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Note from the editor

Dear reader,

Welcome to the Winter edition of the European Economic Sociology Newsletter! I am especially pleased to bring this issue to you because it is dedicated to a topic very dear to my heart (and research agenda) - the economic sociology of postsocialist transformations.

Not surprisingly, the fall of communist regimes, and consequent social, political and economic transformations have provided much food for thought to economic sociologists. Reorganization of socio-economic systems, restructuring of enterprises, and redefinition of old and creation of new economic institutions and actors, have all offered plenty of opportunities for social scientists to explain ongoing fundamental economic change, to participate in policy debates to alter its course, and to learn from it about general processes of market creation and operation. This EESN issue provides a taste of some of the current research on these stimulating and important issues from established and newcomer scholars.

Starting us off, Dorothee Bohle and Béla Greskovits of Central European University summarize their research on the varieties of the postsocialist capitalisms consolidating throughout the region. After only about a decade of rapid transformations, the authors trace the already apparent divergence in postsocialist economic systems.

Lawrence King of Cambridge University takes on a hotly debated issue of neoliberal policy prescriptions to transforming postsocialist economies. He provides a critical assessment but also a much needed alternative sociological perspective on postsocialist development and enterprise restructuring.

Alina Surubaru, a doctoral candidate at the Ecole Normale Supérieure de Cachan, shares some of her dissertation research on the garment industry and entrepreneurial careers in Romania, addressing an important issue of whether and how Romanian economic actors have managed to convert their political capital to an entrepreneurial advantage.

I am also pleased to include a short description of a currently ongoing program on the networks and institutions in the postsocialist economic transformation that convenes this academic year at the Harriman Institute at Columbia University in New York City, directed by David Stark.

What follows the contributions on postsocialist transformations, is a stimulating piece by Dirk Baecker that takes us back to the founder of economic sociology, Max Weber, pointing out yet another aspect of his contemporary relevance. In his note to Weber's unfinished theory of Economy and Society, Baecker scrutinizes Weber's definition of *Wirtschaften*, economic action, uncovering in it references to the term *Gewalt*, violence.

The issue also includes an interview with one of the foremost experts in economic sociology in Russia, Vadim Radaev, Professor and Head of Department of Economic Sociology, as well as First Vice-Rector of the State University--Higher School of Economics in Moscow, who provides his thoughts on ten questions about economic sociology.

Filippo Barbera of University of Turin focuses on recent research on the intersection of social networks and individual economic action in this issue's "Read and Recommended". His contribution is followed by additional recommendations in a form of four book reviews on some of the most recent work on a variety of economic sociology topics.

Last but certainly not least, it is wonderful that we can include at the end of this issue also brief summaries of several dissertations that are currently ongoing or recently finished from young researchers from Eastern and Western Europe and the United States addressing economic sociology topics. Reading about their interesting projects should make us confident about the future of our field, especially because there are certainly many more doctoral students that can share findings from their projects. Where ever you are, please consider sending us your dissertation abstract for the future EESN issues.

I also kindly invite anyone who might have a short research piece to contribute, a book review, an announcement, or a response to essays included in this issue, to send these to me. And please do not forget to tell your colleagues and students that anyone who subscribes at http://econsoc.mpifg.de can receive EESN free of charge directly to their email box!

With best wishes, until Summer,

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Capitalist Diversity in Eastern Europe

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East European varieties of capitalism: State of the art and criticism[1]

By the early 2000s, following a decade of political and economic transformation and global and European integration, the post-socialist political economies seem to have settled on divergent models of capitalism. Scholars have contributed in three ways to understanding this diversity. First, they identified a dividing line between Central-Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). While the former achieved closer resemblance with the Western democratic market societies, it is underdeveloped markets, informality, and tensions between capitalism and democracy that characterize the latter (Bruszt 2002). Second, the same divide has been confirmed by comparative work focusing on these regions' different positions within the global political economy (King 2002). This research proposed that the European Union (EU) locked the CEE countries in promising paths of development, while transnational corporations (TNC) contributed to their dependent modernization. In contrast, the CIS states, which neither could rely on the EU nor occupy favorable positions within the international division of labor, were left to the less benign influences of the IMF and volatile natural resource markets (Lane 2005). Third and most recent, East Europeanists – directly adopting the influential "Varieties of Capitalism" (VoC) approach that has generated powerful insights into advanced capitalism's diversity (Hall/Soskice 2001), - have discovered the Western polar types of "liberal-market" and "coordinated-market" economies in the Central and Eastern Europe as well (Buchen 2006; Feldmann 2006).

