

## Is There an Opportunity to Establish the Social-Capitalism in the Post Socialist Transition?

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**Summary:** Recently Claus Offe has put the question that concerns the fate of the European model of social capitalism: Can the model of social capitalism survive the European integration in the context of certain contemporary tendencies? Offe has presupposed that the mentioned model is challenged by the processes of globalisation and the integration of the post socialist countries into the European Union. The working hypothesis of the article is that there is an opportunity to provide a coherent answer to this question. The article consists of two parts. In the first part the author starts with the Polanyi's socio-economic theory and emphasises the importance of this approach for the analysing of the tendencies of capitalism in Western Europe and in the post socialist countries. The author argues that with the Polanyi's theory we are able to explicate the forms of the embedded liberalism in Western Europe after 1945 and the orientation of non-embedded neo-liberalism and the functioning of the welfare state after the crisis of the Keynesian welfare state. Despite the tendencies of the globalisation projected by neo-liberalism, the central element of the social capitalism, namely, the welfare state, remains with the dimensions of the continuity. In the next part the author points out that there is an asymmetrical structure between the Western-Europe and non-Western part of Europe concerning the socialisation of capitalism. The neoliberalisation in accordance with the model of the transfer of ideal-type of capitalism is more strongly implemented in the countries of transition. In addition, the mentioned theoretical approach provides opportunities to explain the failures of implementing of neo-liberalism in the post socialist countries. On the basis of the endorsing of the socio-economic aspects we can address the issue pointed out by Offe.

**Key words:** Karl Polanyi, Transition, Social capitalism, Welfare state.

**JEL:** P16, P30

### 1. The Welfare State as the pillar of the social capitalism

The gist of the concept of the welfare state is the idea of social citizenship outlined by T. Marshall.<sup>1</sup> The juridico-political understanding of the welfare

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<sup>1</sup> Marshall (1950). N. Luhmann has recognised two principles of the welfare state: the compensation, and the inclusion. These principles make possible the access to the welfare benefits, but set down and endorse the dependence of the citizens (1981), Esping-Andersen (1990: 19-34). I cannot analyse in detail the differences between the theories of the welfare state and the history of

state refers to the aspects associated with the citizenship. Marshall's thoughts, in fact, explain: a) the guarantees for the minimal wage independently of the success on the market determined by the contingent processes, b) the “mitigation” of the risks such as illness and unemployment connected to the probable collective and personal crisis; actually, certain measures of security are provided against loss or interruption of earning, c) the access to the welfare-based services irrespective of the social status of citizens. The consequence of these procedures in respect to the welfare matters was the “decommodification”, namely, the lessening of the market dependence<sup>2</sup> of the citizens. The welfarist rationality was linked to a ranging from tax regimes to social insurance, from management training to residential homes for elderly. Thus, the rationality of welfarism was programmatically elaborated in relation to a range of different problematisation against the background of the “responsibilising mode of government” (Beveridge) and the reduction of the social risk.

Yet, Marshall's conception, that is to say, the link between the social rights and the decommodification sets up only the formal dimension of the welfare state and avoids the problematisation of the tensions inscribed into the “social capitalism”. The welfarism fundamentally transforms the mechanisms that bind the citizen into the socio-economic order. Our understanding is theoretically based on the Polanyi's approach concerning the double dynamics within the modern society<sup>3</sup>: on the one hand there is an “opening” of the society in the context of creating self-regulating market, world market, international productive arrangements, outsourcing of the parts of the production etc., while on the other hand we are witnessing that people retreat from the tenets of the market regulations in order to protect the society and the nature from destruction. Consequently, the commodity logic of capitalist development provokes a countervailing “movement of” societalisation due to its disintegrative effects. The capacities of the state, and the different forms of the interventionist state are to be seen in the light of establishing the market norms, but also in the context of the protection of societal cohesion. Addressing the crisis-ridden processes and the ills of social and economic life the welfare state is the crucial factor concerning the mentioned double dynamics. Thus, it is necessary to take into account the modalities of the positioning of welfare state in relation to the dynamics of capitalism. For example, there is an extraordinary role of the

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the welfare state. There is an important classification made by Titmuss (1958). In line with this, we could make difference between the residual and institutional welfare state. In the first case, the responsibility of the state is emerging reactively, actually, in the context of the failures of the family and the market. In the second case, the arrangement of the state has universal meaning, and the welfare is to be broadened to the all allocative and distributive decisions. Titmuss' classification opened the possibility for focusing on the qualitative aspects of the welfare state. This was the base for the comparative exploration of the welfare state, see Korpi (1983).

<sup>2</sup> On the meaning of the market dependence, see: Wood (2002).

