Path Dependency Regarding Forms of Ownership through the Conception of Political Capitalism

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INTRODUCTION

After several decades of evolution of the capitalist property rights system in Eastern and Central Europe, reflection upon privatization processes as well as reformulation of research objectives related to recent transfers of public assets to private hands is called for.1 To put it more concretely, a complex understanding of past privatization processes implies not only the interpretation of economic results and the structural contexts of distributive processes but also a careful analysis of their ideological roots.2 More concretely, over the last twenty years of post-communist development there have competed two distinctive and in many aspects opposite strands of perspectives concerning the transfer of public goods to private hands and they have also played an important role in governmental policies of respective countries.3

The first one builds predominantly on a theory of neoclassical or liberal approach to capitalism, the other on a theory of institutional approach and its various forms.4 While the liberal approach has dominated political scenes in many post-communist countries including the former Czechoslovakia, it has often been criticized for negligence of property rights issues as well as transaction costs of the economic operations.5 Adherents of institutional economics have argued that post-communist transformations should be seen through the perspective of formal rules and informal constraints: while formal rules could be changed relatively quickly by political mechanisms, informal rules have been rooted in social habits and routines and they cannot be changed very quickly due to their ‘path dependency tendencies’.6 For these

reasons it was not possible to conceptualize economic reforms in terms of the big bang claimed by liberals. To put in another way, according to the institutional perspective, property is not considered to be a set of rights and duties resulting from the ‘invisible hand of the market’, but it is explained through the perspective of a mutual configuration between property rights and informal social habits. The interdependence between distribution of property rights and privatization processes has particularly enabled better understanding of the redistribution of the state resources into private hands that had occurred in the framework of Eastern and Central European privatizations. While neoclassical economists do not differentiate between the early privatizations and the recent ones, according to proponents of the institutional approach recent privatization processes in Eastern and Central Europe have been more close to those that had been realized in Western European countries under consolidated capitalist conditions.

In addition transfers of former state assets had had different timing; certain countries such as Poland and Hungary had realized important reform steps containing germs of capitalism in the last decades of real socialism, while others like former Czechoslovakia had kept state ownership till the fall of real socialism in 1989 and came through processes of economic democratization and liberalization only later. According to the institutional approach, early post-communist privatizations merged with distribution of properties in the framework of restitution programs, small and voucher privatizations, and they were more influenced by customary law than by written regulations. To put it more concretely, early post-communist privatization programs were ‘path dependent’ on the former socialist practices under which real property rights had been executed by a coalition of managers at the enterprise level who had negotiated with the formal representatives of the State Planning Commission. Given these facts institutional approach contributes to understanding why formal socialist informal mechanisms in economic life played important role during post-communist redistribution of property rights and which concrete practices survived under the condition where actors strove for maximization of richness (when using market advantages and new division of labour).

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8 Harvey Feigenbaum — Jeffrey Henig — Chris Hamnett, Shrinking the State. The Political Underpinnings of Privatization, Cambridge 1999, pp. 147–158.
10 Lack of economic reform or unwillingness of enterprise managements to change anything in the former Czechoslovakia was explained by interests of so called enterprise coalitions which under the socialist regime had benefited from systemic machinery based on planning indicators.
12 At that time Czechoslovak central organs had realized indirect instruments of control and determined external environment by more and more complicated legislative system had controlled by special organs such as financial administration as well as specialized con-
Special attention paid to details of institutionalization processes can also elucidate the fact that under the early post-communist capitalist condition pursuit of economic interests (maximization of richness by means of concentration of revenues and income) was realized by the same state and enterprise constituents (who had an opportunity to influence new executive and legislative structures and made various attempts to transform rules of game for the sake of their own interest). Our efforts to understand transition from real socialism to post-communist socialist practices raise question which legal entities had carried out property rights in the last decades of social socialism as well as which informal social practices survived dissolution of post-totalitarian regimes and coped with introduction of post-communist rules.

Under the socialism centralized organs predominantly had used indirect means of management and made efforts to determine external environment by labyrinthine system of laws and rules that was not only supervised but also enforced by specialized organs of financial organization as well as by specialized organs such as Committee of Popular Supervision.

