in the innovation system. The focus will be on facilitating knowledge transfer from universities to the industry. Bridging institutions will facilitate industry-university partnerships, resulting in research networks financed by the industry. University research will greatly profit from its involvement in high-profile innovation networks. Venture capital for innovative start-up companies will be provided by the banking sector.

Following the restructuring of the economy, universities will respond to changing skill patterns and skill demand in the qualifications they offer. Demand for a highly skilled and qualified workforce arises from

Oxford: Oxford University Press, 2001, pp. 2; 11.

22 Crawford, Beverly 1995, p. 32.

23 Balcerowicz, Leszek: *Socialism, capitalism, transformation*, Budapest: Central European University Press, 1995, pp. 341f.

24 Åslund, Anders 2002, p. 79.

technologically advanced sectors with a high share of FDI. The concentration on general skills allows individuals to be employed in a wide spectrum of companies. In combination with the flexible labour market, this results in knowledge diffusion across companies and industries.

The influx of FDI means that the economy will display a relatively high growth rate, and increased labour costs will result. To retain economic competitiveness, this strategy employs a liberal migration regime to avoid pressure on wage increases across the skill spectrum. Alternatively, attempts can be undertaken to effect a technological upgrade of the economy by increasing the supply of the educated workforce.

Negative scenario

Comprehensive restructuring of all economic spheres makes mobilisation of resources for innovation difficult. As there is a tendency to undervalue currencies, the attracted foreign capital will be concentrated in low-technology and low-skill production, even if the final products are high-tech. Over-reliance on FDI can lead to isolated institutions in disembodied regional economies with an absence of local linkages. Consequently, the diversity of mobilised resources through which learning can take place will be reduced.²⁵ The Neo-Liberal Radical development path will display a high dependency on (volatile) foreign capital and achieve a comparative advantage mainly in low-skill, labour-intensive goods.

Since R&D is mainly supposed to be financed by private companies seeking to innovate, technological backwardness of domestic firms and FDI concentration in technologically backward production will leave the universities and research institutes without necessary resources for both basic and applied research. Innovative start-ups, even if they were to emerge under these conditions, could not survive in a technologically backward environment.

The labour market is characterised by regional/sectoral/ethnic divisions. Since the FDI in the economy is located mainly in the low-skill sectors and the domestic industries are not supported by an industry policy at any meaningful level, there will be little demand for the highly qualified. They will exit the labour market and migrate to the West and will be joined by the low-skilled if the FDI chooses to withdraw its investments.

3.2. Negotiated Gradualism

This transformation strategy aims at the model of extensive Continental European welfare states with corporatist interest representation and is characterised by strong guidance from the state, which is seeking to prevent an economic collapse and severe social dislocation.²⁶ Corporatist agreements play a major role in the development of the transformation strategy. The gradualist transformation path draws from the legacy of a more decentralised command economy with a small enterprise sector and enterprise autonomy. Since the state is unwilling to retreat from the economy, blurred boundaries between the private and public spheres result. A lot of the strategic decisions can be explained by attempts to create a buffer against the negative effects of internationalisation in order to prevent opposition to economic and political liberalisation.

1st wave transformation strategy

- Direct enterprise subsidies
- Persistence of certain (state) monopolies
- Relatively large state sector
- Gradual insider privatisation
- Partial price liberalisation

25 Smith, Adrian/ Swain, Adam: Regulating and institutionalising capitalism: the micro-foundations of transformation in Eastern and Central Europe, in: Pickles, John/ Smith, Adrian (eds.): *Theorising Transition: The Political Economy of Post-Communist Transformations*, London and New York: Routledge, 1998, pp. 25–53, pp. 44f.

26 Crawford, Beverly 1995, p. 28.

- Budget deficit is accepted
- Option to manipulate the exchange rate
- Selective regulation of foreign trade
- Restricted foreign ownership
- Low levels of FDI
- Relatively stable labour market
- Influential trade unions
- High negotiated wage levels
- Particularistic social safety net

The aim of the gradual transformation strategy is to sustain the old economic structure and (production) networks. The state sees its main task as avoiding a premature opening of the markets with no prior adjustment to the world economy (analogous to the infant industries argument). In order to improve the terms of trade, the exchange rate of the national currency can be manipulated. This is believed to ensure endogenous economic development of industries that can improve their competitiveness under such favourable conditions. In compliance with the primacy of endogenous growth in the framework of a negotiated transformation, FDI is not welcome and may even be restricted.

Managers and employees traditionally have a greater say in enterprise management, so the resulting implicit property rights of this arrangement cannot be ignored. Therefore, the dominant form of privatisation is insider buyout. Since foreign ownership would shift ownership structures and corporatist agreements, it is discouraged. Consequently, there is no change of management in enterprises.

The labour market remains stable and does not encourage changing jobs. The delayed economic restructuring and stable (inflexible) labour markets enable the organisation of the social safety net through enterprises – the state provides a social infrastructure and offers side payments to those bearing the cost of reforms in exchange for their support.