<sup>3</sup> Polányi (1957: 132). I deal with this question in: Lošonc (2004a: 329).

welfare state in the individual and collective reproduction of the labour power which includes individual life-cycle, and intergenerational reproduction, too.

For Polanyi, the modern economy defines the “labour power” as a fictitious commodity, because it is not originally produced to be sold on the market. In reality, the modern economy started by pretending that this fictitious commodity will behave in the same way as the real commodities. Polanyi suggests that the “labour power” as the bearer of certain capabilities remains external to the market relations, in fact, the inclusion of the labour power into the socio-economic order cannot be provided by the market. The engagement of the welfare state entails some interventions of the state in the employment contracts, but it also articulates relations within different contracts between the individual and society (education, for example) and treats the citizens as the “employees of society” (N. Rose and P. Miller). Within the rationality of welfarism, the labour power is bound into a system of market and is located in the nexus of social risk. As a result, the juridico-centred approach cannot clarify the plethora of the networks of welfare state that seek to secure different social and economic objectives with aspirations to control the social field.

We refer here to the emerging regimes of the welfare after the World War II. The Keynesian national-welfare state has promoted the social policy in accordance with the fordistic norms of growth and collective consumption. The state accepted the responsibility in relation to the reproduction of the stabilised relation between the mass-production and mass-consumption of the Atlantic Fordism and supported the interplay between technological advances, mass purchasing power and enough leisure time for the consumption. The projected programmes of public expenditures on the education and the health-system produced decommodification effects, but at the same time involved a new mode of government intended to transfer subvention to different firms employing workers with high competences. The location of certain social problems, the repository of the regulation of the poverty, and the social target of programmes were traced out in order to fix firmly the political stability as the precondition for launching various strategies of the capital. Consequently, the welfarism is always integrated into the reproductive structure of the society with the historical specificity of the co-evolution amongst the dimensions of the economy, politics and culture.<sup>4</sup>

Obviously, there was no pure form of the Keynesian mixed economy and welfare state, there were always varieties formed around problems arising in a multitude of sites within the socio-economic body. For example, an influential classification categorised the regimes of welfare as liberal, conservative, and social-democrat.<sup>5</sup> Yet, irrespective of the diverse regimes of welfare the politico-economic role of the welfare state is not to be ignored after the World War II.

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<sup>4</sup> Jessop (2000:178).

<sup>5</sup> Esping-Andersen (1985). This author has classified the regimes of welfare in accordance with the modalities of the decommodification of the labor power.

From 1960 to 1988 the average government share in GDP in the OECD-countries rose from 27% to 42%; in addition, the average government share in total employment rose from 11% to 18%.<sup>6</sup> The structure of public expenditure was changed; the state was not focusing only on the traditional type of expenditures such as expenditures in the military sector or public administration. Actually, the focus shifted towards the other social issues such as the health insurance, welfare services and transfer payments.<sup>7</sup>

In contrast to the commentary that the welfare state has fallen into the trap from its beginnings,<sup>8</sup> the crisis-ridden processes have shaken the basis of the legitimation of the welfarism from the mid-seventies. The neo-liberalism has been blaming the welfare state and the Keynesian welfare management for the vicious circles of the inflationary expectations and currency debasement. The politico-economic discourse of neo-liberalism has reactivated the critics over the capacities of welfare state to govern the socio-economic issues and has pleaded for the economic entrepreneurship to replace the regulation practice. The welfare state was presented as the malign bureaucratic machine that has obstructed the economic agents to maximise their own advantage. It set in motion the inefficient governmental programmes, and was committed to produce the “surplus” of public, and “common goods” that proved to be a hindrance in relation to the fuelling of the economic growth. The welfare government has weakened the disciplinary power of the market, thus the central precept of neo-liberalism is that markets and monetarisation are to substitute planning in order to re-establish the economy according to the authentic market principles. We can uncover in the repertoire of blaming that the welfarism has irrationally encouraged the consumption patterns of families and individuals and has crucially contributed to the fiscal crisis of the state and budget deficit. The neo-liberalism asserted the Keynesian interpretation of the welfare stimulated unemployment, because the Keynesian demand management de-motivated the labour force to seek employment. In fact, the welfarism with the social protections and the labyrinth of different privileges has perverted the functioning of the labour market. In accordance with the neo-liberal interpretations the welfare state has underpinned the structure of the „addiction” of citizens. In some critical explanations the welfare state was equated with the bureaucracy: the welfarism was subjected to the ambition of the bureaucracy to expand their own field of influence, fuelling an inefficient extension of the government.<sup>9</sup>

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<sup>6</sup> Shaikh (2003:532). Do not forget other facts, the welfare state must enhance some expenditures because of the fact that the position of some expenditures (education, for example) was re-evaluated.

