



**From Inefficient Universalism to Prosperous Particularism?**

**About the Functions Performed by Early Business Interest  
Associations in East Central Europe, Russia and Eastern Germany\***

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## 1. Introduction

Organized social interests are an essential element of the political system in modern societies. Collective social interests represented via extra-parliamentary channels reflect both the autonomy of the political vis-à-vis the economic system as well as the latter's need to "articulate" itself in the former. As an empirical description, this picture applies, first of all, to Anglo-Saxon countries with traditions of pluralist or polyarchal politics (Dahl 1989: 221). It applies as well to political systems where the ways in which the same function is performed are rooted in very different traditions such as the privileged status of certain (late medieval) groups ("*Stände*"). In the German-speaking and Scandinavian monarchies, the *Stände* gave rise to the organization of the more modern professions and their well-acknowledged representation through semi-public "bodies" ("*Körperschaften*") with conspicuous remainders in fields such as health and law. From a macro-social perspective, the present patterns of organized interest representation relate to such "modern" features of society as functional differentiation, professional specialization, subsystem efficiency and, accordingly, high degrees of interrelatedness and interdependence as being uncovered by modernization theory.<sup>1</sup> Though, in view of the transitions undergone by Russia and East Central European countries, the emergent differentiation of interests and the degree of representativeness reached by new interest associations can be assumed to be indicators of the rising (or the resurgence) of a civil society or, to put it the other way around, the process of an intended "de-statization".

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<sup>1</sup> Cf. Parsons (1964, 1971), Zapf (1971, 1991), Berger (1986, 1994).

According to ideal type characteristics of Western (pluralist) democracies on the one hand, and former Eastern (monist) socialist systems on the other, the presence or absence of interest groups marks a difference of no less importance than the distinction between market and command economies. An idealization as such is indicative of a misunderstanding of socialist reality as well. Contrary to the assumption that the social institutions and the social structure of socialism were reproduced solely through rigid commands issued by the top echelons of the communist party, some, possibly rudimentary forms of functional and professional interests articulating themselves with moderate effectiveness have been reported. Knowledgeable observers of the former state socialist economies remind us of latent conflicts or, at the very least, severe problems of coordination stemming from diverging demands relative to the functions and rationales of different economic sectors. The very shortcomings of bureaucratic planning and remote command-control mechanisms called for more sensitive instruments for the reconciliation of competing if not rivaling interests. After the transformation of the Stalinist "plan-command" economy into a "plan-bargain" economy in the late 50's (Böröcz 1989; also Przeworski 1991), a spectrum of functionally differentiated interests relating to the particular needs of sectors, professions or regions claimed recognition. Although particularistic interests have always been officially repudiated, the eventual revision of plan goals as well as numerous conflicts over the allocation of scarce goods would serve to corroborate the impact of special social interests on policy-making under socialism. Actual research on regional governance structures in Russia as they took precedence after the breakdown of the central-state administration reveal the intactness of two informal "regimes" that decades ago emerged far apart from the Moscow bureaucracy: the sectorally organized "vedomstvennost"-regimes and the regionally differentiated "mestni\_estvo"-regimes both being comprised of local authorities, top managers and elected politicians (Brie/Stykow 1995).<sup>2</sup> Whereas functional interest representation in fact has been tolerated as a remedy against the shortcomings of rigid governance systems, all negative statements about socialist interest representation hold true for the so-called mass-organizations. Working as top-down "transmission belts" of the party's executive committee in order to decouple popular participation from public affairs, they lacked any significance for public policy.<sup>3</sup>

However, even in view of the more or less opaque forms in which social interests exposed themselves in the late USSR (which by far had the largest record of "real" socialism), the socialist institutional system, in concept and practice, dispensed with an elaborate system of interest representation. Still to date, the program of comprehensive reforms inevitably

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<sup>2</sup> Further evidence of informal interest representation under socialism is provided (among others) by Lehmbruch (1983), Genov (1991) and Nagy (1991).

<sup>3</sup> Interestingly, in Poland some "strategic" professions such as police were even denied to become members of the official party-controlled trade unions (Pedersen et al. 1995: 744).

triggering social differentiation appears held up by the once common belief that social opportunities were to be leveled out even at the expense of pareto-optimal growth and collective benefits (Pejovich 1994). Under socialism, the idea of government being entitled to sacrifice not only the well-being but also the physical integrity of certain groups in the pursuit of an anti-liberal notion of equality was shared by an overwhelming majority. Beyond the networks of nepotism and clientelism, private economic interests had no chance of being acknowledged in the political system.<sup>4</sup> For this reason, an adequate understanding of the normative and institutional dimensions of transition could be provided only by applying a dual approach to the investigation into the modes of interest representation in transitional societies.

The major road to be taken would lead to the actual forms social interests might take after being released from repression and tutelage. This will be the major focus of the paper as it looks at indications of economic interests, be they strong or feeble, associating themselves in the pursuit of improving their collective position. Not only because of their significance for the political economy of postsocialist society but also for some practical reasons having to do with the visibility of the phenomena under investigation, attention will be drawn to organized business interests that appear to be "structural outcomes" and, after having come into being, potential participants of post-socialist socio-economic policy-making. The presence and the "*gestalt*" of organized business interests serves as sort of a yardstick for the measurement of the efficacy of institutional--or even: system--change.

However, for the time being there are not only some technical obstacles to a proper comparative study of interest associations in the major new democracies, but there is also a theoretical argument to mention when focusing solely on phenomena that are supposed to emerge given that social reality unfolds according to some political or theoretical plan. An alternative outcome of socio-economic change taking place in former socialist countries might be a certain accentuation or functional shift between institutions inherited from the past which would still appear to be suitable for coping with the conditions of a new and even dramatically changed environment. In other words: in postsocialist societies, there might well be functional equivalents for interest associations. Thus, to both assess the social changes which have occurred while at the same time remaining open demands that one scan some related phenomena from a broader perspective as opposed to restricting oneself to findings reached from a more narrow perspective which approximate one's standard expectation. From this perspective, the paper will discuss some aspects of the structure of opportunities open to economic actors in postsocialism. As will be demonstrated, there may be, on the one hand, particular obstacles constraining the realization of associative

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<sup>4</sup> This fact fits to the observation that the absence of an ethical discourse founded on utilitarian principles might have given rise to such extreme versions of morally unconstrained selfish behavior as became visible after the full liberation of private profit-seeking.

preferences, whereas, on the other, peculiar choices open to certain actors might appear more valuable than taking part in collective strategies for the advancement of economic interests.

The subsequent chapter of the paper begins with an appraisal of what might be called the emergent-actor approach to the study of transition. It then provides an overview of findings about organized business interests present in East Central Europe, Russia and East Germany. In the following chapter, an explanation of the striking similarities (beyond several obvious differences) is advanced which refers to the opportunity structure open to business interests in the respective countries. Particular attention is paid to the socio-economic characteristics of former socialist enterprises that, to a considerable extent, have endured to the present day. The peculiar pattern of options and constraints in the pursuit of economic interests demands the employment of both a rational choice approach and an institutionalist analysis of associative behaviour.

## 2. Interest Associations as Outcomes and Actors of Transformation

When searching for a general characterization of the institutional changes in postsocialist societies one is tempted to be satisfied with the notions of "democratization" and "marketization"--the common denominators of two overarching targets at which a significant part of political actions appear to be aimed. Such an understanding of the ongoing transitions supposes a journey leading from a *tabula rasa* to an institutional system modeled after West European or North American examples. Whereas this "implementation approach"<sup>5</sup> ignores that the goals pursued by social actors and, in particular, the aggregate effect of their interaction might substantially deviate from what is implied by the notions of democracy and market economy, a more adequate understanding of current events is available when looking at transitional societies as an increasingly expanding and differentiating opportunity structure. From this perspective, societies have been relieved of a series of constraints to autonomous action including the prohibition of collective organization. Looking at it this way, the thoroughgoing liberalization of political "options" such as interest articulation, associative action and participation in public policy would appear to be a major generator, or, at the least, a breeding ground where new actors are inspired by situational interests and opportunities. Since political activities are less constrained than before, there will be few predictable outcomes. As a consequence, the process of transition is far from being governed by specified ends and scheduled activities. What may be called the emergent-actors approach leaves it an empirical question what would happen after governments lost their grasp upon society, so that society becomes increasingly heterogeneous when learning about social opportunities so far unattainable. It is this, the emergent-actor approach, that appears adequate for the study of business interest associations (BIAs) arising in former socialist countries.

