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# **Transformation and crisis in Central and Eastern Europe: a combined and uneven development perspective**

**Jane Hardy**

**Business School**

**University of Hertfordshire**

**Hatfield**

**AL10 9AB**

**United Kingdom**

## 1. Introduction

Following the Varieties of Capitalism (VoC) research agenda (Crouch *et al.*, 2009; Hall and Soskice, 2001) attempts have been made to grapple with the question of what sort of capitalism has emerged in post-communist economies since 1990 (Knell and Srholec, 2007; Lane and Myant, 2007). It has been argued that the VoC conceptual framework is durable and productive in relation to analysing Central and Eastern Europe (CEE), although in need of some sensitisation (Feldmann, 2006; King, 2007). Others have been more trenchant in their criticisms suggesting that this approach does not capture the dynamics of economic systems undergoing transformation (Bohle *et al.*, 2007; Lane, 2007). Since the onset of the economic crisis in 2008, Becker and Jäger (2012) have suggested that the status of CEE, as peripherally financialised economies, is the key factor in explaining why they have experienced the crisis in its most acute form.

Drahokoupil and Myant (2011) have advanced the most sophisticated typology of post-communist economies, which combines forms of integration with the international economy with internal economic, political and institutional forms to generate five types of post-communist economies. While this provides a useful inventory it falls short of providing a theoretical framework to explain linkages between the different institutions and their causal link in explaining relative economic performances. While VoC approaches have looked for institutional and structural regularities to explain the transformation of and crisis in these economies this contribution offers a different perspective. This article focuses on deeper processes that shape the development and interrelationship of capitalist economies in general, using CEE as an exemplar, from a theoretical perspective of combined and uneven development.

The article begins by elaborating a theory of combined and uneven development that posits an extended view of previous formulations by taking spatiality, labour and institutions more seriously. Drawing on the conceptual framework of combined and uneven development, sections three and four give an account of the transformation of and inflection of the crisis in the countries of CEE.

## 2. A theory of combined and uneven development

The notion of combined and uneven development has its genesis in Trotsky's *History of the Russian Revolution* (2008), where he presented the law of combined development. Smith (2006), however, points to the way in which the analytical propensities of uneven development became trivialised, first because it was deployed to justify very different political positions and, second, because of claims that it could explain 'everything in the world' (182). Novack (1972), for example, declared it to be 'one of the fundamental laws of human history' and a 'scientific law of the widest application to the historical process' (82). In 1986, Elster suggested that the theory had not been stated with 'sufficient precision and

generality to allow one to assess its power' (56). However, the debate about combined and uneven development has been the subject of renewed and reinvigorated debate in the twenty-first century (see Anievas, 2010; Dunn and Radice, 2006). The incompleteness and ambiguities in Trotsky's and subsequent conceptualisations, coupled with the challenges of advanced capitalism, have left space for a richer and more rigorous development of the theory of combined and uneven development, rooted in the inner workings of capitalism, and which finds its starting point in Marx. The conceptualisation of the theory presented here centres on the following themes: the specific relationship between 'combined' and 'uneven' development and the extent to which either concept should be privileged; the relationship between spatiality and labour; and institutional architectures.

### **Combined and uneven development (or uneven and combined development)**

Trotsky, following Lenin (1964), understood uneven development as having three dimensions (Davidson, 2010). First, the uneven development of branches of industry and individual firms, as well as individual countries, is reflected more widely in the structured inequality of the world system. Second, there is the ongoing rivalry between great powers to 'catch up and overtake' in their contest for supremacy. The third aspect is that developed imperialist states collectively, but competitively, assert their dominance over colonies as well as 'diverse forms of dependent countries, which, politically are formally independent, but, in fact are enmeshed in the net of financial and diplomatic dependence' (Davidson, 2010: 184). This is encapsulated in the following (oft used) quote from Trotsky:

The laws of history have nothing in common with pedantic schematism. Unevenness, the most general law of the historic process, reveals itself most sharply and complexly in the destiny of backward countries. Under the whip of external necessity, their backward culture is compelled to make leaps. From the universal law of unevenness thus derives another law which, for lack of a better name, we may call the law of *combined development* – by which we mean a drawing together of different stages of the journey, a combining of the steps, an amalgam of archaic with more contemporary forms... A backward country assimilates the material and intellectual conquests of the advanced countries... The privilege of historical backwardness ... compels the adoption of whatever is in advance of any specified date...skipping a whole series of intermediate stages.