<sup>7</sup> Transfer payments (social security, social assistance payments, business subsidies) have played a crucial role in the structure of economic expenditures, OECD (1985:16).

<sup>8</sup> Hecló (1981), Ryner (2002).

<sup>9</sup> We should notice that the leftist and the rightist theoreticians were active, too, in criticizing the achievements of welfare state blaming it for the paternalism. For the libertarian variant of critics, de Jasay (1998:206), in relation to the leftism see Offe (1972). Yet, we should put a question: who

Neo-liberalism has embodied a profound transformation in the mechanisms for governing economy. Instead of collective provision and overall interdependences of “social citizens” the new rationality has proposed the dismantlement of the welfare state which has included the recommodification of the labour power as the substitutable factor of the production in line with the discipline of competition within the market. The fact that the public provision of the welfare has appeared no longer as a vital programme for the political stability was connected to the renewed affirmation of the norms of the market dependence. In examining these processes the theory of the state has emphasized that the state has been transformed into the status characterised as “competitive”. The state gave up the practising of the social policy in the name of the social citizenships with rights and obligations deriving from membership of a collective body. The shifting of the government-orientations has signalled that in place of the macroeconomic management the state was oriented on the creation of the conditions for the incessant economic calculations in the sphere of microeconomics.<sup>10</sup> These calculations were to enable the conditions of flexibility in the production, innovativeness, and entrepreneurship. Neo-liberal programmes for the reform of welfare drew support from their consonance with the “workfare state” concentrated on the sphere of the “work”. In the place of the Keynesian post war national welfare state the Schumpeterian workfare state has entered on the scene. Otherwise, this was in step with the above mentioned approach proposed by Polanyi: the state was interested in establishing favourable possibilities for the international agents, for the knowledge-based industries, and for the accelerating of the “corporative competition”. The triad from the deregulation, privatisation and the liberalisation of the market has emerged. The opposition between the state and the non-state was absolutely inadequate to characterise this shift, the new modes of governing the economy were subordinated to the norms of the structural competitiveness, personal “economic” pursuits, management of “human resources”, but these transformations did not necessarily render the economy less governable.

Following the argumentation of Polanyi, we are faced here with finding the *modus vivendi* between the acceleration of capitalism and the protection of society. It is to be accentuated that there is no a priori balance between the implementation of the capitalist norms and the protection of society, thus, there

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has paid for the welfare? The criticism toward the welfarism has incessantly put emphasis on the fact that within the Keynesian welfare management the citizenship was not active because of the receipt of the public largess. The rising of the public provision has lessened the opportunity of citizens to help themselves. But, we could quote a research that has demonstrated the rising tax-payments has gone in line with the dynamics of the welfare. In other words, we could see the tendency of the self-dependence in the monetary-aspects of welfarism even in the USA and Sweden, Shaikh (2003: 545). Thus, we cannot conclude that the welfare state was the cause of the crisis. Yet, it seems to me that it is an exaggeration to say we are witnessing the perpetuation of the *status quo*, Esping-Andersen (1996: 267).

<sup>10</sup> Cerny (2000), Scharpf and Schmidt (2000), Peck (2001), Jessop (2002), Drahokoupil (2006).

is no *ex ante* secured level of the sustainable capitalism. Polanyi evokes not only the often mentioned contradiction between the macroimperatives in society and the microeconomic principles, but he raises the issue of crucial importance for the socio-economic orientation; can the society organise its social institution in order to develop enhanced economic performances? Is there possibility to treat the economic achievements that overcome the interests of the particular groups in society?<sup>11</sup>

Beside, it is to raise an other relevant question: did the accelerated neoliberalisation homogenise the regimes of welfare and the institutional capacities of social capitalism? On the basis of the thesis of convergence it is to be concluded that the neoliberalisation has annihilated, or at least, reduced the differences between the regimes of welfare.

In this article, I keep arguing that, despite the ideological underpinnings of the transformation of welfarism, the main components of the welfare state remain in place and are not questioned (especially in Western-Europe). The conditions of the action of welfare state have been transformed, the “welfarism” has been contested, but at the core the welfare state has endured in the context of neo-liberal marketisation. Treating the period of importance for the implementation of society-wide neoliberal reforms, namely, the interval 1980-2000, one can confirm there was no disorder in the functioning of the welfare state. At the end of the mentioned period the amount of the redistribution of welfare state in the OECD-countries remained at the level of the quarter of GDP. This level was not lower in comparison to the previous one.<sup>12</sup>

Actually, we should indicate the following features of the welfare state:

- the ratio of the public social expenditure (this includes the expenditures in the spheres of health, family allowances, pensions, transfers for housing, and transfer for social protection) in relation to the GDP was not reduced; on the contrary, this ratio rose on average in OECD-countries (20%), and in the countries of EU (25%);<sup>13</sup>
- depending upon the results of Eurostat that makes public the data concerning the social expenditures of EU countries, we can confirm that the ratio of expenditures for the social protection rose in relation to the GDP; for

<sup>11</sup> This aspect is analysed by Streeck (2004: 425), Tsakalotos (2004: 420).