We believe that although the VoC framework seemingly equipped East Europeanists with a straightforward and parsimonious logic, its uncritical import has impaired their sensitivity to the specificity of the emerging regimes. This is so because none of the key VoC assumptions fits the East European cases. First, authors in the VoC literature usually assume the prior existence and hence explanatory power of established and consolidated institutions for firm behavior and adaptation to global challenges. However, the institutions of East European capitalisms have emerged only recently, and their consolidation cannot yet be taken for granted. Arguably, their impact on firm behavior would thus be weaker than assumed in the VoC literature. Indeed, state actors and firms have actively "crafted" the new institutions. Second, institutions in the East evolved as part and parcel of the region's international integration, and have been affected much more thoroughly by the pressures of the EU, TNCs, and global markets, than the institutions of Western capitalisms. Finally, the idea that the knowledge about the worlds of rich and powerful OECD capitalisms[2] can be imported without further ado to the study of less developed regions, equals to assuming that learning about the life at the king's court yields meaningful insights into the life of the peasant, or the vagabond.

In our own ongoing research on the eight new CEE member states of the EU, and the three most internationalized CIS countries, Azerbaijan, Kazakhstan, and Russia, we try to devote more attention to their specificity in the above respects. When accounting for the countries' capitalist diversity, we attribute key importance to the impact of the state and other political and economic actors; try to assess the concrete form of international and transnational embeddedness of national institutions and the contradictory pressures stemming from this condition; and take seriously the less-advanced character of many of these new market societies.

Mapping capitalist diversity in Eastern Europe

As often argued, the agenda of post-socialist transformation has been overloaded with all the major economic, political, and social challenges development can pose: building markets, preserving political stability, maintaining social cohesion, democratizing the political system, transforming industry, and securing a stable macro-economic environment. How successfully could these countries pursue and coordinate multiple transformations? Based on empirical evidence we established the following regime variation.[3]

Radically liberalized markets and a thoroughly reformed market-supporting institutional framework distinguish the Baltic States of Estonia, Latvia and Lithuania. They could maintain superior political stability that is puzzling especially since they have barely relied on social welfare provisions to achieve political balance. Among the new EU members, the Baltic states have the least generous welfare states and the most atomized industrial relations. However, in some qualitative aspects of their democracies, such as enfranchisement, Estonia and Latvia lag behind other CEE countries. Likewise, the Baltic States so far seem to have been much less successful in industrial restructuring than the Visegrád countries (Czech Republic, Hungary, Poland and Slovakia) or Slovenia. They integrate in the international economy mainly through labor-intensive traditional industries controlled by highly mobile TNCs, and through resource-based exports and related services. Similar to their meager welfare states, their industrial policies are minimalist, with low flat taxes rather than targeted protectionist measures at their core. Finally, in macroeconomic stability, the Baltic performance is superior to that of the Visegrád states. Restrictive monetary institutions (currency boards and/or independent central banks) as well as small and balanced fiscal states are the key institutional underpinnings of Baltic macroeconomic stability (Feldmann 2006).

Interestingly, in the early 2000s, the institutional configurations and performance of the three CIS countries that we include in our analysis: Azerbaijan, Kazakhstan and Russia, seem to closest to the Baltic pattern. The CIS appear to have fairly liberal market economies too, even if they continue lagging behind in the development of a market-supporting institutional infrastructure (e.g. reformed banking or improved enterprise governance). There are differences in the political aspects: their polities lack stability, and their systems are closer to authoritarianism than democracy. Just like the Baltic group, however, the CIS have very limited welfare states, and lack inclusive industrial relations. They seem to have failed even more than the Baltic States in industrial transformation. De-industrialization was more severe in the CIS, and currently their global economic integration occurs almost exclusively through raw material exports, and manufactured imports. Interestingly, over the early 2000s their macroeconomic indicators are no less satisfactory than those of the Baltic States.