The 1st wave reforms provide a point of departure for the following 2nd wave reforms in the area of R&D, education and skills:

2nd wave reforms: R&D, education and skills

- Active industrial policy governed by corporatist arrangements
- Active technology policy in the framework of industrial policy
- Intertwined interests and ownership relations of the banking and enterprise sectors
- The banking sector has less capital available for (risky) start-up ventures
- Direct linkages between tertiary education and enterprises
- Vocational education remains popular and important
- Regulated state-directed tertiary education sector
- Educational standards established as a result of stakeholder negotiations
- Persistent skill pattern
- Specific skills and qualifications more valued
- Restrictive migration regime

The centrepieces of the innovation system in the Negotiated Gradual transformation strategy are active industry and technology policies. The R&D efforts of the universities/research institutes are financed and supported by the state. In companies owned and subsidised by the state, the resources for facilitating innovation are scarce. The banking sector, largely state controlled or owned, is tied up in buffering the companies from the effects of the transformation.

As a result of corporatist arrangements, a consensus has to be reached between the major stakeholders – employers, workers and the government – concerning skill formation issues. The educational reform therefore implements only incremental changes to the existing educational system. Since the economic

structure has been preserved, the skill pattern remains largely the same and the direct linkages between tertiary education organisations and enterprises are preserved. Consequently, vocational education will not lose its attractiveness or importance.

Mode of breakdown

- The old communist regime and elites are not completely delegitimised
- Negotiated transformation within the old regime

Point of departure for economic reforms

- Relatively long history of successful economic and political reform initiatives
- No apparent need for radical reforms or economic restructuring/reorientation
- Reform-experienced old elites advocating continuity of economic reforms

The Negotiated Gradual transformation strategy is more likely to be chosen in a society with a relatively long tradition of political consensus-building. Since corporatist relations play a central role, reforms can only be carried out with the support of all parties. Therefore, finding a unilaterally supported compromise is of the utmost importance. This scenario is possible if the old communist regime has not been delegitimised and its decision-makers who are still in power carry enough political clout. The new state tries to evoke the impression of preserving the status quo.

Positive scenario

In a positive scenario, local networks will persist in the Negotiated Gradual transformation path, leading to a locally embedded regional economy.²⁷ This makes the mobilisation and organisation of local resources for economic projects possible. According to Smith and Swain, “much emphasis is being placed on the transformation of the ‘second economy’²⁸ into a self-sustaining sector able to foster regional economic growth”.²⁹ The endogenous growth strategy entails widespread state support to small and medium-sized enterprises.

Experiences with networking, co-ordination and co-operation facilitate the emergence of an innovation policy. Research networks have been preserved and continue to be financed by the state, delivering results in areas prioritised by the latter. There is a continuity of research, enabling the universities and research institutes to build centres of competence and specialisation.

Innovation capital will be provided by banks, which are often strongly involved in the ownership structure of companies. This mode of financing will permit long-term innovation and growth strategies.

The previous high standards of tertiary education and a wide spectrum of educational organisations have been preserved. The educational system caters optimally to the needs of the companies by providing graduates with relevant skill profiles, thus reducing retraining costs for the companies.

Negative scenario

The Negotiated Gradual transformation path is prone to developments characteristic of ‘political capitalism’,³⁰ meaning that former positions are converted into new forms of post-communist privilege. The rent-seeking activities of political and economic actors can further impair the readiness for far-reaching attempts to restructure the economy. The ongoing lack of restructuring can inhibit the development of

27 Smith, Adrian/ Swain, Adam 1998, p. 45.

28 The second sector contains large state-owned enterprises, big banks and partly or completely privatised enterprises. Furthermore, it is highly intertwined with central and local governments.

29 Smith, Adrian/ Swain, Adam 1998, p. 45.

30 Tatur, Melanie: Ökonomische Transformation, Staat und moralische Ressourcen in den post-sozialistischen Gesellschaften, in: Prokla No. 112, 1998, pp. 339–374; Staniszki, Jadwiga: Postkommunismus: Versuch einer soziologischen Analyse, in: Prokla No. 112, 1998, pp. 375–394.

competitive modern sectors capable of complying with the new techno-organisational paradigm. This can result in a lock-in in a peripheral non-competitive development path. Consequently, the rationality of the old system prevails and inhibits innovativeness.

The restrictions on FDI further delay the restructuring and technological upgrading of the economy. The R&D networks stay disconnected from the companies and have no incentives to increase their innovative potential. Start-ups find it difficult to acquire necessary venture capital from the weak and risk-averse banking sector. Special interests hinder the emergence of a coherent innovation policy, resulting in certain interest groups seeking to influence science and technology policies.

The quality of education declines as a result of the postponed educational reform. Since education is tailored to cover the specific needs of the now backward domestic industry, the acquired qualifications are rendered increasingly irrelevant, hindering a possible technological upgrade of the economy.