<sup>12</sup> Usually, one takes into account the amount of redistribution. But, the picture on the redistribution could not be the only measure for the practice of welfare state. That is to say, the redistribution displays only the sources of the finance, moreover, it can not present these sources comprehensively. The budget-based viewpoint neglects the practice of the regulation of welfare state, the effects made by the state through the tax policy in relation to the social dynamics. We are faced with the difference between the gross and net value of social expenditures, Adena (2001). The expenditures associated with the redistribution appear to be only an approximative measure. On the newest tendencies, Immervoll et al. (2006: 184).

<sup>13</sup> Navarro et al. (2004: 136), Maddison (2003), OECD (2002). It is interesting that in Japan (where the ratio was as the same as in USA 1998, in fact, 14,7%), the level of the social expenditures became bigger in amount to 4,6% for the 20 years.

example, this ratio was bigger in 2000 than in 1991 (the amount of increase was 0,9%); it is true enough that after 1993 the ratio decreased, but the line of the general tendencies did not change;

- one can get the same results if the amount of the social expenditures per capita is analysed; the real value of these expenditures did not decrease;<sup>14</sup>
- taking into account the significant period 1995-2000<sup>15</sup>, one could conclude there was a robust dynamics of social expenditures due to the expanding of pensions and health-based expenditures; in 2000 these expenditures amounted to 73,7% of the social expenditures; (in this period there was a decrease the expenditures on the unemployment;)
- the expenditures on the health that amounted to 8,4% in relation to the overall social expenditures are dependent upon the development of economy in the given country;<sup>16</sup> despite the involvement of the private sources of finance in health sector, the rise of the expenditures on health took place in line with the ratio of these expenditures to the GDP; this meant there was no forceful commodification in this sector and the convergence with the American model of health insurance did not take place in Western-Europe;

<sup>14</sup> In relation to the data from Eurostaat see: Abramovici (2003:4). There were some authors who criticised the using of the expenditures as an indicator of the practice of welfare state. They suggested that the rising social transfers were caused by the transformation of demographic structure. At the beginning of nineties a lot of governments have much more clients because of the growing number of people. Yet, Castles makes explicit that this number is not the only cause of the rising social expenditures (2001).

<sup>15</sup> We could see the dynamics of the social expenditures in 15 EU countries (1995=100)

	1996	1997	1998	1999	2000
Pensions, arrangements for the poor	102,3	104,9	106,8	109,7	112,1
Expenditures on the medical curing	100,0	99,3	102,4	105,8	109,5
Disability pensions	102,9	104,7	106,4	107,6	108,7
Family, child allowance	109,0	112,1	113,5	116,3	117,2
Unemployment	98,8	93,7	90,8	90,2	85,5
Housing and other social expenditures	102,3	104,9	106,5	109,6	113,1
Total	101,9	102,8	104,6	107,1	108,9

Eurostaat-ESSPROS (Abramovici, 2003:5).

<sup>16</sup> For example, in 2001 the total expenditures *per capita* for the health amounted to 2808\$ in Germany, 2719\$ in Luxemburg, 911\$ in Hungary, 629\$ in Poland.

- the expenditures on education on average were constant in the OECD-countries; these expenditures standardly amounted to 5% in relation to the GDP; the share of the public finance in the sphere of education was 91,1%;
- the practice of the welfare state concerning the regulation of the poverty-based risk has remained significant in EU-countries; in 2002 there were 70 million of inhabitants exposed to the intensified risk of poverty; in line with the data the majority of the households were the receiver of at least one form of social transfer; the practice of the interventionist state has been significantly decreasing the risk of poverty (the exact date is 31% on average);
- there is an essential influence of the state on the decreasing of inequality; the social transfers and the taxing significantly reduce the inequalities (the amount of diminishing is 40% in Sweden, and 20% in Portugal); the social transfers contribute more considerably to the equalising of income than the tax policy;<sup>17</sup>
- an account of the dynamics of welfare state can prove *longue durée* the endured tendencies; in the countries with long-run social-democratic tradition (Sweden, Austria)<sup>18</sup> one finds the largest social expenditures (in Sweden it is 33,3% in relation to the GDP, in Denmark it is 30,8% in relation to the GDP); there are minor social expenditures in the countries dominated by Christian-democratic tradition (Belgium, Holland etc.); the smallest social expenditures are found in the so-called liberal welfare states with the low level of trade union (USA, Ireland etc.); the countries with the vital social-democratic traditions are characterised by major social transfers, low level of income-based inequalities among the households, low rate of poverty, and growing rate of the employment in public sector; Thus, contrary to Giddens's suggestion that the countries with the social-democratic tradition were forced to produce high level of budget deficit, the public deficit in the mentioned countries was on average -1,4% in relation to the GDP, and that is minor considering the public deficit in liberal welfare states (-2,9% at the beginning of the 1990s).<sup>19</sup>