(Trotsky, 2008: 4–5)

However, Trotsky did not offer an explanation of the drivers or causes of unevenness; an understanding of the 'whip of external necessity' has to be rooted in the inner workings of capitalism explained by Marx's law of value. This is based in the essential contradiction between a constant tendency for differentiation rooted in the division of labour and organisation of production and the opposite tendency towards universalisation reflected in the tendency towards the equalisation of the rate of profit (Smith, 2006). This critical dynamic of capitalism has a spatial element and concrete outcomes as capital moves to specific places where higher profits can be obtained or falling profits restored. There is a

contradiction between these two opposing tendencies; on the one hand there is radical differentiation and, on the other, there is competitive equalisation of the conditions of social production and reproduction.

In practice, this contradiction, internal to the logic of capital accumulation, finds its resolution precisely in uneven geographical development, which established discrete places differentiated from each other and at the same time pressures these places, across borders into a single mould...The levelling tendency of capitalism continually gnaws at the radical differentiation of the conditions for the exploitation of labour, and yet corrosive differentiation of labour also eternally frustrates this 'annihilation of space by time'.

(Smith, 2006: 190)

Put another way, the competition for markets between firms in the same industry and the exit and entry of capital from less profitable to more profitable sectors leads to the formation of a general rate of profit. Competition is therefore a force for equalisation, but technological and institutional change as well as contestation by workers constantly produces a new unevenness. What emerges are twin processes of equalisation and differentiation as each capital, by raising productivity and intensifying the exploitation of labour in its own unit, aims to realise extra profit (Ashman, 2006).

Therefore, although unevenness is present throughout all epochs and within different modes of production, it is conditioned and generated within capitalism specifically by forces which are deep within the system, namely competition, abstract labour and the law of value. It is these drivers which in turn give rise to the second order determinations of exports, trade, investment and finance, which shape the divisions of labour within and between countries.

The combined nature of development has been more contentious. Arguing that Trotsky was specifically referring to the internal effects of uneven development, Davidson (2010) proposes accepting the original order of putting 'uneven' before 'combined' because the second is a logical consequence of the first. He goes on to argue that 'uneven and combined development is a consequence of the world economy, but is played out within the component parts of the state system; the territorial confines of these states are where the specific combinations take place' (Davidson, 2010: 193).

This raises a key question regarding the theorisation of the relationship between national state formations and the interdependencies of the global market. The assumption made here follows Barker (2006) in proposing an extended notion of 'combined' development that is implicit in Trotsky's writings.

By drawing the countries economically closer together and levelling out their stages of development, capitalism, however, operates by methods of *its own* ... by anarchistic methods which constantly undermine its own work, set one country against another and one branch of industry against another, developing some parts of the world economy, while hampering and throwing back the development

of others. Only the correlation of these two tendencies – both of which arise from the nature of capitalism – explains to us the living texture of the historical process.

(Trotsky, 1972: 19, 20)

This underlines the contradictory nature of capitalism underpinned by the simultaneous propulsion to equalisation and unevenness, but also emphasises the expansive nature and interrelatedness of the system. The general proposition that the development of one society or economy is – positively or negatively – a condition for the development in others is heightened in advanced capitalism. Unevenness implies difference and hierarchy, but also a totality in which unevenness can occur; '[a] single articulated unity or order that generated systematic inequalities between its parts' (Ashman, 2006: 93). Therefore, rather than seeing the global economy as the aggregation of different capitalisms, capitalism has to be understood as unifying the world into a single interactive productive system under the dominance of capital.