In order for the time being to arrange the information available about organized interests, I will employ an *ad hoc* assessment of relative institutional consolidation which has been achieved by the political systems of postsocialist states. With respect to institutional consolidation, Russia appears the least consolidated when compared with East Germany, on the one hand, which displays the highest value, and, on the other, with a cluster of East Central European countries such as the Czech Republic, Hungary, and Poland (ECE) on the other. I refrain from including a fourth group of countries that appear more consolidated than those in the ECE group for the very reason that they are lagging behind in terms of institutional change achieved to date. This would appear to apply to Belarus, Ukraine and Romania. For pragmatic reasons, in particular the lack of data, the Slovak Republic, Bulgaria and the Baltic states are excluded from the ECE sample. Supposedly reliable data is available for East Germany as well as for the Russian region of Saratov where research

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<sup>5</sup> I borrow this expression from Michael Brie and Petra Stykow (1995).

projects of the Max Planck research unit *Transformationsprozesse* were carried out in 1993 and 1994. The situation in the ECE countries mentioned above appears quite well documented in the literature, among which a comparative study carried out by Danish and Polish economists and political scientists (Pedersen et al. 1994, 1995) is of particular significance.

For the purpose of a rough comparison the following remarks are restricted to five aspects of the national patterns of organized business interests: (i) the institutional resources for collective action that are inherited from the socialist past, (ii) the degree of differentiation between political forms such as parties and interest associations, (iii) the functional differentiation among specialized business interest associations, (iv) the latter's assumed representativeness, and, last not least, (v) the significance of business interest associations relative to their roles in public policy-making as well as in their relationship with trade unions.<sup>6</sup>

### *2.1 Business Interest Associations in ECE Countries*

When looking at the *sample of ECE countries* (comprising the Czech Republic, Hungary, and Poland), the assumption of similarity loses much of its original plausibility. Whereas Poland and Hungary had the experience of a decade of economic reforms before 1989, Czechoslovakia had to undergo sort of a jump-start without an extensive public debate on the measures and goals of the reform program. A corresponding phenomenon was the absence of social interests which would eventually be anchored in the early interim states in a prolonged process of transition. Thus, in the Czech Republic to date, neither workers' interests in maintaining enterprise self-government (as in Poland) nor the results of a *nomenklatura*-driven allocation of property rights (as in Hungary) appears to impinge upon efforts made to accomplish macro-economic efficiency. However, since there is less variety within the ECE sample than between the latter and Russia, on the one hand, and East Germany on the other, it would be justified to summarize the findings about business interest group performance beyond national peculiarities.

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<sup>6</sup> A large part of the following descriptions is taken from a lengthy paper co-authored by Petra Stykow (Wiesenthal/Stykov 1994). Most other parts are inspired by the research of Stykow (1994) on Russia and the work about industrial relations done by Pedersen, Ronit and Hausner (1994, 1995).

After the first couple of years, the grand project of privatizing the bulk of state-owned enterprises (SOE) within a short span of time proved by and large unfeasible. Although governments, at the outset of economic transformation, preferred this or that method of privatization, their own reactions to a slow path of privatization as well as popular demands for abandoning some seemingly unfavourable measures resulted in the common pattern of "pluralist privatization" (Kiss 1994: 42). Since the choice of methods--among the options were public auction, case-by-case selling, "voucher" and "spontaneous" privatization--followed predominantly political criteria (spurred by governments calculating re-election prospects), the resulting structure of postsocialist economies would appear to be formed only to a minor extent by economic forces (Frydman/Rapaczynski 1994; Meany 1995). A rough description of some common features reveals that a major part of the economy is still subjected to state authorities either in the form of unmitigated state property, in the form of state-owned holding companies \*\*ANM(such as the Czech National Property Fund, Hungary's State Asset Handling Company or, to a lesser degree, the National Investments Funds in Poland) or as outcomes of "pseudo" privatization enabling SOE's managers and workers hold on to their threatened jobs. While the privatised sector (made up of former SOEs) is becoming the largest, it is not at all private in the proper sense. In the Czech Republic the National Property Fund and state-owned banks still hold a considerable part of "privatized" sector assets.<sup>7</sup> Since the new investment companies usually follow the policies taken by the state actors, the "privatized" firms perform within "a heavily managed financial and administrative environment unlike that facing new private companies" (Brom/Orenstein 1994: 894). On the other hand, while the private sector would appear to be quite active and growing, it remains a fairly weak element of the national economy. A favourable environment for new businesses as well as for SOEs' thorough-going commercialization is said to presuppose "a radical restructuring of the state administration" (Kiss 1994: 150) that seems far from realistic. As an overall consequence, business interests appear strongly divided with respect to their relationship to the state. However, with privatization and commercialization making progress, even the interests of state-dependent firms are becoming increasingly diverse and in need of proper representation in the political systems. In view of the framework conditions for business in ECE we now turn to the forms of organized interest representation.

Ad (i). Although business interest associations in ECE had no direct predecessors in the socialist system, early founding initiatives as taken in Poland and Hungary could exploit the opportunities provided by the already existing *Chambers of Commerce*. Originally founded for the purpose of furthering foreign trade, these semi-public agencies could easily be turned into promoters and launching ramps for autonomous interest associations. A second source of some significance had been the network relationships between top executive

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<sup>7</sup> After the execution of an ambitious privatization programme in the Czech Republic, non-bank private investors are assumed to control no more than 30 per cent of the entire economy (Brom/Orenstein 1994: 919).

officers of the large state enterprises which often were interlinked with the informal networks of professionals in the state administration and the party bureaucracy. As we see, postsocialist interest associations could indeed make use of some resources inherited from the *ancien regime*.

Ad (ii). Differentiation on the more general level of political forms--such as political parties, trade unions, and interest associations--was accomplished as early as 1990. Though private entrepreneurs in the founding elections eventually attempted to launch their own "business parties" (at least in Poland), they failed to gain enough votes for capturing seats in parliament. Thus, business interests learned to articulate themselves within the newly founded "Capital Clubs", "Business Councils" or "Industrial Associations" which emerged besides political parties and trade unions. At the same time, trade unions found their place vis-à-vis management and government by articulating the defensive interests of workers who felt threatened by privatization and the introduction of hard budget constraints. Since trade unions as well as BIAs are used to address the government for protection against eventual threats, they typically find themselves as brothers in arms instead of being opponents.

Ad (iii). While the vertical integration of sectoral and regional associations in national umbrella associations resembles the West European model, a functional differentiation according to the task structures of business associations, employers' associations and chambers of industry and commerce unfolded only to a lesser degree--for reasons we will discuss in a moment. Instead, the type of ownership and the size of establishment would appear to emerge as dimensions of organizational specialization. Whereas the distinction between state and private ownership is still significant even after the privatization of SOEs was formally completed before the end of 1993, this line of a division of interests begins to obscure to date. A key decision was made early by the Hungarian Association of Private Large Business (MGYOSZ) when it declared itself willing to welcome top executive officers of state enterprises as new members as well (Brusis 1994).

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Ad (iv). Although there is a steady increase in the share of private business, the impact made by individual and organized business interests on policy-making appears quite limited when compared with what is known in West European countries. This could be based, in particular, on the low degree of representativeness that interest associations have thus far been able to attain. Though reports on organizational density differ considerably even with respect to the very same associations, the overall picture shows above-average (maybe close to 100 per cent) rates only for the small group of large (state) enterprises and extremely low figures for small and medium-sized firms. The reluctance of small and medium-sized firms to attain the membership of interest associations must be attributed, on the one hand, to the well-known obstacles of rational collective action, and, on the other, to the high degree of fragmentation and competition in the field of interest representation. As long as several self-declared "peak associations" compete for the representation of general business interests, the entire system of interest associations lacks in attractiveness and, therefore, political impact. Complimentarily, associations would appear largely unable to maintain their members' commitment to agreements reached at with third parties (such as government or trade unions).

Ad (v). As a consequence of inept functional specialization, deficient representativeness, lasting fragmentation and costly competition, BIAs have as yet to attain much significance in public policy-making and collective bargaining. Moreover, unless a thoroughgoing commercialization extends to the larger enterprises and business associations consent to build an encompassing umbrella organization in order to speak with a single tongue, governments remain unlikely to acknowledge BIAs as partners on equal terms. Even in Hungary, where BIAs appear the most consolidated of all in ECE, they were ignored by the liberal-conservative government when it introduced a new labour legislation (including work councils based on the West German model) after consultation with trade unions. Whereas collective business interests would appear seriously handicapped in Poland where governments (until 1993) were formed by the factions of the Solidarity movement with its strong workers' wing, the relative insignificance of business interests is the more astonishing in the case of Hungary and the Czech Republic. Here, reform governments introduced tripartite decision-making bodies as a sort of "preemptive corporatism" designed for the prevention and moderation of conflicts expected to arise over the course of enforced privatization and the introduction of hard budget constraints in the pursuit of macro-economic stabilization (Rutland 1992/93). BIAs as occasionally were initiated by government and trade unions still seem to be the most dispensable participant in the "Council for Economic and Social Agreement" of the Czech Republic and the Hungarian "Council of Interest Reconciliation". Often, the demands raised by business are in line with those of the trade unions; in other instances the position of business' are overlooked by the government when the latter feels committed to the program of macro-economic stabilization. For instance, when imposing an obligatory limit on wage increases (in Poland temporarily enforced by a "wage excess tax" called *popiwiek*) governments in Hungary and

the Czech Republic refrained from coordinating efforts and, instead, relied on their own. Summarizing this point, one must concede that the weakness of organized business is but the other side of the picture showing governments as the legal heirs of authoritarian state power. This seems correct for yet another reason. Insofar as post-socialist governments themselves remain large-scale capital owners and, therefore, one of the country's largest employers, they keep their stake in the performance of what once was a genuine state economy. Though the state-dependent sector continues to perform some functions of the former state economy--in terms of employment levels and social security provided--narrow business interests, though welcome as promoters of economic modernization, could easily interfere with government's preference for social peace. While there seems to be a clear-cut opposition of interests, it is unlikely to have an impact as long as the state seems willing and able to underpin its position in the national economy through wage subsidies and tax credits.