Despite the quantitative continuity of the social expenditures, the functioning of the state in accordance with the neo-liberal programme is determined by Schumpeterian features. Given the diminishing of the expenditures on the unemployment, the giving up of the ambition of Keynesian

<sup>17</sup> The importance of the welfare state is proven by certain researches such as Goodin et al. (1999: 282). Accordingly, due to the redistribution the significant parts of population (18,5% in Germany and 19,1% in Holland) are under no circumstances poor. The welfare state has strong support by citizens who are associated with the strong sense of obligations deriving from the membership in state. This support appears to be stabile, despite the globalisation, migration and the change of the demografic structure.

<sup>18</sup> See Navarro's convincing argumentation on the welfare regimes concerning the political traditions (2004: 137).

<sup>19</sup> Navarro (2002:419-29), OECD (2000), Giddens (2000), Ryner (2002).



demand management considering the full employment, there is lot of evidence that the deep transformation took place. Neo-liberalism entails a reorganisation of programmes for the welfare and the economic aspects of personal life, the language of entrepreneurial individual and the structural competitiveness has come to predominate over any other in the evaluations of government programmes. Nevertheless, the role of the state does not disappear in the securing of the social cohesion in OECD-countries, the state as extra-economic institutions is not neutralised. This result could be confirmed by Polanyi's approach as well. The double movement treated by Polanyi puts emphasis on the responsiveness of the society through the practice of the involvement of the state. Moreover, this involvement could be strengthened by the intensified risk of falling into the zone of poverty.

Regarding the variety of the welfare state, it is to be concluded: the neo-liberal programmes have been encouraging the processes of homogenisation and nivellation, but the Polanyi-type of responsiveness has producing divergent interpretations of the welfare. Thus, the theory on the variety of the capitalism and national institutions can be justified even within the frame of the globalisation, at least concerning the heterogeneous responsiveness in relation to the enrooting of the capitalist norms of production and consumption.<sup>20</sup>

## **2. The accelerated neoliberalisation as “the” transition**

The 1990s was the decade of the implementation of the neo-liberal programme of the “final victory of the untrammelled free markets” in the post socialist countries of Central and Eastern Europe. Undertaking to transform their economies, the political elites of these countries used the programmes of accelerated liberalisation, and radical extension of the internal market, and creating the conditions for the transnationalisation of production and consumption. The intensity of this (neo)liberalisation proved to be exceptional. It should be mentioned that the implementation of the liberalisation, the neo-liberal route of deregulation, and the mix between the cost-cutting strategies and production-technological innovation in Central and Eastern Europe came to being without the “previously existing capitalist class”.<sup>21</sup>

Thus, neoliberalisation must be designed and implemented on the basis of the top-down processes. The authority of neo-liberal ideology and its effect on the subjective outlook of elites in post socialist countries, was crucial. The fact that the new market societies have become internationalised and transnationalised *in statu nascendi* must be treated in the explanation of the regime outcomes. This refers to an important source of the transformation of the

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<sup>20</sup> My formulation relativises the justification of the mentioned theoretical orientation; these theoreticians underestimate the effects of the transnationalisation, Hall and Soskice (2001), Amable (2003).

<sup>21</sup> Eyal et al. (1998: 36).

institutions, in fact, to the “disciplinary neo-liberalism” of the international institutions.<sup>22</sup> Hence the economic behaviour in post socialist countries has been substantially not only self-policed, but policed by external authorities. Indeed, the international institutions were viewed as the important trigger of neoliberalisation. The accession to the institutional structure of the EU, “the Europeanisation” includes accepting the norms of neoliberalisation. The harmonisation of the EU brings out clearly the convergence of the programmes of neoliberalisation that have concrete unifying functions. In turn the national states with their distinctive institutional forms and discretionary management remain responsible for the intervention practice concerning the social sphere.<sup>23</sup> The forms of the intervention shape the way in which the social problems are articulated. The EU promotes the integrated market as the optimal scale for the economic activities and as the “ground” for the global competitiveness of Europe. The traditional social policy is linked to the national states being under pressure of the strong norms of the macroeconomic stability. For example, the politics of the unemployment demonstrates very well that there is a lack of social rights on the EU level. Thus, we are witnessing the weakness of the social legislature on the EU level; actually, the politics of the unemployment is subordinated to the norms of competitiveness.<sup>24</sup>