### **Spatiality and labour**

Recent debates about combined and uneven development have, implicitly or explicitly, been located in the discipline of international relations (Anievas, 2010; Dunn and Radice, 2006). These have largely comprised a series of general and macro-level discussions, focused on the unit of the nation state and connected to class and labour at a high level of abstraction (Ashman, 2010; Callinicos and Rosenberg, 2010; Davidson, 2010). This meta-historical-sociological analysis has focused on the relationship between imperialist powers and dependent and backward economies, with reference to the co-existence of different modes of production within countries and more recently the 'Global South'. However, this broad approach and the continued exclusive focus on the nation state as the unit of analysis underplays the potential of the concept of combined and uneven development in understanding the dynamics between relatively advanced economies characterised by increasing and more complex interdependencies. The notion of the 'Global South' is particularly problematic as it encompasses such different combinations of advancement and backwardness that it loses its potency as an analytical category. Neither do the post-communist economies that emerged after 1990 sit comfortably in categories of either the 'Global North' or 'Global South'.

Geographers have elaborated in much greater detail how the inner workings or micro-foundations of the system produce the spatial unevenness inherent to capitalism (Harvey, 2006; McGrath-Champ *et al.*, 2010; Smith, 2008). Others, from both Marxist and non-Marxist perspectives, have looked at how unevenness is constructed through the intricacies of global value chains (Coe, 2008; Rainnie *et al.*, 2011; Starosta, 2010).

More specifically, the role of labour in underpinning an analysis of unevenness and spatiality has been much neglected. In the VoC literature, labour appears passively in the context of national regimes of industrial relations or as one component in a bundle of factors

that will affect economic competitiveness (Drahokoupil and Myant, 2011). The pivotal role of labour in understanding unevenness and spatiality needs to be understood at two broad levels. First, labour as the sole source of value, derived from the necessary labour time spent in producing a commodity, underpins the whole edifice of Marx's work. In competitive accumulation employers will seek to increase surplus value (or the rate of exploitation) through lengthening the working day, intensifying the work or reducing wages. Concretely, this means that the class that represents capital will employ a myriad of strategies with regard to wages and the organisation of work that will be contested, to varying degrees, by workers, individually or collectively.

Thus capital is essentially the movement of self expansion of the objectified social relations between private and independent human beings which, in its own processes, produces and reproduces the latter as members of antagonistic social classes.

(Starosta, 2010 citing Marx, 1976: 723–724; Marx, 1978: 185)

Second, in a broader sense the conditions of production are shaped by the struggle between competing factions of both capital and labour (Herod, 2006; Rainnie *et al.*, 2011). This will give rise to second order determinations manifest as institutional forms such as international and national regulatory regimes, sectoral specificities and structural power (Selwyn, 2007) and the shifting power between organised workers and capital. Within this conceptual framework, the objective and potential role of labour is therefore at the apex of the analysis. The subjective nature of labour and the realisation of labour power in contesting capital at the point of production is the outcome of complex and contingent factors.

### **Institutional architectures**

If the VoC and comparative capitalisms' (CC) approaches can be accused of being over-voluntaristic in their assertion that institutions shape economic processes and economic performance within national territories, the theory of combined and uneven development could be viewed as over-deterministic in positing the centrality of capital and accumulation processes in shaping spaces of production. Although the world is increasingly integrated into a unified single world market it is not a homogenous capitalist milieu (Barker, 2006), and the strong institutional foundations that underpin uneven development have been a neglected part of the analysis. Here we mean institutions in the widest sense, including not simply the different relations among local states, capitals and labour forces, but also the whole political and cultural web of social relations in which these are embedded, as well as the corresponding local forms of civil society (Barker, 2006).

Myrdal (1957) argued that a backward country must have sufficient institutional and cultural capacities to appropriate advanced technology. Even though technologies can arrive ready-made, this would not necessarily overcome the legacy of old ways of thinking, with which they could co-exist for a period of time at least. The imitation and assimilation of

elements of advanced culture and technology is selective, and therefore a 'backward' country can 'import' some elements of advanced culture while retaining other inherited aspects of its own institutional forms. In other words, within its own internal structures it can combine a mixture of advanced and archaic ingredients, thereby generating a new amalgam with distinct characteristics from those found among its rivals.