## *2.2 Business Interest Associations in Russia*

Russia is different in many respects. Among the most significant features to be mentioned are the mostly formal nature of privatization programme that started in 1992 and is officially said to have been completed in mid-1994, the erosion of state power (namely at the Moscow center) and the extraordinary degree of legal and regulatory uncertainty in all major spheres of the economy. The distribution of "voucher" shares of about 25.000 companies effected only minor changes in management style or company performance (Rutland 1994). **Foreign observers expect further steps in the direction of 'hardened' budget constraints not before the government would have sold its shareholdings** in the larger companies (The Economist 1995). The peculiarities of the Russian situation extend to history and culture as well: Since markets and individual entrepreneurship have but weak roots in the pre-revolutionary period of the tsarist imperium, the demands made by private capitalism (when understood as a mode of production instead of a redistributive game among speculators) on appropriate individual values and traits are scarcely met by the old and new elites. When compared with the transition of ECE state economies, the Russian economy--as far as it in fact seems touched by economic reforms--appears to be broken down into its component parts by becoming privatized through powerful local insiders: i.e. management and the workers (Frydman/Rapaczynski 1994: 179ff.). **Joint management-worker buy-outs were the dominant mode of privatisation. Giving rise to a deal between workers and management when both became shareholders,** "(p)rivatisation thus served to reinforce the already powerful paternalistic pattern of Russian industrial relations" (Rutland 1994: 1114).

**While "small privatization" is said to have \*\*reached the 70 per cent mark at the end of 1994 (OECD 1994: 15), the new private sector still appears \*\*dependent on intense**

cooperation with, if not support by, the large SOEs in the state and the privatised sectors. Unless (former and actual) state companies would rent space, sell supplies and buy the products, small businesses would suffer from an unfriendly environment (Rutland 1994: 1123). Not more than a third of the (former and the remaining) SOEs are said to respond as yet to price signals in a significant degree. In view of this fact, corporatisation, as the acquisition of legal independence, and commercialisation, as relating to relative prices, appear of much more importance for the restructuring of Russian enterprises than the transfer of property rights to new individual or legal (intermediary) holders.\*\*ANM As a consequence of mass “voucher” privatisation, intermediary owners, such as banks and holding companies, became significant--not the least as “new and even more effective lobbies for state intervention” (Frydman/Rapaczynski 1994: 199). **Altogether**, the rise of BIAs is part of a picture produced not so much by economic actors in the pursuit of their productive and accumulative interests, but by groups with political ambition making use of all institutional forms that have only recently become available.

Ad (i). Beside elite networks composed of top managers, party functionaries and state personnel, Russian business associations drew on a further source of start-up resources: the highly differentiated and fine-grained structure of central state ministries. In the former Soviet Union, the task of closely regulating more than one million production units was assigned to 33 all-Union and more than 300 regional ministries specialized in the steering of the production of coal, steel, wood, textiles, machinery a.s.o. With the ultimate breakdown of centralized state authority after the failed conservatist putsch in August 1991, the SOEs won substantial autonomy. However, in the absence of markets, managers remained in need of intense inter-enterprise coordination. Thus, economic control became transferred to new (or renewed) agencies of regional and sectoral governance which would provide the single enterprises with raw materials, semi-finished products and channels for the distribution of the goods produced. While the latter task remained quite easy as long as there was a general shortage of supply, the aforementioned functions became more complicated after the dissolution of the USSR into autonomous nation states next to the Russian Federation. Thus, a prominent function performed by some of the newly formed BIAs in Russia was the substitution of voluntary co-operation and coordination for the bygone state regulation as it was executed by ministries with petty tutelage. Early founded associations representing the interests of the economic *nomenklatura* specialized in two fields of action: On the one hand, they acted as representatives of the status interests of the “*direktora*” that felt offended by the government's withdrawal from economic regulation. On the other hand, former state ministries (or particular divisions) turned into autonomous “supra-enterprise bodies”, be it in the form of corporations or associations that would act as sort of commodity brokers, cartels or clearinghouses. In some cases, the functional followers of dismantled ministries were in fact autonomous joint-stock companies owned by the production units of the respective sector (Amodio 1993). In other cases, the networks of horizontal coordination

took the form of an association for the planning and controlling of commodity flows as well as lobbying for state subsidies and continual state purchases (Burawoy/Krotov 1992). Of course, a bundle of associations advancing the interests of merchants and private entrepreneurs as became increasingly "tolerated" (but hardly promoted) by the state during the late 80's emerged as well.

Ad (ii). Apparently lagging behind, in the case of Russia, is the differentiation of political forms according to the diverging task environments of political parties, trade unions and interest associations. Even a division of work between parties and associations as it emerged in almost all post-socialist societies seems to have developed only fragmentarily. On the one hand, the organizational form of interest associations might be employed by "political entrepreneurs" for experimental tests on its competitive strength and attractiveness, i.e. the amount of social support obtained.<sup>8</sup> On the other hand, even the most influential associations, such as *RSPP*, the Russian Association of Industrialists and Entrepreneurs, with its well-known leader *Arkadii Vol'sky*, repeatedly toys with the idea of becoming a party in order to enhance their impact upon regional and national politics. At least for the time being, the political form of interest associations serves as a means for legitimizing and, at the same time, concealing particularistic interests. The means of association appears to be an instrument for advancing private interests in a public that, for the most part, still prefers collective values and hierarchical orderings over private autonomy and pluralist competition. For the same reason, some associations of entrepreneurs acting as professional interest groups for management personnel choose the trade union label. This is because the latter works as a symbol of maximal inclusiveness with respect to general--i.e. "the people's"--interests. Western scholars of industrial relations may be even more confounded that often the distinction between trade unions and sectoral business associations appears blurred. There are several national and regional associations in Russia that claim to represent the common interests of both management and employees of a given industry. Usually, executive committees as well as the rank and file of these organizations are composed of managers as well as workers. Top executive officers present themselves as regular members of trade unions, while trade union officials occupy seats at the board of directors of BIAs. For the time being, the distinction between competing "factor" or "class" interests such as those of capital and labour is outweighed by a broad spectrum of common interests vis-à-vis the state administration as both a third party with its own regulatory interests and a source of scarce goods, namely loans and tax exemptions. Thus, *joint interest associations*, be it under the label of business or employee interests, might be effective weapons in the hands of political actors in search of either a

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<sup>8</sup> Here and in the following, the term of "political entrepreneurship" is used according to the meaning denoted by Salisbury (1969) and Moe (1980). Obviously, in the realm of organized business interests often real "entrepreneurs" (in the socio-economic sense) perform the function of "political entrepreneurs" (in the technical--or socio-political--sense).

regional or sectoral base of social support.

Ad (iii). At first glance, Russian BIAs appear to represent the full spectrum of product-related and factor-related interests as is particularly indicated by the existence of specialized employers' associations. However, since collective bargaining is restricted to single enterprises or the factories' shop floor level, there is little evidence of an effective differentiation of functional business interests which allows for specialized representation in politics and industrial conflict. Initiatives taken by the government for the establishment of some sort of "social partnership" lack in impact upon real wages. Given the absence of representative employers' associations and of autonomous trade unions, the hastily founded institution of "social partnership" appears to be just another form of pursuing the joint interests of capital and labour, in this case by supporting the government in its endeavours of producing signs of evidence of its macro-economic responsibility. Participation in ritualistic procedures is indicative of a certain weakness found in Russian trade unions, to which we will return in a moment.