Substantial part of activities of enterprises had been dependent on National Committees (organs of state power and administration) and the whole price system (and particularly price formation) had been subordinated to approval of pricing authorities. According to institutional approach in a similar way to the ‘socialist planning machine’ characteristic of socialist economies, first post-communist privatizations were marked by persistence of adaptation mechanisms where officials responsible for formation and execution of different privatization process operated under the condition of loss of legitimacy of large number of socialist institutions; because of these new mechanisms new post-communist institutional conditions could be described in terms of synthesis between new formal rules on the one hand and informal coercive mechanisms on the other.

‘November 1989 paradoxically brought to these enterprise ‘bulls’ more freedoms. Top management (directors) was very often changed, but middle management stayed and had to stay because there was nobody to replace it (in rare cases completely changed middle managements behaved in the same way as previous one: exceptions should not be denied). Control of enterprises — from the point of view of realization of any property rights — became anarchical; nevertheless enterprises did not collapse again and with different types of rapidity and intensity usually started to adapt at new circumstances.’

OBJECTIVES AND METHODS

This article builds on notions of ‘political capitalism’, ‘spontaneous privatizations’ and ‘institutional privatizations’ and aims at explanation of early post-communist priva-
tizations. By defining the crucial elements of the institutional approach to property changes and differentiating between ‘spontaneous privatizations’ and ‘institutional privatizations’, the article arrives at a model facilitating a deeper insight and thus a better understanding and application of the notion of property rights and privatizations to recent property transfers of state assets to new private owners.

RESULTS AND DISCUSSION

The most important proponents of the institutional approach claimed that the property system has been based on institutions and organizations: the former ones are determined by the rules of the game and the latter ones by their objective functions. Rules of the game have been particularly important for the execution of property rights by means of social habits and routines in those systems where conflict situations have usually been resolved by customary rules than by the written law.15

Through the institutional perspective in almost all historical periods the property rights were executed only by the narrow elites and various interest groups — implied in their redistribution — according to their legislative power made attempts to change the rules of game in their own interest and for the sake of maximizing their material wealth.

‘Institutional privatization’, ‘spontaneous privatization’ and ‘political capitalism’ (the last one coined by Polish researcher Jadwiga Staniszkis) have been considered to be three crucial notions which could contribute to a deeper understanding of the continuities concerning everyday social routines and habits implied in the early post-communist privatization processes. ‘Spontaneous privatizations’ occurred in Eastern and Central Europe, as well as in the wider developing world, and they refer to the specific property transfer of material assets from state structures into private hands that took place after the fall of the communist regimes in Eastern and Central Europe, as well as in developing countries, and that were realized by the former nomenklatura cadres and operators. In other words, the conceptual differentiation between ‘spontaneous privatizations’ and ‘institutional privatizations’ highlights the fact that certain types of property changes emerged in rudimentary institutional conditions without distinction among individual, private and state property and without corresponding legal and social norms concerning the separation of individual, private and state ownership.16 ‘Institutional privatizations’ were implemented in the former Eastern and Central European countries, as well as in the Western ones, where their course was determined by respective privatization laws, decrees and regulations.

It is particularly thanks to the notion of ‘political capitalism’ that one can understand why Polish, Hungarian and Russian cadres realized large property transfers by means of ‘spontaneous privatizations’ and why, in the former Czechoslovakia, ‘spontaneous privatizations’ and ‘institutional privatizations’ occurred simultaneously.

16 Dieter Bös, Privatization Under Asymmetric Information, Münich 2000, pp. 18–19.
and only after the fall of the socialist regimes in 1990. While in the western European countries differentiated regulations concerning ‘institutional privatizations’ prohibited the merger of economic and political interests by means of strict requirements for participation in respective privatization bodies, the deficiencies of the early Eastern and Central European privatizations were determined by several components. Firstly, an institutional vacuum was brought about by the loss of legitimacy of many former socialist institutions; secondly, there survived informal constraints that could be conceptualized as modification of the former socialist habits and routines; and, thirdly, there were collective efforts to renew a pre-socialist institutional framework idealizing the institution of private property. In spite of formal public access to the submission of privatization proposals, only the coalitions of managers and insiders held necessary information concerning their formulation: for the sake of their interests they negotiated with the officials at the Ministry for Privatization and the Administration of National Property, similarly to their former communications at the State Planning Commission. Thus the importance of the survival of social routines and habits stressed by the institutional approach can be demonstrated by the success of those insiders who managed to submit several privatization proposals concerning the same object and pretended that they were representatives of the company limited by guarantee.