From a more advantageous starting position, the Visegrád countries have successfully transformed into liberalized and thoroughly institutionalized market economies. Their regimes differ from the Baltic and CIS patterns in three key respects. First, they have offered more protection against the consequences of economic hardship and social dislocation stemming from neoliberal restructuring. Special welfare schemes, e.g. extensive disability and early old-age retirement schemes, family and child-care allowances, and active and passive labor market policies, helped large social groups to avoid, or at least slow down, their decline to underclass statuses. Second, at least to date, the Visegrád countries preserved more inclusive democracies. Third, whereas the Baltic States' priority has been macroeconomic stability, the Visegrád countries mainly pursued re-industrialization and industry upgrading. With adequate institutions and policies – including protective regulation and tariffs, export zones, foreign trade & investment agencies, investment support funds, tax exemption regimes, and public development banks, - the Visegrád states managed to attract adequate FDI in their technologically complex capital- and skill-intensive industries. Their export profile resembles that of the advanced countries. Finally, the complex and expensive agenda of industry upgrading and relatively generous social protection have come at a cost: the institutions safeguarding macroeconomic stability have not established dominance in most Visegrád states so far. Moreover, in political terms, especially after 2004, they are the least stable within CEE.

Among the new EU members, Slovenia stands out for its simultaneous success in all above tasks. Dominant neocorporatist institutions, such as legally enforced negotiated management-labor relationships, and extended collective agreements have so far been able to deliver the compromises required for a balanced and inclusive agenda.

Internationalization, transnationalization, and transformative state capacity

The significance of the varied configurations cannot be fully understood without capturing *how* these configurations came about. In line with our critical stance towards existing literature, our own explanation focuses on the international context in which these institutions evolved, and the capacity of the state to transform institutions.

The pattern of internationalization confirms the existence of a divide between the CEE and CIS countries. The former became thoroughly integrated into European systems of production, commerce, and finance, and acquired membership in the most important international organizations, including the EU. CEE's "thorough" internationalization and transnationalization has thus occurred via *multiple institutionalized channels*.

In contrast, EU membership has been out of reach for the CIS-3. While they are more open to foreign trade and investment than the rest of CIS, their global integration significantly differs from the CEE pattern. In their exports, all three countries have been heavily dependent on the global markets of energy and other natural resources. The same industries attracted the bulk of FDI both in Azerbaijan and Kazakhstan. Thus in contrast to the multi-channel global integration of CEE, the CIS pattern seems under-institutionalized and "shallow" as it essentially occurs through a handful of *world markets*.

The question then is: are the post-socialist states anything else than playthings of powerful international and transnational forces? Could they at all retain or develop a capability to assist 'the economy to transform itself and to respond to changes in the global economic environment' that is considered to be the key to economic development and power (Gilpin 1987: 77)? Proxies of state capacity highlight radical differences in "stateness" in CEE versus the CIS, and this is crucial for our understanding of post-socialist capitalism's diversity in all other important respects (Kaufman et al. 2006). Therefore, while stylized evidence allows us to trace the variation within CEE at least partly to the *varied uses* of state power to pursue different transformation agendas, we cannot explain the divergence *between the CEE and CIS capitalisms* in the same terms, since in the latter cases state capacity has barely been sufficient to make a relatively strong impact. Thus in the CIS cases, the influence of other types of factors and agents must be our primary focus.

The literature on less advanced countries in other parts of the world has suggested that varied channels of global integration as well as initial institutional endowments matter for domestic state capacity (Shafer 1994). More specifically, it is proposed that while, for instance, windfall oil revenues undermine state capacity, FDI tends to enhance it. Likewise, while "[c]ountries still forging central institutions can potentially evolve almost solely in response to capital inflows, generating bureaucracies that are the direct products of the international economy … where strong institutions are in place … international capital is more likely to be used to promote economic goals" (Chaudry 1997: 27-28). It follows that the thoroughly institutionalized CEE path of international integration should be more conducive for state capacity than the shallow CIS trajectory that was exposed to the volatility of global commodities and financial markets. Similarly, post-socialist states, which faced less demanding tasks of (re)building national institutions, should be more capable than the ones where essential institutions had to be built "from scratch".

Embedded vs. pure neoliberal, and state-crafted vs. directly market-driven regimes

Combining our map of capitalism's diversity with the above insights on its main driving forces allows us to differentiate among four types of capitalist regimes in post-socialist Eastern Europe. In the Baltic and the CIS countries we identify two subtypes of a political economy that seem to share, at a first glance, many characteristics of a neoliberal regime as perceived by the Washington Consensus. Countries in both sub-regions are characterized by small fiscal and welfare states, atomized industrial relations, low taxation, and macroeconomic stability. In contrast, albeit in different ways, both Slovenia and the Visegrád countries have *embedded their neoliberalisms* (for the genealogy of this term see Polányi 1957; Ruggie 1982; and Van Apeldoorn 2002). Slovenia achieved this through neo-corporatist institutions and a generous welfare state, whereas the Visegrád countries did so *by ad hoc* social protection packages targeting losers and opponents of neoliberal transformation.