A dimension of differentiation evidently more important than that of capital and labour occurred after the liberation of political activity and concerns the distinction between the "*direktora*" as former members of the economic *nomenklatura*, on the one hand, and the expanding group of "*biznesmeny*", i.e. the class of new entrepreneurs and merchants, on the other. Although leading figures in private big business appear increasingly willing to cooperate with top officials of the *nomenklatura* associations, this division remains relevant as long as it reflects the distinction between goods-producing industries on the one hand and merchandising and financing, on the other (Stykov 1994). Besides this division, categories of sectoral and regional "sameness" appear effective for the differentiation of organized business interests. The same is true for distinct political profiles with which the leaders of BIAs attempt to establish or maintain their channels of influence to the top echelons of the political system. Interestingly, at the local level, the sectoral and the "political" lines of demarcation appear more or less irrelevant. This seems due to the intransparency and regulatory insignificance of the central "power structures" which increase according to their spatial distance from Moscow. Likewise, Moscow headquarters and top officials of BIAs are reported to have only a minor impact upon policy decisions made by the associations' regional and local branches. Local managers are said to respond rationally to this representational ambiguity by maintaining multiple membership relations with all major economic interest associations.

Ad (iv). Turning to the question of representativeness, the situation of associations claiming to act in favour of "old" and "new" businesses appears similar to those in ECE. According to empirical findings in the region of Saratov, members of small and medium-sized businesses, including the leasers of state assets and the self-employed, typically fall victim to the logic of collective action. Unless investments are made by a skilled "political

entrepreneur" equipped with social and economic resources, there would be no chance for the take-off of collective action among the owners of small and medium-sized enterprises. Besides the creation, the maintenance of associations for the pursuit of "small-scale" business interests also remains contingent upon selective private incentives. Technical services offered to member firms and valuable contacts between probable partners for economic exchange rank among the more attractive sorts of incentives surpassed only by the provision of access to influential professionals in administration, politics and the sectors of state-owned firms. Thus, associations designed for the advancement of the interests of small and medium-sized business are unlikely to reach a degree of organizational density above 10 per cent.

In contrast to small business, the associations of the "*direktora*" share the double advantage of small numbers (as described by Olson's concept of "privileged group") and of continuing "old boys networks". Highly reputed associations such as the *RSPP* organize a large (above 50 per cent) share of their eligible membership with the result that directors of probably each enterprise would appear to entertain membership relations to several of the major associations. On the other hand, the associations of "big business", be they of older or younger origin, display only moderate or even no interest in capturing a maximum of the attainable membership, since this could only be at the expense of their "privileged group" advantages. For the time being, with no formal agreements with third parties at stake, the uncontested claim to speak for an encompassing constituency, while in effect restricting oneself to a limited but consensually integrated membership, proves the most valuable option. Compared to former SOEs, the new private big business appears less eligible for association. Informal but dense family, clan or friendship relations as actually exemplified by the so-called Mafia networks dominate any recourse to the more visible political forms. While there have been several initiatives for a more inclusive organization of private big business, all of them came to a halt as the periphery of already existing networks was reached and transgression into the unknown fields appeared risky. Insofar as recruitment activities run onto increasing transaction costs, evidence can be claimed for both the privileged group theorem and clan theory.

Ad (v). For a proper understanding of causal factors giving rise to differential demands as well as capacities for association, one has to keep in mind the non-associational alternatives to interest representation (see Stykow 1994). Particularly the owners of new large-scale private business firms maintain effective personal relations with regional administrative authorities. This applies to the functionally indispensable "*direktora*" as well. Given that all categories of larger business due to their bearing on regional labour markets and local infrastructure--as primary factors of political legitimation--enjoy privileged access to state authorities *even without the assistance of a collective organization*, the representational functions performed by BIAs appear to be of limited importance. It seems this will remain the case so as long as business is unchallenged by hard budget constraints and competitive

markets. As far as things remain this way, the question concerning the political significance of organized interests demands a cautious answer. On the one hand, the ensemble of BIAs as it is "networking" and lobbying in Moscow appears of some significance for the smooth functioning of informal governance structures as they arose after the deterioration of central state authority. On the other hand, when assessing the share associations might claim to cover relative to all endeavours of self-governance outside formal institutions, only a moderate estimation seems appropriate. Clan relations, "old boys" networks and illegal exchange relations including corruption, bribery and blackmail, would frequently appear more effective and even statistically relevant than the policies of associations. In interactions between organized business and the state administration, the former suffer from a structural deficit which is even more accentuated in Russia and ECE than in Western countries: i.e. the incapability of voluntary associations to secure the commitment of membership firms to the association's "external" agreements. In present-day Russia, some associations even abstain from collecting regular membership fees (relying instead on donations from the better-off and some members who benefit disproportionately). These associations fear that when regularly asked for contributions their members would respond by taking the exit option.

As already mentioned, collective bargaining between Russian employers' associations and trade unions is of little significance as yet. Former state-controlled trade unions which face little competition from newly founded independent workers' initiatives, appear committed to the forms of joint capital-labour interest representation. Given the peculiar environmental and internal conditions of Russian firms (Burawoy/Krotov 1992), trade unions prefer to pursue a strategy of advancing the employees' interests by addressing government authorities with the assistance of management. It is anything but a rare exception, when management takes the lead of strike actions directed against the state. This paradox reminds us, that labour relations in post-Perestroika Russia had a take-off that differs substantially from former Western capitalist circumstances (Kirichenko/Koudyukin 1993). Confronted with an almighty state bureaucracy, the interests of capital and labour more often than not appear identical. Both sides envisage benefits from joining forces by embarking on a rent-seeking strategy of exploiting a state with declining regulatory power. Since the Russian state after the "Great October Revolution" had effectively claimed full responsibility for all micro and macro effects of economic performance, even after its partial devolution, it is held competent enough to combat the hardships and troubles associated with the ongoing transitions. Regardless of the very limited powers residing with the state, its authority and resources are still viewed as providing protection against the risks of thoroughgoing change. Seeing themselves dependent upon management's function to represent the interests of the entire enterprise, trade unions have little reason to adapt to the new circumstances. While they lost their reputation as distributors of fringe benefits and proved unable to find compensation in newly acquired functions (such as effective wage bargaining), unions appear more dependent than ever upon third party support and acknowledgement. Thus it

would only be a slight exaggeration might one identify the trade unions of present Russia as both capital-dependent and capital-supportive institutions deviating extremely from what unions appear to be elsewhere. With their participation in the tripartite committees of "social partnership" as initiated by government decree in 1992, trade unions seem to have made a very first and cautious step on the way to the articulation of a specific employees "class" interest that has been absent for a long time from the industrial relations system of Russia.<sup>9</sup>

Thus, even in view of the difficulties of distinguishing between the impact of business associations upon public policy and the impact made by interpersonal network relations upon the representation of business interests within or outside of associations, a summary denying the representational functions of associations would be misleading. Since Russian SOEs gained increased autonomy during the restructuring of the economy, the means employed for the expression of demands and views need a periodic inventory and evaluation. For the time being, it is anything but a contradiction to infer that the representation of business interests appears relatively effective, although reliance on a set of diverse communications with encompassing and monopolist associations is still absent.

### *2.3 Business Interest Associations in East Germany*

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<sup>9</sup> Obviously, the semantic content of the notion of social partnership fails to denote what, in fact, is at stake. Since the way to be walked down by Russian "class" interests leads from an all-inclusive partnership to the, at least, occasional adoption of adversarial procedure, the most prominent function of this institution would be to allow the participants becoming familiar with rival interests, opposing standpoints and eventual compromises.

The transformation of the GDR's state economy into a private-capitalist market economy is by far the most advanced case of socio-economic change. A prominent indicator of achievements on the path to full corporatization and commercialisation is the abolition of the national privatization agency *Treuhandanstalt* with responsibility for the remaining non-privatized firms having been delegated to property funds at the state (*Länder*) level at the end of 1994. The result is impressive and ambiguous. As a consequence of plant closure and bankruptcies many inefficient enterprises with obsolete technology have gone out of business. Thus, production capacity in manufacturing sectors dropped far below 50 per cent of the original figures, whereby the degree of efficiency and modernity of the remaining enterprises could reach extremely high values when compared to "privatised" SOEs in ECE and Russia.<sup>10</sup> On the other hand, the distinction between the "privatized" and the genuine "private" sector as it must be applied for the postsocialist economies of ECE and Russia seems to be dispensable in Eastern Germany. With unrestricted commercialisation and open market environments provided at the outset of transition, the GDR economy became effectively exposed to the hard budget constraints usually associated with private ownership. Taken altogether, the contracted (and still subsidized) East German economy displays less deep lines of division between state-dependent firms and private entrepreneurs than any other postsocialist economy. This corresponds well with the situation of business interest representation which exhibits a structure analogous to that found in West Germany.