These processes were also accompanied by continuities of shadow non-formalized quasi-institutions that under the socialist condition played the important role in everyday life of ordinary actors and that at the same time played the role of clue and instruments of networking; their social force and viability can be demonstrated by the fact that even five years after introduction of private property many quasi-institutions persisted and played more important role in social life than newly established rules. Put it differently non-formal market with quasi-ownership rights became commercialized and combined legal practices and formal rules with informal ones; at the same time they have been tradable and valuable at black as well as ‘white’ market.17

Perception of institutional vacuum by post-communist actors themselves was demonstrated by results of opinion polls that were realized by various sociological research agencies; citizens were critical of conviction of political elites that privatization processes should have become legitimate basis of new democracies. More concretely, hiatus between perspectives of governments/political elites on the one hand and attitudes of ordinary citizens on the other one can also be explained by lack of intermediary mechanisms that could have bridged gaps among various strata in emerging social order. Opinion polls elaborated by various agencies in the first decade of post-communist development pointed to the fact that in many post-communist countries one could have identified contradiction between attitude of citizens to evaluation of economic reform including privatization on the one hand and assessment of political institutions on the other one; this contradiction between positive perception of political changes and negative perception of economic changes can be explained by the fact that legal as well as political environment of former post-com-

munist countries was rudimentary and comparable to economic and social conditions in underdeveloped world.

The notion of ‘political capitalism’ coined by Jadwiga Staniszkis is a Weberian ideal type that ponders upon interdependence between economic and political field under the socialist condition and namely its post-totalitarian phase of development; it also brings important insights into configuration between these two components under the post-communist condition. According to Jadwiga Staniszkis key process for dissolution of post-totalitarian regime became dearticulation of socialist means of production that implied reproduction of old system by alternative means of new systemic mechanisms based on different logic.

Under the post-totalitarian condition almost all public ownership of property and linkages between party and economic structures had been accompanied by absence of the role of civil society in the economic field. While many actors had been prone to realize fundamental economic reform, their efforts had been dashed due to the absence of a legal institutional framework for a market economy and a weakness of legal culture characterized by illegal practices. Under the post-totalitarian condition ultimate control of all economic activities by the omnipresent state to certain degree had tolerated increasing structures of informal economy on the one hand but had not been conductive to minimal degree of civil and political society robustness necessary for a democratic polity on the other.

One could have identified several factors that had been relevant for differentiation between distribution of property rights and privatization processes in early Eastern and Central European privatizations and various stages of political capitalism, i.e. pre-privatization, privatization and post-privatization period. It could be said that in some countries in East and Central Europe efforts to redistribute property rights had been put through several decades before the fall of real socialism by means of so called ‘spontaneous privatizations’; they had been caused about by motivation of former nomenklatura cadres to extend their economic interests and they had occurred under the aegis of various state agencies (for example in Poland Agencija Rozwoju Gospodarczego [Agency for Economic Development]. In fact, in the last phase of post-totalitarian regime the state had lost its monopoly of ownership and its role had been partially replaced by their informal or alternative configuration that later on brought about system of new property relations. In order to explain importance of former nomenklatura elites Staniszkis coined the concept of ‘military revolution’ that influenced post-communist politics; similarly to some other historical periods certain segment of nomenklatura apparatus from the end of the communist era had managed to control domain of meta-exchange and later to dispose of structural power in the early post-communist system.

18 Jadwiga Staniszkis has been important Polish sociologist and political scientist at several Polish universities and her major intellectual contribution has been conceptualization of transition from socialism to capitalism taking into account economic transition as well as dissolution of nomenklatura elites. She elaborated her ideas in publications Poland’s Self-Limiting Revolution, The Dynamics of Breakthrough in Eastern Europe, The Ontology of Socialism and Post-Communism: Emerging Enigma.