The processes of “the Europeanisation” reflect the marks of the recommodification and the totalizing neo-liberal ideological programmes. The transnationalisation ties the apparatus of the national states into the implementation of the neo-liberal norms that reify and naturalise the market. This fact resists to the attempts to create the “European model of capitalism” in the transition countries. Otherwise, these countries were repeatedly accused of the “social generosity” especially in relation to the social policy of Asia countries. Some commentators and experts were quick to stress that the ex-socialist countries were almost all characterized by an exaggerated social sensitiveness that were associated with the paternalism and authoritarianism of the socialist heritage.<sup>25</sup>

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<sup>22</sup> Gill (1998: 97). This means the international organisations demanded policies from the transition countries the developed “world” did not themselves use in the process of developing.

<sup>23</sup> On the different conceptions within the EU, see Appeldoorn (2002), Lošonc (2004b). On the neo-liberal engagements within the EU, Gill (2003), Bohle (2000), Bieling (2004). On the meaning of the border for the European social politics, Gray (2004). The neo-liberal “protectionism” is over and over again justified by the argument of social dumping or “social adventure”. In time of accessing of the Southern European countries the full circulation of people was postponed for seven years. In contrast, there is a research which suggests that there is no causal relationship between the accession of Greece, Portugal, and Spain and the migration in EU (Eurostat, 2000: 181).

<sup>24</sup> Leibfried et al. (2000), Huber et al. (2001)

<sup>25</sup> On the voices of the accusing in relation to the generosity see Vecernik (1996: 206). It seems to me that it is very dubious to treat the social programmes of past in the “non-Western” countries as generous. Therborn has suggested in his research of these programmes: “Eastern Europe stands out in a surprisingly negative light if one is in favor of social entitlements; indeed, from a neo-liberal

The analysis of the Schumpeterian workfare state applies as much to post socialist countries as to those within EU. The deregulation of the markets has considerably changed the ability of state to manage the economic domain. But, is there a similar societal protection in post socialist countries? Is there a “countervailing-movement” in the context of the transnational “Great Transformation” (Polanyi) in these countries? The recent history of the Western-countries has demonstrated that the state was the key aspect of the market liberalisation and of the mobilisation of society in order to enhance the economic competitiveness. But, the state in the post socialist countries is not equipped with sufficient capacities to advance and support this “counter-movement” in the sense of Polanyi. The minimum of embedding in social norms and institutions that economies need is seriously undermined.

With the purpose of evaluate the achievements of the state in post socialist countries during the transition, we are led to conclude as follows:

- in terms of net change, several of the former socialist countries in 2003<sup>26</sup> were below the level of GDP in 1989; in 2000 the real wages in seven countries were lower than in 1989; (only Poland, Hungary, Slovenia and Slovakia were able to increase the GDP in relation to the situation in 1989);
- at the beginning of the third millennium there remain some stabile divergences in terms of GDP amongst the different parts of Europe; in 2000 the GDP in several candidate countries amounted to the 50% GDP per capita in relation to the average of EU-15 (in the case of Slovenia this data amounted to 70%); there is a serious doubt concerning the establishing of social harmonisation and economic convergence at the European level;
- the evaluations of the achievements in the social sphere notice weaker effects of the social policy in post socialist countries than in the Western part of the EU; in 2000 the state expenditures in EU-15 on average amounted to 27.3% in relation to the GDP; even in the case of Slovenia (it is the more successful country of transition) one can see some laggards; with the data of 25% in relation to the GDP it is behind the Western-countries of EU;
- the inequalities are more robust in post socialist countries; at the end of last decade the Gini-coefficient in these countries amounted to 31,9 (on average) in contrast to the Western countries with the average of 26; as such these data came close to the coefficient in USA (34);
- despite the different phases of the transition to the “free market” (transition-recession and reconstitution etc.) the unemployment has endured; moreover, there was a long-standing unemployment (longer than one year)

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point of view the then Communist countries may appear as models of rectitude" Therborn (1995: 92).