Ad (i). As is well known, the institutional resources upon which East Germany's system of organized interest representation could draw during its accelerated emergence in 1990 have nothing in common with socialist legacies. Not only were legal institutions and approved rules of procedure transferred from West Germany, but collective actors as well. Beside political parties, trade unions and organizations for the advancement of distributive or professional interests, this also applies to employers' and business associations. Though the right to associate granted by the GDR government in the autumn of 1989 triggered founding initiatives in an broad field of social interests, it took less than one year for associations of genuine East German origin to lose their impact on public policy-making in a uniting Germany.<sup>11</sup> In all its institutionalized fields, the transformation of the East German society became the project of external actors with superior skills and the capability of capitalizing on solid resources as well as on institutional privileges given their affiliation with the corporatist layer of West Germany's politico-institutional system (Katzenstein 1987). With

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<sup>10</sup> Overall figures of labour productivity in the East German economy amount for about 50 per cent in 1995. However, this low figure is somewhat misleading as it represents an average built from data of highly subsidized pseudo employment in declining industries as well as of the most advanced firms. obscure the

<sup>11</sup> Even the majority of organizations that emerged in the times of endogenous liberalization and democratization, i.e. between September 1989 and March 1990, turned out to be losers when confronted with West German competitors. Only the stronger ones were invited to merge with West German organizations; most others disappeared. For more details see the contributions to Wiesenthal (1995).

Western actors only a few weeks after the opening of the wall having started an extensive transfer of ideas and personnel to the East, thus easing the final accession of GDR to the West German constitution, the same exact system of governance became enacted in East Germany as it had evolved in West Germany as the aggregate result of feudal traditions, class conflicts and Anglo-Saxon liberal pluralism (Lehmbruch 1994). Although this institutional system has its shortcomings and biases, there is neither reason to doubt its functional efficacy nor to argue against the advantage of institutional completeness. Instead of retaining suspicious parts of the socialist *ancien regime*, be it in the form of organizational routines or elements of cognitive frames, the imported system of interest representation and governance would appear to be a full-fledged duplication of a well-balanced and highly reputed institutional order. It obviously provides more certainty and efficiency than the bulk of those institutions that had to be consciously designed and hastily introduced in other post-socialist countries.

Ad (ii). Of course, a high degree of differentiation of political forms for the aggregation and representation of interests was installed at the outset. Interestingly, this fact allows for a sort of test of spontaneous responses by individuals having been socialized under socialism. On the one hand, the electorate (and the employees) not only had to learn about differences in profile and style among political parties, but also about the independence and self-government of associations, resulting in a degree of uncertainty about the proper functions of trade unions and specialized interest associations besides political parties. Another subject of "political learning" has been the dual system of employee interests' representation as it is provided by sectoral trade unions and formally autonomous Work Councils in West Germany. A further fact to be mentioned in this context is the observation that the manifold system of representational media led to a dwindling of motives and resources for grass-root participation. This is particularly well documented for provincial towns in East Germany (see Berg/Möller 1993 for the case Frankfurt/Oder).

Ad (iii). Functional and regional differentiation among organized interests took a form that is slightly dissimilar to that in the West. While the West German system of Chambers for Industry and Commerce (with obligatory membership and a mandate for the regulation of vocational training) were replicated without revision, the dualism of employers' and business interests associations was suspended at the sub-national level of states (*Länder*). By doing without separate state associations, both West German peak associations *BDA* (the Federal Association of German Employers) and *BDI* (the Federal Association of German Industry) embarked upon a strategy of economizing on the transaction costs of top-level coordination. This option had already been tested successfully in West German states. A further departure from Western institutional features is remarkable as well: Although *BDA* established umbrella organizations at the state level for the diverse sectoral employers' associations, it made an agreement with several trade unions over a delineation of wage districts which, with the initial exemption of Saxony (cancelled in 1995), cross-cut the

former border between East and West Germany. By doing so, East German wage districts came under the control of Western associational branches that, in the light of their decisions made on wage policies, can be said to have had a serious interest in avoiding wage competition from the East (we will return to this topic in a moment). Although Western associations became predominant, some genuine East German associations of entrepreneurs still in existence have to be mentioned. They either were founded early in 1990 or developed as a sort of critical response to the "imperial" practices of West German organized capital (Koch 1995). Occasionally these presumably "oppositional" business interests benefit from fluctuating attention paid by the East German media. However, their impact on actual decision-making in economic and social policy-making seems fairly poor.

Ad (iv). Though observers declared the majority of "imported" associations to be "little more than an organisational shell" (Boll 1994: 114), early degrees of organizational density were high, assumedly between 70 and 90 per cent. This was due to an order issued by the *Treuhandanstalt* to all firms in its portfolio. With privatization marching on, the associations' membership declined. On the one hand, this is the result of the closure of many establishments for which THA was unable to find an investor. On the other hand, private investors or buyers of firms would appear unwilling to continue the firm's membership in associations. After four years of enforced commercialization and privatization, the organizational density dropped far below the level attained in 1991. Although reliable figures are not available (which is partly due to intense fluctuation and partly because the associations themselves appear unwilling to collect and publish exact data about their members) the rate of associational participation in 1994 is assumed to lie significantly below West German figures (Ettl/Heikenroth 1995). Further doubts raised concerning the representativeness of business interest associations in East Germany (including employers' associations) are related to the content and economic consequences of collective wage agreements. This issue is dealt with in the subsequent section.

Before turning to the effects attributed to the peculiar choice of interests to be represented by East German employers' associations, we would like to resume a widely acknowledged argument concerning a probable bias in favour of Western interests held to be ingrained in the institutional and associational systems introduced in East Germany.<sup>12</sup> For some systematic reasons, these institutions cannot always be supposed to offer the best possible answer to the problems with which East Germany is confronted after unification. One reason is that having assumed greater risks with local decision-making in their enlarged (Eastern) domain, interest associations of the Western brand shifted the locus of everyday decision-making from the lower levels of hierarchy to the top. As a result, decision-making

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<sup>12</sup>The debate about whether the notion of colonization qualifies for an appropriate understanding of what is going on in East Germany after 1989 has been quite intense among German politicians and intellectuals between 1990 and 1994 (see e.g. Pickel 19\*\*; Brie 19\*\*).

on East-German concerns became dislocated to West Germany, both geographically and cognitively. As a consequence, frames for problem definition, the range of policies considered, and the criteria employed for decision-making appear restricted to what seems to fit to West German experiences in policy-making. Obviously, the latter might turn out to be obsolete insofar as the East German situation departs from that in which West Germany found itself during the period of the so-called "German economic miracle". In particular this is the case with global markets that have gained significance as a frame of reference for making economic decisions. Another reason to raise doubts about the adequacy of West German institutions might be a certain lack of sensitivity to the specific problems of social integration arising in the absence of a popular reform movement in GDR and as a response to West German paternalism during the imposition of reforms chosen by "external" actors. Thus, the import of "proven" institutions gives rise to doubts about their efficacy and distributional neutrality.

Ad (v). The impact made by organized business interests on East Germany's socio-economic transformation is large, however ambivalent. In 1989 and early 1990, top executives of BDI (the umbrella associations of West German industries) provided extremely optimistic assessments concerning the value of assets and (of course, hidden) resources of GDR's economy. According to a consciously constructed belief, a precious potential for a modern economy could easily be set free with the introduction of the market. The actual dimensions of the so-called productivity gap that later were calculated at an amount between 50 and 70 per cent, was underestimated. Although the BDI in 1990 called for a prolonged period of transition with some interim regulatory devices which would have allowed the avoidance of shock treatment, it took another year which saw massive lay-offs and a drop in industrial production below 50 per cent of its former volume until Western BIAs admitted to have misperceived the original situation (Berger 1995). Certainly, things had become so irreversible that social policy measures had to be substituted for economic policies in order to tackle the effects of over-optimism and wishful thinking.

According to the celebrated mode of corporatist self-governance as it was revitalized after the breakdown of the authoritarian *Hitler* regime, the West German promoters of hasty unification consciously abstained from an official wage policy. This is an outstanding feature of German unification insofar as income policy was held indispensable in all the other transitional economies. Instead of imposing some limit on wage increases in order to ease the adaptations made by SOEs, the German government granted unrestricted freedom of action to the collective actors of West Germany's system of labour relations for the transfer of rules and routines to the East (Ettl/Wiesenthal 1994). As a consequence, in early 1991 the representatives of both organized employers and employees of the metal industry agreed upon a series of substantial wage increases aiming at the equalization of Eastern nominal wages by the spring of 1994. Through this agreement, the rapidly shrinking economy became confronted with unit labour costs progressively exceeding those of its competitors at

home and abroad. Above all, the annual wage increases imposed in advance, instead of being made dependent upon parallel increases in productivity, were targeted to be measured by a yardstick with an endogeneous dynamic: the West German nominal wages. The high-wage strategy chosen by business and employee representatives of the metal industry was joined by analogous agreements in other industries which altogether imposed an unbearable burden on enterprises undergoing severe reconstruction. Although the contracts were revised after two weeks of industrial conflict in 1993, they would appear to provide a significant example of a representational asymmetry as mentioned in the preceding section. Furthermore, the outcomes of free collective bargaining indicate that employers' associations (as well as trade unions) failed to act on behalf of the interests of their territorial constituency. Instead, both sides formed a "Russian type" alliance for the purpose of protecting Western business against low-wage competition from the East. Most remarkable is how surprising this appears for organized business in particular. Whereas "class theories" of interest representation assume capital will behave in a strictly defensive manner when confronted with excessive demands by trade unions (Offe/Wiesenthal 1980), German BIAs made concessions which would appear to contradict both short-term as well as mid-term collective business interests regardless of geographic or national origin.