How did this variation come about? Our framework stresses the interplay between transformative state power with specific agendas – or its absence – on the one hand, and the concrete form of the inter- and transnational embeddedness of these political economies on the other hand. On these grounds, we suggest the following regime paths.

The CIS countries experienced the collapse of their major state institutions and capacities together with the fall of state socialism. As it is well documented for the Russian case, the first phase of transformation was characterized by the dissolution of central state authority (Bunce 1999). Newly independent states, increasingly independent regions, and powerful societal actors picked up the pieces left behind by the collapse of the empire, and used them to accumulate fragmented, special-interest, or personal, rather than common, wealth (Hellman 1998). In this context, there was no state capacity to speak of to transform the economy in any comprehensive and coherent way. The disastrous reform performance of the first period of transformation was as much reflecting the non-existence of central state authority, as the influence of international actors such as the IMF. While Russian reformers radically liberalized the economy in line with the policy prescriptions of the IMF, they largely failed in building up market-supporting institutions. The social and economic consequences were devastating. Industrial production and GDP plummeted, social inequality ballooned, and the country became increasingly indebted externally. The untenable path towards "involution" (Burawoy 1996) exploded with the financial crisis of 1998.

International developments, rather than state capacity, also seem to be at the origin of the recovery, with dramatic increases in oil prices allowing the CIS to restore growth, macroeconomic stability, and pay back international debt. It is an open question to what extent the sustained period of high oil prices has indeed given them the resources to build more stable institutions and a stronger state. The literature on petro-states suggests the opposite: when state (re)building coincides with massive oil-revenue inflows, the new institutions are likely to be highly vulnerable to future bust periods (Karl 1997). Therefore, we see the paths, institutional outcomes, and performances of the CIS regimes as largely *driven by the forces of international resource and financial markets*, as well as the international financial institutions. At the same time, powerful domestic social groups dependent on these same markets have pressed CIS state actors to pursue adjustment in line with their own particularistic interests.

In contrast to the CIS, we view the CEE-regimes as essentially *"state-crafted"*. All CEE countries, Baltic states included, either inherited functioning states and institutions from the socialist system, or were able to build them up rapidly. Whatever similarities between the Baltic and CIS regimes might exist, they also differ in three key aspects. First, the neoliberal Baltic regime was largely the result of conscious reform choices. Their fast reforms stemmed from the wish to implement a most radical break with the past, and to dismantle the former strongholds of power of old state and party bureaucrats (Bunce 1999). Radical reforms also had an anti-Empire aspect to them. Getting rid of the nomenclature, their institutions, and inherited industries essentially meant forcing ethnic Russians to the sidelines. Second, and closely linked, the Baltic countries chose to marginalise inherited social forces and invite new groups to buttress their new states. The initial reforms were to a large extent designed and led by *émigrés*. The Latvian and Estonian approaches to privatisation were less conducive to insider wealth-accumulation than the methods chosen by the CIS. Mostly ethnically Russian employees were marginalized by deindustrialization and their voices muffled by disenfranchisement (Lagerspetz/Vogt 2004). In strategic sectors, the Baltic States welcomed foreign investors. Third, the Baltic regime is supported by adequate institutions, which are likely to be more resistant to international market forces than those in the CIS. Macroeconomic stability, which got the highest priority in the economic institutional setting is more a result of restrictive monetary institutions than windfall gains from resource exports.

The inter- and transnational influences to which the Baltic states are exposed partly reinforce and partly mildly correct their initial choices. Both the breakdown of the Soviet economy and later the financial crisis of 1998 hit the Baltic States harder than any other CEE country. Yet, these international crises reinforced the initial choices of elites as they weakened ties with the former Soviet Union, and justified the stress on macroeconomic stability. To be sure, economic ties with Russia have never been entirely severed. Ironically, in recent years the Baltic States seem to gain from the same windfall profits as the CIS, both as transit routes for Russian oil, gas, and other resources, and as exporters of manufacturing goods to the growing Russian market. These developments might partly explain for the spectacular growth rates over the last years. Other international factors – in this case neoliberal political and policy networks – ideologically confirm the domestic choices made by the Baltic states, since they interpret their high growth rates as merely signs of the victory of radical neoliberalism.