Through the Staniszki’s perspective political capitalism had been located in power structures of the old regime that had been a basis of emerging market infrastructure on the one hand and in institutionalization of emerging post-communist markets on the other; the temporary institutional vacuum or lack of effective institutional framework was accompanied by personification of economic and political structures. In fact, these mechanisms were a substitute for market institutions and contributed to decrease of transaction costs concerning post-communist formation of capital.

According to Staniszki one can differentiate four elements of communist heritage that influenced post-communist development; firstly one can speak about principles of centralization, secondly about mechanism of monopolization, thirdly about process of etatization and fourthly about interdependence between political power on the one hand and economic mechanisms on the other. These processes were accompanied by emergence of new institutional strategies of various actors having been influenced by heritage of communism that could have been explained by reaction to new insecurities invoked by new capitalist condition as well as by introduction of mechanisms of free market.

While analyzing various period of world history Staniszki points to the fact that parallel existence of ‘double’ arrangements of property rights has not been a unique feature of final period of dissolution of post-totalitarian regime and that it had already existed in selected historical periods. In this context Staniszki points to Weber’s analysis of world economy and coins the thesis about structural similarities between medieval capitalism on the one hand and social organization of ownership that had occurred during dissolution of real socialism on the other; the common feature of these two historical periods had become phenomenon of so called divided ownership where different subjects had claimed ownership right concerning one object. More concretely, at the Middle Ages king, his vassals as well as direct users had claimed the same property. Similarly to the political capitalism of Middle Ages, at certain phase of political capitalism managers and employees — who had represented enterprise actors and constituents and had had diverse informal institutional affiliations — had treated means of production employed after working hours as their own. Staniszki has been critical of the merger between private and public interests of conduct of managers and employees because of the following reasons: they had not invested into means of productions and they had not participated at any further costs related to them.

Despite the common structural features of distribution of property rights in the individual countries, the concrete national systems in Eastern and Central Europe came through three elementary stages of ‘political capitalism’ at different decades either under the socialist regime or only after its fall in 1989.20

20 For example in the former Czechoslovakia in the last decades of its existence the Communist Party as well as government lost their real power and power mechanisms were determined by negotiation between coalitions of managers and top nomenklatura bureaucracy.
(1) First stage: dearticulation of the socialist means of production and temporary coexistence of various components of the old system with the new one (Hungary, Poland, Russia before 1989, the former Czechoslovakia only after 1989)\textsuperscript{21}

(2) First stage: establishment of new ‘satellites’ or ‘appendices’ parallel to the state enterprise where one director was not only at the head of the original state enterprise but also became owner or representative of the newly established component of parallel economy (Hungary, Poland, Russia before 1989, the former Czechoslovakia only after 1989)\textsuperscript{22}

(3) First stage: divided ownership under which managers or employees claim property rights concerning the same material objects (Hungary, Poland, Russia before 1989, the former Czechoslovakia only after 1989)

(4) First stage: uncontrolled merger or symbiotic existence of the private and public components as the result of the establishment of the private sector as well as privatization processes (Hungary, Poland, Russia before 1989, the former Czechoslovakia only after 1989)

(5) First stage: emergence of new forms of collective ownership by means of the privatization of political and social organizations through commercialization having been mostly realized by managers through governmental and party structures that in some countries occurred simultaneously with ‘institutional privatizations’ (Hungary, Poland, Russia before 1989, the former Czechoslovakia only after 1989)

(6) Second stage: insufficient separation of the economic and political interests of the actors implied in the ‘institutional’ privatization processes: for example, in the Czech Republic decrees issued by a minister for privatization Tomáš Ježek empowered the local representatives of Civic Forum, while other actors simultaneously occupied important positions in the party structures which coined privatization processes as well as in the state bodies responsible for privatization processes (only after 1989)

(7) Second stage: merger between real political and economic power structures. For example in Poland there was established the Agency for Economic Development [Agencja Rozwoju Gospodarczego] collecting state participation in many hybrid societies for the sake of the concentration and mobilization of capital. In the Czech Republic there occurred mergers of competences among the Ministry for Privatization, the Fund of National Property, the Consolidation Bank, as well as privatization funds which aimed at the transfer of assets to former Czechoslovakian citizens by means of coupon privatization (only after 1989)

\textsuperscript{21} Compared to persisting influence of Czech \textit{nomenklatura} system till the final fall of the regime in 1989, Russian regional \textit{nomenklatura} decomposed itself during perestroika period and particularly its most prominent members found their new prestigious positions in the economic sphere of emerging capitalism.