Two long-term consequences have to be mentioned. First, in the case of Germany, well-organized business interests apparently adhered to institutionalized myths and assumed "rational" routines. They failed to make a proper assessment of actual circumstances and, instead, embarked upon a myopic strategy wasting the opportunity to pave a less costly and more efficient path to economic recovery. As the costs incurred became in fact equally distributed throughout society, this failure did not cause a disadvantage of similar scale to those responsible. However, the German case contradicts the assumption that relief from investments to be made by encompassing representative associations would guarantee beneficial consequences in terms of policy outcomes (e.g. such as sketched by Olson 1982). Secondly, as a further consequence of unrepresentative associational strategies, the terms of investment in the East have worsened, with serious disadvantages for business in the foreseeable future. As a matter of fact, institutional economists have good reason to declare the Eastern part of Germany's economy as already being set on the path to a sort of *mezzogiorno* (Brakman/Garretsen 1993).

### **3. Unexpected Similarities and Divergent Causes**

Surveying the major outcomes of a comparison of the three patterns of organized business interests as they emerged during five years of transition, we envisage a striking similarity. Regardless of the concrete structure exhibited by national systems of business interest representation, BIAs have not been very successful in capturing a solid public policy

position. This finding obviously contradicts expectations based on the belief that business interests in postsocialist economic and political systems would benefit from an overall favourable environment. This belief is well-founded by observations which have been made during the process of institutional change in post-socialist states. *First*, the liberation of private economic and political action appears to be an unrefutable fact. *Second*, a lot of policy decisions that were made by the governing coalitions have been obviously or implicitly geared towards the creation of a flourishing market economy with predominantly private capital. Combining both lines of argument, one feels encouraged to infer that business interests were warmly welcomed when knocking at the doors of governments and administrations (cf. Lindblom 1977: 175). In light of this expectation, the probable indications of representational deficits demand explanation.

An indisputable argument to be raised in this context has to do with the factor of time. How long of a time span should be calculated for the creation of a new framework for interaction between the state and private actors, for the emergence of a new set of interrelated norms for the governance of socio-economic behaviour, and for an effective agreement on the collective sharing of costs associated with sanctions to be imposed on those who defect from legal behavior? A social scientist, when confronted by a Russian colleague with evidence of the malfunctioning of the new institutions of democracy, felt tempted to respond with the advice "Wait a few hundred years."<sup>13</sup> This answer is of course not satisfactory. A different view holds that there is good reason to recall the possibility of institutional lesson-drawing, as well as observations about how "backward" economies in fact succeeded in catching up with more advanced economies by deviating from the path taken by their forerunners (Gerschenkron 1952). Hence, it makes sense to inspect some details beyond the picture of similarity. A simple chart summarizing the facts reported above will help to identify the eventual differences between the three cases in question (see diagram 1).

	Russia	_R, H, PL	Former GDR
<i>Political system consolidation:</i>			
completeness of system change	0	+	+
effective division of powers	0	+	+
capability to implement policies	-	+	+

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<sup>13</sup>Reported according to a 1990 paper by Jon Elster (Elster 1990: 314).

*Organized business interests:*

significant inherited resources	+	-	o	o	-
separation of political forms	o	+			+
functional differentiation	-	o			+
achieved representativeness	-	-			+
<i>achieved significance for:</i>					
public policy-making	o	-	o	-	+
collective bargaining	-		o		+

Key: "+ " given or strong, "o" doubted or medium, "-" absent or weak

*Diagram 1: Organized Business Interests in Post-socialist Countries*

Features indicative of postsocialist institutional change are listed under the heading of "political system consolidation". These show the degree of the division of powers between the legislative, executive and judicial branches of government, the comparative completeness of institutional change, and the governments' capability of implementing the policies chosen. With respect to these "political system" variables, Russia deviates considerably from the ECE countries and, in particular, from East Germany. Looking at features of organized business interests as developed by BIAs to varying degrees, reversal tendencies are displayed on two dimensions. Apparently, the significance of inherited resources for the structure developed and functions performed by BIAs declines with increasing political system consolidation, on the one hand, and increasing functional and structural differentiation of collective actors, on the other. Where political system consolidation ranks lowest, as is the case for Russia, inherited associational resources are significant and appear to impinge on the further differentiation of forms and tasks. However, the more the state appears to have a complete, consistent and uncontested institutional structure, i.e. the less uncertainty plays a role in how political decisions are made and rules of due procedure are enforced, the greater the significance of the contributions made by organized business interests to socio-economic performance. Nonetheless, as is exemplified by the "strong" case of the former GDR, specific contributions are not always necessarily advantageous given some general goals of economic transformation.

Though one might plausibly think of a sequence of developmental stages that, to date, have been taken only by East Germany, the sketchy scenarios outlined in the preceding section

for each of the three cases lead us to a different conjecture: there is some evidence that the three cases are snapshots of outcomes reached from differing places with differing resources. In other words, what appears to be a striking similarity is neither the outcome of identical causes nor some commonality of different developmental stages. Instead we have to acknowledge that each singular case would have its specific causal texture. Seen this way, the idea that some hidden forces are at work transforming the "left" case (i.e. Russia) to what might seem the "middle" case (i.e. ECE), with the "middle" case on its way to approaching the "right" case (i.e. East Germany) appears unfounded and faulty. Furthermore, imagining a certain lapse of time within which particularist interests could make better use of given opportunities for improving their relative position, while the state's institutional structure remains fragmented and contested, leads at best to the expectation of a parasitic "representation industry" associated with the distributional conflicts and macro-economic inefficiencies analyzed by Mancur Olson (1982). Insofar as effective state reforms appear to be of foremost importance for the emergence of an actors' system that might be capable of governing thoroughgoing economic reforms, so does an integrated and consolidated governmental system--together with the rule of (in particular: procedural) law--appear to be a prerequisite for ensuring beneficial effects from the media for the "bottom-up" representation of social interests.

The differences relative to the consolidation of the political system are obvious. In the case of East Germany, the strategy of institutional import did not escape the risk of even well-established associations being lured away from routine behavior and seduced by short-term gains. Contrarily, reformers in ECE countries who, for internal and external reasons, were denied the opportunity to rely on a strategy of simple institution import attempted to create institutions in light of experiences made elsewhere. Since institution building in the new democracies is subjected to uncertain context conditions and considerable transaction costs, the successful endeavours to establish tripartite bodies--as a sort of "preemptive" corporatism designed to cope with the troubles of macro-economic consolidation anticipated early on--hints at respectable skills and prudent reformers.

While East Germany, technically speaking, made a conclusive package deal, and ECE countries, on the grounds of a broad institutional consensus, embarked on a strategy of "institutional lesson drawing" (leaving further decisions to be made about proper implementation; see Rose 1991), Russia resists any attempt of attributing features of internal processes to external factors. In Russia two facts appear significant that often have been assumed to be mutually exclusive: the absence of integrated non-competitive and encompassing interest associations, on the one hand, and a significant impact made by economic interests although BIAs seem to be fragmented, competitive and only loosely involved in economic governance structures that emerged at the regional level after the decay of central authority. As substitutes for the former centres of command, several forms of horizontal coordination provided by industrial "clubs", "clans" and informal regulatory

bodies emerged, with BIAs playing at best a secondary role (Stykov 1994; Brie/Stykov 1995). As a case of endogenous societal change, Russia sheds some light on two further aspects of thoroughgoing "system change": the multiple dimensions and the tremendous impact of increasing uncertainty after the start of transition, and the peculiar socio-economic status of socialist enterprises that deviates from all categories of capitalist firms.

Summarizing the arguments presented in this section, detailed in-depth case studies appear indispensable for the proper understanding of both the facts demanding explanation and the prospects of different cases with diverging resources and stimuli for the furtherance of change. This very general conclusion will be supported in the subsequent part of the paper that deals in some detail with the action and task environments to be faced by business people in post-*perestroika* Russia. Although there might be some analogies to the situation of economic actors in ECE, the conclusion to be drawn from a closer inspection of the Russian case is quite the opposite: an in-depth analysis will easily end up with insights that run counter to initial assumptions about similar phenomena with identical causes.