However, national peculiarities are not simply a function of inherited differences in starting points, but a product of the world system as it is inflected within each separate state (Barker, 2006). Each country is part of a larger whole, standing in a particular and shifting nexus of relations with other parts and with the whole, shaped simultaneously by the development of social relations within its borders as well as by the multiple forms of economic, political, military and cultural traffic across those same borders (Barker, 2006).

The world economy and nation states are not dichotomous entities, whereby the coercive laws of value in the former unfold and are inflected in the latter. Rather they are mutually constitutive in a process whereby nation states are constrained and shaped by the parameters of accumulation processes in the global economy, but at the same time the strategies of states and capital reshape the accumulation processes in the global economy and forge a new set of parameters and dynamics. Therefore, combined and uneven development is retained as the preferred terms and way of distinguishing this extended understanding from approaches that privilege unevenness over combination.

We now turn to a narrative of the transformation and inflection of crisis in CEE, underpinned by the conceptual framework outlined in the previous sections.

### **3. Combined, uneven and compressed development in Central and Eastern Europe**

The transformation of CEE is *combined* in the sense that the growth, stagnation and eventual disintegration of these communist economies by 1990, and their subsequent reintegration, has to be understood in the context of the dynamics of the global economy (Hardy and Rainnie, 1996). The exposure of these economies to global competition after 1990 through shock therapy unleashed a process of varying degrees of creative destruction, which have increased the *unevenness* between and within post-communist economies.

Neoliberal accounts of the restructuring of CEE economies have characterised transformation as a linear process from a planned communist economy to a capitalist market economy, the ingredients of which are obvious and well understood (Lipton and Sachs, 1990). In contrast, evolutionary and institutional approaches have viewed economic and social development as incrementally recombining past and new institutions (Grabher and Stark, 1997). However, rather than understanding change as being incremental and predictable, the integration of CEE with the world economy from 1990 onwards should be



understood as a leap incorporating changes (partially or fully) that have been *compressed* in time. While Western European capitalist economies had had an extended period since the crisis of the mid-1970s in which to restructure their economies, these changes were compressed into a few years in the initial stages of the transformation of post-communist economies.

The notion of 'leaps' needs to be understood in terms of the way in which CEE economies were once lagging behind in their level of technology and productivity in comparison to the core, advanced economies. From 1990 an intensification of integration with the world economy through trade and foreign investment, oiled by a greater circulation of finance, made it possible to obtain technical and organisational improvements much more quickly. Thereby, aspects of advanced capitalism were imported into these CEE economies in their state-of-the-art form and able to exert change much more strongly and in a shorter time period. The role of foreign investment by large transnational corporations (TNCs) was critical to this process, the networks of which have either locked in or excluded sections of domestic capital from CEE (Hardy, 1998). However, equally important was the introduction of a range of know-how across the full range of managerial functions which introduced a lexicon of new material practices and discourses (Hardy, 2006). With regard to trade, CEE countries have become locked in as low technology economies providing raw materials and components for the advanced European economies (and Germany in particular) with a few pockets of innovation (Hardy, 2007). This has had the effect of exacerbating economic differences within CEE countries.

The economies of CEE have exhibited a rich variety of different institutional arrangements that depart from the models of designer capitalism and blueprints that were urged in the early days of transformation. Thus, specific and evolving configurations of post-communist economies are characterised by their composite, combined or mixed features, which cannot be viewed as stage-posts as the economy moves from one end point (the command economy) to another (the market economy).

Communist economies were not homogenous with a single logic and this has influenced the routes they have taken to restructuring and reintegrating with the global economy. First, there is diversity in the starting points and the initial conditions of these economies in terms of the legacies of their industrial structures, the nature and depth of the crisis that pertained in the late 1980s and the degree of their integration with the West. A second dissimilarity relates to the response of the ruling class in these economies to the economic stagnation that was apparent by the late 1960s (Maddison, 1991). The third factor influencing nationally specific paths of transformation after 1989 was the balance of political forces and the unique political and economic routes taken. In Poland, for example, workers were able to have a significant influence on the form of privatisation and the restructuring of individual firms (Hardy, 2009; Hardy and Rainnie, 1996).