<sup>26</sup> Navarro et al. (2004).

which rate amounted to the 7, 1% in relation to the data in Western countries (3, 3%);

- the so-called active and passive modalities of the politics towards the labour market proved to be “weak”; the state expenditures for the passive politics amounted to 0.06 in the post socialist countries (the USA data is the same), while this rate amounted to 0.26 in the Western countries (the average was 0.23 in OECD countries); the state expenditures in the “active politics” in the context of labour amounted to the 0.04 in the countries of Central and Eastern Europe in contrast to the amount of 0.16 in the “older” EU countries;
- there is no trade union in the emerging private sectors in post socialist countries; this means the neo-liberal programme gained ground treating the labour power as the substitutable factor of production; even after the economic recovery there was no strengthening of the trade unions;
- the union density in the new EU member states is generally below that of the old member states, at 24.6% on average for the new member states, and 38.2% on average for the old members; in fact, the rate of union membership, or density has been diminishing everywhere, but the reduction was more forceful in the post socialist countries than in the Western countries; the labour contracts in the post socialist countries do not envelop the most important dimensions of the employment and is mainly linked to the treatment of nominal wages; there is a lack of the intention of the business sector or the state to encourage a far-reaching social dialogue;
- the tax policy is oriented on the basis of neo-liberal programme; for this reason, we find low tax rates on capital, and a considerable shift in tax burdens from capital to labor and consumers.<sup>27</sup>

Obviously, one cannot ignore the differences among the new members of the EU; in fact, we are forced to deal with some sort of abstractions.<sup>28</sup> Yet, despite the varieties of the post socialist countries, one can refer to the convergences in the context of neoliberalisation. In other words, the "Europeanisation" in the non-western part of Europe appeared to be a part of neoliberal programmes

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<sup>27</sup> Even the GDP *per capita* in Slovenia amounted to the 48% of the average GDP of the old members. In relation to the GDP in 1989, see EBRD (2004: 38), in relation to the wages and inequality Bohle (2004, 2006: 80), Greskovits (1998, 2005: 120), in relation to the trade unions and flexibility Crowley (2001, 2004), Riboud et al. (2002), Euro-stat (2002, 2003, 2004), Eironline (2002). Useful data for the tax policy can be found in Appel (2005).

<sup>28</sup> For the differences amongst Slovenia (which is treated as a neocorporativist country), Baltic countries (with the more robust neoliberal reforms) and the so-called Visegrad-countries (Poland, Czech, Hungary, Slovakia which are positioned between Slovenia and the Baltic countries) see Baxandall (2002), Berglund et al. (2003). For the politics in the light of trade unions, Stanojević (2003: 195). For an earlier account on the patterns of social assistance and household income that vary widely within the region, not only between social groups but also between different countries under contrasting welfare regimes, see Milanovic (1999).

directed to reconfigure the geographical diffusion of capital, and the transnational economic space.<sup>29</sup>

Thus, we can re-state the arguments of this discussion in the light of the structural differences amongst the post socialist members of EU. After, the World War II the welfare state regulated the relationship between capital and labour, or protected vital interests of economic agents. In effect, the welfare state was designed to change those socially and economically desirable features of the capitalism, which may have prevented its future development. In line with this, the welfare state tuned economic fluctuations and uncertainty to a certain socially acceptable level. This system was called “embedded liberalism” (Ruggie). The current dialectic between the quantitative and qualitative aspects of the welfare state in Western-Europe leads to the “embedded *neo-liberalism*” and neoliberalised welfare state. Exactly, the establishing of this form of embeddedness, actually, the social base for the capitalism makes the difficulties for the post socialist countries. They are challenged by the dimensions of the unembedded neo-liberalism that greatly determines their economic trajectory. Therefore, the differences amongst the countries of Europe are dependent upon the level of the embeddedness of neo-liberalism.

As soon as we realise that the economy is connected to the complex interdependent structure, in fact, to the larger systematic environment, we can begin to get a handle of the process of social embeddedness and associated normative horizons. In fact, we can envisage a simple game: at one extreme there are greatly atomised markets lacking any regulatory institutions with very weak normative constraints, but with the suboptimal level of cooperation, innovation, trust etc., while at the the other extreme there is the economy with the excess of normative constraints, regulation, non-flexible rules that undermine the propensity toward innovation and efficiency.<sup>30</sup> The socio-economic discourse refers to the fact there is a level of normative constraints in relation to the economic agents that simultaneously secures the societal cohesion and the optimal economic performances. This is possible in the case when the existing institutions include constraints that are internalised by the societal actors. Polanyi's theory implicitly involves this aspect of the socio-economic field, that is to say, the market is a social construction with the beneficial consequences, but only in the context of viable, complex institutional settings. Therefore, market economies must be embedded in social norms to keep the dynamics of capitalism and the virtuous cycles linking accumulation, rising productivity, economic growth and consumption. But how can we achieve the near-optimal

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<sup>29</sup> Ziltener (2004: 971). The transnational capital has been abundantly using the cheap workers with high competences and has been engaged in the sectors that has provide opportunities for the exit options, see Bohle (2006: 64). For the relationship toward the “strong traditional sector of socialism”, that is to say, industry of steel, see, Sedelmaier (2002: 450).