\textsuperscript{22} In the former Czechoslovakia the most important change at the labour market of qualified employees started only in 1990. For example managerial positions at state enterprises left lawyers, computer specialists as well as project architects who on their own established commercial legal offices. At the same time they promised that they were going to work for their former employer on the one hand but only on the basis of the contract between two independent legal entities on the other.
8) Second stage: temporary anomie at the enterprise level brought about by non-transparent institutional conditions that can be explained by lack of execution of property rights in concrete enterprises: these processes were also relevant for agriculture. This stage of development was to certain degree determined by restitution processes and transformation of former socialist cooperatives in new cooperatives of owners after 1989.

9) Second stage: dysfunctions of the banking sector. For example the former Czechoslovakian government before 1997 was reluctant to put through bankruptcies necessary for the revival of the economic system: during privatization processes the state authorities and top banking managers permitted dysfunctional enterprises to receive loans, and in some cases even considered forgiving the loans of such indebted enterprises.

10) Third stage: concentration and organization of capital and adaptation to the market structures for the sake of efficient competition with capital in more advanced countries. In the Czech Republic the third wave of privatization processes led to the centralization of formerly dispersed property and to the later constitution of real dominant property groups where the functioning of new capital was complicated by its concentration as well as by unreliable price indicators of the markets.

11) Second and third stage: deficiencies of the legal framework (insufficient enforcement of law), which in the case of many enterprises brought about negative destruction or so called ‘tunneling’ where the dominant owners established satellites in order to transfer profits as well as other assets to their own accounts.

Notions of ‘institutional privatization’, ‘spontaneous privatization’ and ‘political capitalism’ have enabled us to explain the transfer of state assets into private hands that occurred in rudimentary transitional conditions parallel to the establishment of a capitalist property system and were influenced by the personal continuities of former nomenklatura cadres. ‘Political capitalism’ could be considered a variation of the ‘path dependency’ approach which takes into account the past heritage of concrete societies. On the basis of the perspective of ‘path dependency’, economic and political transformation is a recombination of institutional and organizational resources that have survived on the ruins of the former regime.

Similarly to Staniszkis’s, Stark’s methodology comes out of the similarities between socialist past and capitalist present: under the socialist system there had ex-

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isted a contradiction between hierarchically prescribed modes of action on the one hand and reciprocities and market transactions resulting from efforts to deal with economic system on the other.28 Similarly to Stark’s explanation of the Hungarian post-communist condition, several Czech authors have analyzed the phenomenon of cross ownership in the Czech Republic: cross ownership has not been established only among individual enterprises but also among key financial institutions.

Despite the fact that certain authors have stressed the importance of the past for the current condition, consolidated market structures and transformation of elites29 call for the constitution of such a normative model that would not take into consideration only contradictions between rules of the game and informal constraints, but also advance an institutional framework under the consolidated market structures.30

(1) Jurisprudence in the field of European law that would reflect upon the fact that frontiers between national and European regulations concerning transfers of state assets to private owners have been blurred: for example, national privatizations of fields such as telecommunication were interconnected with the continuous deregulation of the field.31

(2) Conceptual differentiation of various transfers of public assets to private hands:32 privatizations (they do not automatically bring diminution of state importance in the economic system, See Table 1), denationalizations (they are retroactive processes to formerly realized nationalizations and ignore concrete forms of ownership, See Table 1) and reprivatizations (they fully or partially give back expropriated properties to original owners or to their inheritors, See Table 1).

(3) Respective norms such as directives, decrees and laws which should pay sufficient attention to the legal past of assets to be transferred: assets which were always owned by state structures (See field 1 in the Table 1), assets which were not nationalized and were transformed into cooperatives (See field 2 in the Table 1), assets which had been owned by cooperatives and only later on were nationalized (See field 3 in the Table 1), assets which were collectively owned by cooperatives (See field 4 in the Table 1), assets which were denationalized and which are about to be transformed into cooperatives (See field 5 in the Table 1).