New patterns of capital accumulation did not unfold in an institutional vacuum. A dramatic reorganisation of institutions was necessary in order for the economies of CEE to integrate with the global economy and the state was central to authoring and instilling new structures consistent with and necessary for neoliberalism. A number of tasks such as the regulation of competition, arbitrating between foreign and domestic capital and reassigning property rights needed to be accomplished, for instance.

If the first stage of transformation was a rather chaotic and contested attempt to integrate with an increasingly liberalised global economy, then European integration can be seen as a more systematic consolidation of that aim (Bieler, 2002; Bohle, 2006). The European Union's (EU's) strategy has been to promote neoliberal reform and the influence of European transnational capital through the liberalisation and deregulation of CEE (Holman, 2004; Shields, 2004). Dangling the carrot of membership, the EU pushed CEE's economies towards adopting a specific neoliberal reform model, which was often a much more radical variant than the one operated in the economies of existing members. Having to conform to EU norms, regarding state aid and rules on competition policy in particular, wedded these countries to the liberalisation of trade and investment in a way that made it difficult to accede to any demands by members of the ruling class for protection or retreat (Bieler, 2002).

This adjustment of domestic policies and organisations from 1990 was not a straightforward process whereby the nation state transmitted or refracted the needs of global capitalism. The competing interests of different sections of the ruling class, and the struggles of organised labour, made the processes protracted and the outcomes a political compromise, particularly regarding privatisation and welfare. Therefore, the restructuring of the state was much more complex than simply guaranteeing the conditions for the operation of transnational capital.

#### **4. The inflection of the crisis in Central and Eastern Europe**

The integration of these economies with the European and global economies has shaped the nature of their vulnerability, but in the same way that the crisis has unfolded differently in the economies of Western and Southern Europe, its scale and nature varied between the former communist countries of the EU. Two specific projects, which consolidated the neoliberal project and extended it to CEE, laid the preconditions for how the crisis was inflected in these countries.

The first was the European Single Market, a popular symbol used to re-launch European integration in the mid-1980s and implemented in 1992, which opened economies and prised open previously protected sectors (for example, services, utilities and telecommunication) to trade and investment. The second project was that of a monetary union with a central bank and single currency. This was the consolidation of the single market as it removed barriers and reduced costs for large firms in providing an undifferentiated terrain on which capital could operate. A further effect was that the monetary union disciplined capital and

particularly public spending through the restrictive monetary policy in the convergence criteria of the Maastricht Treaty and the Stability and Growth Pact (SGP).

Moreover, monetary integration in the EU was also driven by a need to overcome the fractured and idiosyncratic finance systems of individual European countries to 'build a huge liquid market in Euro dominated securities arising from the material necessity to compete with the US' with the self-proclaimed aim of the EU becoming 'the cheapest and easiest place to do business in the world' (Grahl, 2005: 293). The economies of Western Europe (in particular the UK) and the US needed new markets in which some of their largest and most profitable financial firms could operate. The outcome of this scramble for assets is reflected in the large amount of foreign capital that dominates the financial sector in Central and Eastern Europe. In CEE this amounted to between 60 per cent and 90 per cent of total assets compared with between 5 per cent and 15 per cent in the UK, US, France and Germany (Raffeisen Research, 2012: 12).

Taken together, these opened up two channels for the transmission of the crisis. First, in the language of the World Bank, 'global deleveraging' (a massive contraction of lending), triggered in 'distressed home country financial markets' (financial institutions exposed by toxic debts), which with the 'unwinding of the real estate booms' (the crash of property prices) in some host countries, reduced the willingness of financial markets to finance sovereign debt (Mitra *et al.*, 2010:4). Second, the subsequent recession reduced the demand for exports in Western Europe, which had a negative impact on production and employment in small economies such as the Czech and Slovak Republics, Estonia and Hungary where exports accounted for between 70 and 80 per cent of Gross Domestic Product (GDP) in 2008; to a lesser extent, this was also the case for the larger economies of Poland (40 per cent) and Romania (33 per cent) (World Bank Database).