The labour market mirrors the main weaknesses of the whole economy: its inflexibility inhibits learning and offers no rewards for skill upgrading. The restrictive migration regime caters to the needs of a stagnating economy.

4. Empirical limitations OF the ideal types

The constitutive elements of the ideal types presented above can by no means be seen as the only explanatory factors for divergence in economic transformation paths or differences in the institutional setup of national systems of innovation. The latter are influenced by structural factors that cannot be fully incorporated into the ideal types, like the state of the economy prior to the initiation of political and economic transformation processes. The size of the countries determines to a considerable extent the scope of their economic policies and available resources for institution-building. In addition, the geographical, cultural, historic and linguistic accessibility of a country plays an important role. Also, political reality does not always comply with the assumption that formal institution-building follows the principles of institutional complementarity with the aim of maximising institutional efficiency. Certain political pressures (e.g., Europeanisation) can also lead to the adoption of policies or policy instruments that hinder the development of institutional complementarity. Deviation from ideal types can partly be explained by the process of policy transfer and adoption from different systems as a result of cultural and economic ties or the belief that a certain arrangement will ensure global competitiveness even in a very different institutional set-up. Last but not least, discontinuous institutional change is likely to bring about tensions between formal and informal institutions, resulting in inconsistencies in the institutional framework.

5. Conclusions and an Outlook

Assigning Central and Eastern European post-communist countries to one or the other ideal type is not the ultimate aim of my research. Rather, I intend to use this framework for analysing and explaining differences in innovation policies and national systems of innovation in these countries. At first glance, there are often strong similarities between countries with respect to the aims and target groups of their innovation policies or constitutive institutions of their national systems of innovation. Nevertheless, I expect to find functional differences between seemingly similar institutions as well as differences between their governance systems. To validate this hypothesis, I intend to compare the innovation policies and institutional set-ups of national systems of innovation in Estonia and Slovenia with the help of the framework of ideal types, concentrating on policies and institutions involved in knowledge creation and knowledge transfer. The criteria of institutional complementarity will allow a more differentiated evaluation of the strengths and weaknesses of post-communist national systems of innovation than the mere listing of deficiencies so common to innovation performance assessment reports. My research will be based on document analysis as well as on qualitative interviews with actors involved either in knowledge creation and transfer or in governing these activities.

| | Neo-Liberal Radicalism | Negotiated Corporatism |
|--|---|--|
| 1st wave | <ul style="list-style-type: none"> • Elimination of enterprise subsidies • Elimination of monopolies • Priority of a private enterprise sector • Fast pace of privatisation • Price liberalisation • Minimised budget deficit • Fixed exchange rate • Trade liberalisation • Foreign ownership permitted • High share of FDI • Flexible labour market • Marginalised trade unions • Flexible wage levels • Universal social safety net | <ul style="list-style-type: none"> • Direct enterprise subsidies • Persistence of certain (state) monopolies • Relatively large state sector • Gradual insider privatisation • Partial price liberalisation • Budget deficit is accepted • Option to manipulate the exchange rate • Selective regulation of foreign trade • Restricted foreign ownership • Low levels of FDI • Relatively stable labour market • Influential trade unions • High negotiated wage levels • Particularistic social safety net |
| 2nd wave | <ul style="list-style-type: none"> • No pronounced industrial policy • Innovation policy focus on bridging institutions for knowledge transfer • Start-up capital provided by a privatised and modernised bank sector or venture capitalists • No direct linkages between tertiary education and enterprises • Declining prestige and importance of vocational education and qualifications • Marketised and highly unregulated tertiary education sector • Educational standards are established in competition between different providers of education • Changing skill pattern • General skills and qualifications more advantageous • Liberal migration regime | <ul style="list-style-type: none"> • Active industrial policy governed by corporatist arrangements • Active technology policy in the framework of industrial policy • Intertwined interests and ownership relations of the banking and enterprise sectors • The banking sector has less capital available for (risky) start-up ventures • Direct linkages between tertiary education and enterprises • Vocational education remains popular and important • Regulated state-directed tertiary education sector • Educational standards established as a result of stakeholder negotiations • Persistent skill pattern • Specific skills and qualifications more valued • Restrictive migration regime |
| Point of departure for economic reforms | <ul style="list-style-type: none"> • History of suppressed political and economic reform initiatives • Urgent need for radical reforms and restructuring/reorientation of the economy • Reform-inexperienced new elites advocating quick and comprehensive reforms | <ul style="list-style-type: none"> • Relatively long history of successful economic and political reform initiatives • No apparent need for radical reforms or economic restructuring/reorientation • Reform-experienced old elites advocating continuity of economic reforms |
| Breakdown | <ul style="list-style-type: none"> • Far-reaching delegitimation of the old regime and elites • Turbulent breakdown | <ul style="list-style-type: none"> • The old communist regime and elites are not completely delegitimised • Negotiated transformation within the old regime |