(4) Approach to concrete privatization waves including a schedule which would adopt a systematic approach to assets to be transferred: it could also imply the enumeration of concrete enterprises/agricultural cooperatives or classification of their importance in the national economy (positive experience of two waves of French privatization processes).

30 Ansgar Belke — Friedrich Schneider, Privatization in Austria: Some Theoretical Reasons and First Results about the Privatization Proceeds, Münich 2004, pp. 49–51.
(5) Constitution of such a privatization committee, or committees, which would have an autonomous statute vis-à-vis state structures and which would be recruited from responsible experts who determine fixation of prices, schedule concerning state control in the enterprise to be transferred, etc. The committee, or committees, should be nominated for a concrete period of time and should be composed of exactly a limited number of experts on the basis of a strict selection procedure in order to prevent a conflict of personal interests concerning decision-making processes.

(6) Given the negative effects of cross ownership which have maintained indirect influence on state structures and which are also the result of ‘institutional’ privatization processes, one should strictly define the conditions for the acquisition of privatized assets, privatization funds and certain operations of the capital market: the measures should prevent the emergence of cross ownership among financial institutions, among enterprises themselves as well as among financial institutions and enterprises.

Table 1: Paths and Obstacles concerning Privatization of State Enterprises

(7) Implementation of transparent national regulations favourable for small investors in various economic sectors which would promote dispersed ownership and particularly increase the number of small shareholders: the broader citizens’ participation could also be achieved by the dissemination of necessary information concerning accessibility of the capital market as well as by concrete possibilities of participation at transfers of public assets to private owners.

(8) Consideration of specificities related to privatizations of the banking sector given the positive experience of ‘more ancient member states of the European Union’

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concerning the interdependence between privatization processes of the banks and the advancement of transnational operations. Nevertheless, privatization processes of the banks should differentiate the importance of the bank for the national economy (the most important ones versus the local ones) and should be realized under the direct control of the Commission for Privatization, the Security Commission, etc.

(9) Adoption of measures which would reflect upon the internationalization of capital markets and respective institutions such as the International Organization of Securities Commission. National measures should strive for the participation of a well-informed citizenry and prevent informational asymmetry (brought about by principal-agent reasons) which very often leads to the passive attitudes of shareholders towards their investments.

(10) Adoption of such regulations at the enterprise or cooperative level which would prevent the concentration of the enterprise ownership among managers and related economic elites: it is necessary to adopt such a privatization scheme that would induce employees of concrete enterprises or members of cooperatives to invest in shares of the enterprise where they have or had been working, to promote ‘faithful’ shareholders who have participated in several waves of privatization programs.

(11) Adoption of regulations limiting property rights and management competencies that would protect as well as promote economic and social rights of workers by means of provisions concerning wages and collective agreements of tripartite system; it is necessary to prevent concentration or merger of social and political power at hands of managers and trade union representatives.

**CONCLUSION**

The processes of share issue privatizations, asset sale privatizations, voucher privatizations and privatizations from below have been realized in various countries in the world and enormous amount of sectors has already been privatized; among others one can mention privatizations of electricity, telecommunications, prisons, aircraft, etc. At the European level in the countries with developed property systems — such as England, France, Germany and others — privatizations were implemented between the eighties and today. Post-communist privatizations merged with the introduction of the capitalist property system and property rights and therefore it is necessary to highlight interdependence among them and decline of former commu-


nrist regimes; regardless of omnipresent path dependency effect each former socialist country opted for different timing and scale of the processes.

Models of transfers of public assets to private owners by various privatization methods offer researchers and experts a framework for reformulating and reconfiguring private and public domains in various economic sectors. The distribution of property rights realized by former nomenklatura cadres and operators before and after the fall of communist regime in Eastern and Central European countries can be interpreted as an objective process of the distribution of property rights necessary for market structures (liberal perspective), while concepts of ‘spontaneous’ privatization or ‘tunneling’ highlight the importance of formal and informal constraints coined by the institutional approach. Nevertheless, according to the conception of ‘political capitalism’, notions of dearticulation of means of production and divided ownership have had only an explanatory force for transfers of the state assets into private hands that occurred in transitional economies after the final fall of post-totalitarianism; recent Eastern and Central European privatization processes in the housing sector and other fields call for explanation according to different perspectives and demand elucidation by means of alternative concepts and variables (suggested above).