The domination of the banking systems of CEE, by mainly West and North European or US banks and finance companies, meant that capital inflows were larger in CEE and fell more severely during the crisis. In effect, risk was transferred from Western European parent banks to affiliates in countries of CEE as cross-border loans. The growth of credit was driven by households' borrowing to try to boost their living standards, and fuelled by the ability to borrow in foreign currency, with a lower interest rate and longer pay back time than local finance. From 2003 and 2008 credit to households grew by between 21 per cent (Hungary) and 59 per cent (Lithuania). In the same period, housing loans as a percentage of total household spending ranged from 30 per cent (Poland) to 78 per cent (Estonia) (Mitra *et al.*, 2010: 50).

Poland and the Czech Republic were least scathed by the economic crisis. There are a number of factors which have cushioned Poland, to some extent at least, from the economic crisis and recession. A floating exchange rate meant that the *złoty* fell against the Euro by 30 per cent between August 2008 and 2009, which meant that it could steal an advantage over

its competitors whose currency was not floating (most notably the Baltic states and Slovakia). Further, Poland and the Czech Republic, unlike the Baltic states and Hungary, did not have a huge property bubble fed by foreign banks. Their exposure to foreign currencies was much lower: 8 per cent in the Czech Republic and 30 per cent in Poland (Mitra *et al.*, 2010). Although both countries were vulnerable to the fallout of the recession elsewhere in Europe, Poland was much less exposed than the Czech Republic with a lower dependence on exports.

The draconian austerity programmes implemented across the region have met with the greatest scale of social unrest and protests since the fall of the Berlin Wall. In January 2009 Latvia had the worst riots since the collapse of the Soviet Union as 10,000 people protested in Riga. At the same time, in Lithuania, for the first time since 1990, the three trade union confederations united around a set of demands (Woolfson, 2010). Large demonstrations took place in half a dozen cities and were followed by a cross-border protest simultaneously in Riga and Vilnius. Slogans appealed to class solidarity: 'Our power is in being united! For workers' rights!' (Woolfson, 2010: 497).

There have been further sporadic protests such as the one in Lithuania in February 2010 against a fourfold rise in electricity prices. In May 2009, 30,000 trade unionists protested in Prague against the way in which companies were using the recession as a pretext for reducing salaries and other benefits. In Romania in May 2010 tens of thousands of public sector workers protested in Bucharest against plans to cut wages and pensions and was one of the biggest gatherings on the street since the Romanian revolution. The head of the police officers' union called on Romanians to unite 'as we did in 1989, when we overthrew the dictatorship' of Ceausescu (BBC News, 2010). This was followed by another series of riots in January 2012 against the privatisation of the health system. While these protests have not cohered into sustained movements to challenge austerity, it serves as a reminder that the organised working class are not a spent force.

## **Conclusion**

VoC and CC approaches provide useful, static inventories of second order determinations (foreign investment, trade, trade unions) but do not privilege particular institutions, account for the relationship between them or the processes that underpin them. Rather than focusing on the effects of the exogenous 'global' on the national economy that lies at the heart of the VoC/CC analysis, the combined and uneven development approach sees the global and national state as mutually constitutive. This gives a richer and more dynamic account of both economic development and the transmission of crisis. Further, the political implications are to reduce the potential for national institutions to form a bulwark against the global capitalist economy.

The notion of societal leaps stands in contrast to incremental evolutionary and institutionalist accounts of economic and social change, as well as those that see change as a process of sequential stages. It implies a much less stable capitalism with heightened competition where the advantages of national (and sub-national) capitals and states can only be temporary in a situation where other countries can quickly appropriate technology, skills and organisational innovation.

Echoing Bond (1999), the importance of the concept is that it allows the exploration of systematic unevenness in spheres such as production, social reproduction and human domination along the lines of class, gender and ethnicity, which stresses the social damage associated with uneven capitalist development. Further, the theory of combined and uneven development is emancipatory, because in contrast to prescriptive formulations for political change and protest, the idea of the unevenness and combination of advanced and less advanced economies and regions allows for the possibility of explosive struggle. In this account rather than treating labour as one among many institutions, it is privileged in its potential role of instigating deep social change.

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