#### **4. Former State Enterprises in Russia - An Exemplary Inspection**

As already stated, the phenomena emerging over the course of Russia's transition resist a type of explanation having to do with to the assumedly insurmountable force of external factors. What is seen to happen can neither be reduced to pressures and incentives from outside, nor to failures occurring in the process of implementing a purchased (assumedly "right") solution. Instead, the fact that Russian BIAs appear to occupy relatively "weak" positions within a setting which, taken as a whole, seems favourable to business interests in general, has to be explained in terms of the particular features of both the action environment and the structure of the actors in question, i.e. the environment and options of (i) business people and (ii) former state enterprises respectively. The following kind of explicative compilation of information available relates to two sets of situational factors concerning the incentives and disincentives to associate for the advancement of economic interests. Before turning to actual details, I would like to briefly mention a type of explanation that would appear to be a relevant alternative, but considered a possible--and for the given task: dispensable--complement. According to an *institutionalist* approach which focuses on the cultural, and the cognitive and normative constraints of behavior in particular, one could prefer an explanation of this sort: "What we in fact envisage in present Russia, is above all a consequence of experiences and habits originating in the former socialist system. Thus, it simply is a matter of time, that people will forget their mental 'legacies' and accomodate to the changed conditions which among others include interest plurality, conflicts of "functional" and "class" interests, some consciousness of

situational options, and, above all, the willingness and skills to participate in collective action." Again, we recall our principal reservations against an explanatory recourse to "time" as a positive or absent cause of concrete phenomena. There is always good reason to direct some of one's attention to positive facts including the observable options and parameters of individual choice.

(i) With the first step, we would like to concentrate on the situation of new entrepreneurs and small-scale business firms.<sup>14</sup> Any proper understanding of common contextual features demands that explicit reference is made to the extreme level of uncertainty relative to most of the variables of economic transactions, among them the value of property rights and the rules guaranteeing the realization of economic goals via calculable methods. The major cause of extreme levels of uncertainty appears to be the dissolution of state authority. In Russia, the empowerment of society vis-à-vis a formerly almighty state became a turbulent process whereby state assets were de-statedized and the legal administrative system almost completely eroded. One of its most spectacular results was that civil servants experienced a strong incentive to become players of competitive games. As holders of valuable knowledge about administrative performance, they entered into bargaining relationships with administration clients, i.e. citizens and the public in general. Treating insider information about effective procedures as well as the knowledge about their proper duties as *private* information, they were able to capitalize on the sale of extremely precious commodities. With the knowledge about legal institutions (including the laws in effect) becoming goods to be purchased, citizens turned into customers in the absence of competitive markets. In this way, a considerable share of former state "structures" became converted to insider assets which, in turn, were appropriated and employed by their eventual illegal but invulnerable holders. Ordinary citizens as well as new entrepreneurs had to comply to the ad hoc rules of illegal and corrupt exchange even if they wished to receive information and treatment to which they were legally entitled. In particular, this applies also to regulations explicitly created for the purpose of improving the conditions of self-employed people and small businesses.<sup>15</sup>

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<sup>14</sup> The present and the subsequent paragraphs draw on written records of two group discussions among ten private entrepreneurs and five politicians (elected representatives of the Moscow Soviet, the National Soviet and the Economic Council of the National Soviet). The discussions have been organized and recorded by I.E. Mintusov of the Moscow Centre for Political and Social Studies on December 12 and 16, 1992.

<sup>15</sup> A striking example was told during the 1992 group discussions by entrepreneurs who sought administrative approval for some legal trade action. The civil servants concerned with this matter had succeeded in establishing bottlenecks for ordinary applicants and, on the other hand, friendly offered a short-cut for those able and willing to agree on side-payments. Actually, the latter were sent to "room 18" where they could pay at the desk for their legal rights.

For the new entrepreneurs emerging in increasing numbers after the failure of *perestroika*, this situation involved tremendous risks alongside the new opportunities. Although a price system emerged as the aggregate outcome of action governed by informed calculation of economic alternatives, the normative framework within which contracts are believed to constrain opportunistic behaviour was either unknown or not legally enforced. For the forerunners of the market economy, activity outside the state sector was not only obstructed by incompetent, ignorant and corrupt civil servants, but also by the lack of information about legal institutions. Frequently, new laws on economic liberties, contractual norms and taxes to be collected by state agencies were unknown to both civilians and the civil servants responsible for the proper regulation of economic life.<sup>16</sup> With state structures themselves becoming sources of uncertainty and intense normative ambiguity, providers of extra-legal calculability were attracted. Illegal practices as "offered" by several groups of the so-called *mafia* meet a substantial social demand. In Russia, they can further capitalize on a persistent popular distrust of legal norms and state power which dates back to the tsarist regime (see Rose 1994). Thus, scarcity as it gradually declined in the commodity markets invades the framework of social and economic interaction. Whereas state institutions appear but one among several--though not always the most efficient--options, a "market for institutions"<sup>17</sup> emerged and the framing of social interaction became a matter of rational choice under (uncertain) alternatives.<sup>18</sup>

When compared with the purchase of "local" protection, associative action for the pursuit of long-term "global" collective interests according to the social category one belongs to must often appear of little value. Associating with "strangers" for the attainment of some distant and very general goals--such as equal treatment or access to state subsidies--not only would incur incalculable transaction costs, but also threaten to become just another source of uncertainty impinging on individual plans. Furthermore, while collective forms of interest representation might be an appropriate means for communicating with state actors, it is unlikely to be of equal efficacy vis-à-vis actors beyond the realm of legality. Under circumstances that come close to the assumptions made by transaction cost theory about "unorganized" behavior--namely the regularity of "self-interest seeking with guile"

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<sup>16</sup> An unexpected and somehow paradoxical by-product of the 1992 group discussions among Moscow entrepreneurs and politicians is that all participants felt enthusiastic about the opportunity to exchange information about already existing laws and decrees as well as on the barriers to a free flow of information from parliament to society.

<sup>17</sup> I borrow this expression from Pejovich (1994) who introduced it with a slightly different meaning.

<sup>18</sup> The market for action frameworks lacks the feature of full competitiveness and entails itself tremendous uncertainty. According to Pennings' (1981) classification of various forms of interorganizational interdependence, a pattern with oligopolies on both the sides of sellers and buyers of "frameworks" entails the highest level of uncertainty, when compared with monopolistic and fully competitive structures (Pennings 1981: 439). This exactly seems the case when relevant social subgroups with certain preferences for transactional frameworks meet in the roles of either sellers or buyers of extra-legally provided outcome certainty.

(Williamson 1975: 26), more intimate "local" relationships such as friends, patrons and clans can provide offer more reliable information about the eventual outcomes of interactions. Thus, the reluctance of small and medium-sized business to join BIAs and make them an effective media of representation might well be explained as "locally" rational behavior in terms of the given options and perceived risks.

(ii) When studying the situation proper of former and present SOEs, one first of all has to acknowledge that the "production units" of the former USSR resist any superficial association with what might seem analogical phenomena in a market economy, be they called firms, companies or enterprises. Even in the mid-90' s would the majority of Russian "firms" escape a full comprehension of their structure and functions when analyzed solely within a *market* frame of reference. For a realistic assessment one has to conceive of some characteristics that are unlike anything known about capitalist enterprises. Since this peculiar feature, even under the pressure of corporatization and commercialization, would seem to be disappearing only gradually, Russian SOEs will remain a unique species for the near future, at the least.

Core institutions of the "revolutionary" Soviet society have been designed according to the political philosophy of functional integration (or indivisibility) and organizational synthesis. Corresponding to these principles, the ideological history of which goes far beyond Leninism<sup>19</sup>, socialist production units were at the center of communal life. They not only comprised the factories and bureaus concerned with the tasks of "reproducing" society in substantial ways, but were purposely made the locus of a catalogue of "social" functions in the broadest sense. In contrast to the increasingly specified production unit as they emerged as a consequence of adaption to competitive markets, socialist "firms" steadily grew into functional "conglomerates" in a technical and economic as well as in the social sense. On the one hand, they ran an extensive in-house production of raw materials and semi-finished goods (that firms in the West would routinely purchase on the market), and on the other, they provided a comprehensive bundle of social services which in a market environment would usually be supplied either by private producers or public agencies: such as housing estates, hospitals, kindergartens, homes for the elderly, holiday homes, sports facilities, community centres, and cultural institutions including libraries, cinemas and theatres. Relative to its responsibility for almost the complete communal infrastructure and the bulk of public services, the executive board of large socialist "firms" functioned in fact as a sort of municipal government.<sup>20</sup>

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<sup>19</sup>The history of these explicitly anti-pluralist ideas could easily be traced back to the works of Jean-Jacques Rousseau, the early Karl Marx and some Anarchist philosophers.