<sup>30</sup> Wright (2000: 964), Dequech (2003: 510). Streeck correctly points that societal institutions are not deliberatively constructed in order to enhance the economic performances (1997).

level of the normative constraints? If we suppose all members of the society are interested in putting the comprehensive and common level of institutional and normative constraints, the problem could be solved by education or top-down and deliberatively directed processes of the government. However, in the case of the conflict of interests we are forced to confront with the articulation of the near-optimal level of constraints concerning the interests in conflict.

Polanyi's question must be situated here in order to grasp the structural contradiction between the micro logic of the *business as usual* and the macroperspective of the mentioned double movement. The shaping of the institutional and normative constraints points out the problem of the collective action. Conflicts are related to the beneficial level<sup>31</sup> of the normative constraints for the business sectors, fragments of transnational capital etc. The societalisation of capitalist firms with the high economic achievements cannot be taken for granted, it must be constituted through more or less precarious social processes and practices. These processes cannot be understood in terms of a single unfolding economic logic but in a more open-ended way that is by no means socio-politically neutral.

The post socialist countries are faced with the reaching of the appropriate level of normative constraints. The capacities for the social dialogue are weakened, the government are translating the norms of the neo-liberal restructuring into national-specific outcomes. The organisations and actors, including the trade unions were disciplined in a neo-liberal direction. There is an obvious weakness of the government to put into motion the countervailing movement in relation to the neoliberalisation. In this respect, the opportunity of these countries for the construction of the embeddedness of the market is destroyed. This is the necessary result of the ideological belief that market can provide normative base for the institutional setting of economy.

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<sup>31</sup> A neoliberal argument could stress that the post socialist countries should follow the dynamics of the profit rate that appears to be a general indicator of economic performances. But, one can analogously use the argument in relation to the primitive accumulation of capital when the profit rates of the “barons of industry” were much more higher than today. Taking into account the quantity of profit rate this period could be treated as the most preferable in the history of capitalism. But, there is contingent relationship between the average rate of profit and the general economic performances. The interest in profitability is not equated with the interest in economic performances.

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### Postoji li mogućnost za uspostavljanje socijalnog kapitalizma u post socijalističkoj tranziciji

**Rezime:** Nedavno je Klaus Ofe postavio pitanje koje se odnosilo na sudbinu evropskog modela „socijalnog kapitalizma“. Da li će „socijalni kapitalizam“ preživeti evropsku integraciju, ili će nestati usled tendencija koje je dovode u pitanje? Pri tome, Ofe je pretpostavio da je naznačeni model izazvan globalizacijskim procesima, tačnije nužnošću institucionalnog odgovora na spomenute procese, kao i integracijom srednje i istočno evropskih zemalja u Evropsku uniju. Radna hipoteza ovog članka je u tome da se može ponuditi, barem provizorni, ali u teorijskom smislu koherentni odgovor na postavljeno pitanje. Članak se sastoji iz dva dela. U prvom delu se pokazuje da je centralni element „socijalnog kapitalizma“, naime, država blagostanja, rekonstituisan shodno generalnim promenama, ali uprkos neoliberalno projektovanoj globalizaciji mogu se demonstrirati i elementi njegovog snažnog kontinuiteta. Autor polazi od socio-ekonomske teorije K. Polanjija i naznačava značaj spomenute teorije za razumevanje tendencije kapitalizma u Zapadnoj Evropi i „ne-zapadnom“ delu Evrope. Autor smatra da se teorijom Polanjija može objasniti orijentacija utkanog liberalizma posle II svetskog rata i ne-utkanog neoliberalizma posle krize države blagostanja. U drugom delu tvrdim

da je u pogledu države blagostanja nastala asimetrična struktura između Zapadne Evrope i „ne-zapadnog“ dela Evrope u pogledu „socijalizacije kapitalizma“, te da je neoliberalizacija, shodno političkoj intenciji transfera idealnotipskog modela kapitalizma, jače instalisana u zemljama koje se započele „tranzicijske procese“ u devedesetim godinama XX veka. Na kraju se uvažavanjem socio-ekonomskih aspekata pokušava dati odgovor na postavljeno pitanje Ofea.

**Ključne reči:** Karl Polanji, tranzicija, socijalni kapitalizam, država blagostanja.

**JEL:** P16, P30