<sup>20</sup> The plurality of social functions performed by large Russian enterprises appears another example of the "socialist forms of indivisibility" (Pedersen et al. 1994: 20).



With the erosion of the central state bureaucracy and the devolution of governance functions to regional bodies of policy-making, the duties and options of the management of SOEs changed significantly. Its position vis-à-vis political actors at local and regional levels improved tremendously. Significant increases in organizational and managerial autonomy occurred as early as the late 80's and approached full-fledged legal independence after the dissolution of the sectoral ministries in the autumn of 1991.<sup>21</sup> While enterprises had been relieved step by step of production plans and taxes fixed in advance, they now became sovereign with respect to the prices charged, their investment plans, borrowing policies and the use of profits possibly made. Under those circumstances, not even fanatical adherents to the neo-classical model of economic behaviour would have expected the *direktora* to hasten in ridding the firm of its social functions so as long as these could serve as a legitimate base to substitute loans for profits. In fact, progress in delegating the provision of social services to public agencies in order to attain profitability is moving very slowly; indications that management would suddenly adopt a narrow-minded profit-seeking rational behavior appear for the time being to be rare. This lack of adaptive behavior seems to be indicative of a dramatic change of options and constraints in the socio-economic environment created during the prolonged process of transition. Former socialist "firms", be they still owned by the state or be they formally privatized through vouchers issued (and accumulated by fortunate insiders) still appear to function as the *multi-purpose core institutions* of Russian municipalities. In the absence of a system of social security with adequate unemployment benefits, former socialist enterprises take responsibility for the well-being of the whole citizenry by abstaining from massive lay-offs regardless of how much the demand for saleable products has declined. drastically declined production is regarded an undoubted virtue.

For an adequate understanding of the "social-industrial relations" in post-socialist countries which also extend into the post-socialist period, particularly in Russia, one has to keep in mind the peculiar relationship between firms, on the one hand, and government and employees on the other. With effective social security schemes still missing, the employment relationship remains the predominant means by which to earn a living and prevent a collapse in social integration, at least for those parts of the population lacking in profitable alternatives such as earnings from the second economies (cf. Rose 1994). As a consequence of the implicit--however, macro-economically delicate--deal between state authorities and the near autonomous SOEs, the latter's top management attained such a favourable position vis-à-vis the rest of politics and society as no former socialist or present capitalist colleague might dared have ever dreamed. Even in view of management's dependence on collaborative employees,<sup>22</sup> its freedom of action is considerably larger now

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<sup>21</sup> For more details see Amodio (1993), Burawoy/Krotov (1992, 1993), Kirichenko/Koudyukin (1993) and Brie/Stykow (1995).

<sup>22</sup> The problem that employees, under given circumstances, enjoy more favourable options than to behave

than it was under the rule of the central state bureaucracy. This is not in the least due to the fact that firms are far from being subjected to the bulk of uncertainties and constraints of a market environment. Instead, the core elements of the post-socialist economy face a more or less "political" environment made up of regional ministries, coordinating bodies, campaigning politicians and the "local heroes" of the new private big business sector. Thus, a major outcome of the final destruction of the plan-command economy, significant parts of which had already been transformed to a plan-bargain economy, (Böröcz 1989) has been the strengthening of what were once its weakest parts: the multi-purpose large-scale production units.

We now can return to the question of why the situation of large firms in the Russian post-socialist economy entails only weak pushes and pulls in favour of associative action. Assessing the implicit logic of the alterations in the status of SOEs we may conceive not only of an obvious increase in organizational leeway, but also in the prolongation of the unique status of firms as "social-industrial conglomerates". Closer inspection of the functions performed reveals that what in consolidated democracies of Western Europe appear to be social interests that are in demand of collective representation through specialized interest associations of all kinds (above all of wage labourers, consumers, medical patients and even the professionals of sorts) might still be organized and cared for by the successors of socialism's core institutions. Whereas the owners and the management of firms struggling for survival in a market environment might be attracted by the services offered by "intermediary" actors such as sectoral, functional or professional interest associations in settings resembling more the features of "socialist indivisibility" than of functional differentiation attained in modern capitalism, *the enterprise itself* performs the functions of an intermediary proper. To put this into a format that answers the question asked above: As long as SOEs management appears occupied with performing the multiple functions of social integration, it would appear to have better options than those associating for collective action. Moreover, one could easily imagine that consciously abstaining from the creation of associations that were able to commit members to behave in prescribed ways would be a rational option of defense against an eventual attack by state authorities on the recently achieved autonomy.

Unparalleled uncertainty suffered by the owners of small private firms and an increased set of options to proceed beyond the reach of market constraints in the case of (former) state enterprises--both these findings seem to offer an adequate explanation as to why organized business interests might have little impact in what would appear to be a favourable world.

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in accordance with the exchange logic of a wage labour relationship is extensively discussed by Burawoy and Krotov (1992).

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## 5. Conclusion

At first sight, the patterns of organized business interests in post-socialist countries sketched above contradict the assumption that the release of political and economic constraints would prompt the emergence of institutions similar to those of consolidated democracies. While institutions created for the purpose of stimulating a flourishing market economy are assumed to privilege the interests of business, the politico-economic situation actually faced by privatized firms and new entrepreneurs is more ambiguous. This becomes pretty clear, on the one hand, through comparison with historical data about earlier periods of business interests becoming organized, and on the other, in view of lasting features of post-socialist states.

Looked upon from a historical perspective, the actual environment of business in post-socialism appears significantly more favourable than the conditions under which business interests associated in the 19th century. Early industrial capitalism was characterised by a set of incentives to capitalist collective action that seems totally absent from today's post-socialism: a rising labour movement becoming organized on firm level as well as on regional level, the introduction of universal suffrage eventually at the expense of the particularistic interests of privileged social groups, and, last not least, governments acquiring regulatory and investment power. Thus, for a proper assessment of the reported findings, one has to acknowledge the possibility, that, as a matter of fact, the collective pursuit of business interests may be of less significance in present post-socialism than under early capitalism.

On grounds of a rational choice approach to the study of interest associations proof of this thesis could be provided by indication of associations that came into being for the advancement social interests felt more urgent than that of business or persons acting predominantly as "political entrepreneurs". Evidence is given by examples of both. In particular in the ECE countries, predominantly those social categories that feel threatened by ongoing reforms make efficient use of the means of interest association, namely interests rooting in the state sector of the economy where both management and employees are facing serious changes during (further) transition (Pedersen et al. 1995). Apparently, those having already moved to the growing private sector seem confronted with a very different opportunity structure: While employees report strong disincentives because of manifest anti-union attitudes of private capital, the new entrepreneurs of (small and medium-sized business) may enjoy sufficient freedom, so that the benefits of collective action seem insignificant if compared to those of individual interest-seeking. The "new" categories of interest appear hardly in demand of the "new" options of interest representations.

A further aspect of the peculiar conditions of business in present post-socialist countries is the slightly contradictory set of functions performed by reform governments. While the latter attempt to promote legal and macro-economic conditions that would fit to the needs of private capital, they, however, remain the largest employer and holder of productive assets, at least for the time being and the foreseeable future. Although this situation with a large, however shrinking state sector and a smaller, but expanding private sector, is characteristic for all countries in question, the stature of former state enterprises displays striking dissimilarities. The most prominent difference seems to be whether state firms were given autonomy before their non-economic--i.e. social security providing--functions had been transferred to public institutions or local governments. The Russian case demonstrates very clearly that where production units remain responsible for the provision of social security neither an incentive for becoming more efficient (as a market actor) exists nor does the need come up to claim state protection against the uncertainty of strategic competitors or the constraints imposed by markets. In such cases, the occurrence of interest associations indicates the presence of "political entrepreneurs" making use of associations as a sort of technique for the advancement of predominantly individual--political or economic--interests.

The peculiar situation of autonomous former state enterprises in Russia reveals which ironies might occur when the shift from a command economy to a market autonomy is decoupled from further necessary changes in the institutional framework. Though particularistic ("locally rational") strategies became available for enterprises on the ground of their fresh autonomy, the Russian economy, to date, appears trapped in a state of general inefficiency guarded by their lasting responsibility for indispensable social distributional services. Whether this state will be only a momentary one or be indicative of a barrier to micro and macro economic efficiency is still an open question. The sort of functions interest associations could perform in order to smooth such a transition or whether they are becoming a further obstacle to change is even less predictable. As a definite, however meager result of this analysis one could infer, that business interest associations, in general, are neither indicative nor by themselves effective promoters of the transition to a market economy, as far as the latter is understood as a game inducing the players to increase micr-economic efficiency.

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