International developments have reinforced domestic choices in yet another way. The Baltic integration at the low ends of the world economy makes TNCs primarily interested in flexible labour markets, low wages, and minimal public intervention into employment practices and work conditions. TNC preferences dovetail the Baltic priorities of a neoliberal regime and minimal (welfare) state. Throughout the accession process, the EU served as a mild corrector of the Baltic States' overzealous economic liberalism and exclusionary political practice. Trade barriers had to be raised again, and improving the standards of social and democratic inclusion has become an issue in the accession negotiations. Overall, however, the EU agenda for the region is in line with the Baltic reform priorities, and EU accession therefore could mostly serve as a factor that locks-in earlier institutional choices.

Similar to that of the Baltic States, the Slovene path towards capitalism was based on conscious choices of reformers, and a state capable of implementing them. Nonetheless, the choices have been very different. The transformation of Slovenia was built on a consensus among all major forces of society - employers, employees, experts, and major political parties - that had been institutionalized in neo-corporatist bodies. While Slovenia accepted the general framework of macroeconomic stability, it was also clear for the reformers that this "alone would not facilitate a successful transition to a capitalist economy" (Lindstrom 2005: 23). Trade liberalisation and privatisation was carried out gradually, and the Slovene reform elites relied heavily on domestic forces, including labour, during the privatisation process. Slovenia opened its economy only very reluctantly and gradually for foreign ownership and control, especially in strategic sectors like banking.

This gradual and home-grown transformation strategy could be built on the best legacies of CEE. Not only has Slovenia been the richest CEE country, it also inherited the most liberal, politically and socially most differentiated socio-economic system from Yugoslavia's reform-communism. Firms had been relatively independent from the state, and could develop dense commercial and production links to Western markets well before the transition. Trade unions, rather than being pure transmission belts – as had been the case in most other countries of the region – also gained a measure of independence in the 1980s (Stanojevic 2003). All these factors made a transition strategy based on broad incorporation of all domestic social forces feasible.

As in the Baltic States, Slovenia's international embeddedness by and large reinforced its choices. Slovenia only accepted – and could afford to do so - limited FDI in its strategic export sectors, thus controlling its dependence on TNC. The markets where Slovenia competes – medium to high skill manufacturing goods - are not as prone to short term fluctuations as the markets for labour-intensive goods and raw materials. Overall, the reform path chosen by Slovenian actors was also compatible with the EU requirements. In some instances, where the EU pushed towards a different direction, Slovenia refused to comply without ever putting at risk the perspective of EU membership (Lindstrom 2005).

Finally, the Visegrád countries' regime path – even if it reflected a measure of conscious choice – proved to be less straightforward, more contested, and more contradictory than either the Baltic or the Slovene trajectories. Two elements set the Visegrád transformation strategy apart from the Slovene one. First, their welfare states originate in political elite-driven reforms from 'above' rather than in institutionalized neocorporatist negotiations between social partners. Second, instead of domestic capitalists, foreign owners have come to dominate these economies. Rather than being purely strategic choices, both differences also reflect the concessions reformers had to make. Although Visegrád reform elites had been well aware of the social hardship associated with the collapse and market reforms, they could not fall back upon identity politics and disenfranchise large parts of the affected population to muffle protest as the Baltic States did. At the same time, they shied away from offering institutionalized voice to unions and the losers of reforms, as they feared that these groups would oppose the transformation. Instead, they decided to offer ad hoc compensation in the form of relatively generous targeted social protection packages in order to overcome opposition (Vanhuysse 2006).

Moreover, international constraints acted stronger and in a different way upon the Visegrád countries than in the Slovene or Baltic cases. Initially, Hungary took the lead in supporting foreign take-overs across her whole economy. At the origin of this privatization strategy was the huge external debt that Hungary had accumulated by the late 1980s. Because of her debt service Hungary was highly dependent on hard currency cash receipts available only from export and privatisation. Poland, the other ex-socialist country with huge foreign debts at the onset of transformation, was somewhat less constrained in her reform choices (Greskovits/Bohle 2001). Poland's creditors were national governments rather than – as in the Hungarian case – private banks. Moreover, at the beginning of the transition, Poland successfully managed to negotiate a partial debt relief. Thus, Poland's initial transition choices to some extent resembled those of Czechoslovakia (and later the Czech and Slovak Republics). As its southern neighbours, Poland initially hoped for significant domestic ownership in the economy. However these attempts at 'national capitalism' failed, and since the second half of the 1990s, all four Visegrád countries increasingly have built their institutions and economic strategies around the priority of attracting FDI (Bohle 2002).

The concessions reformers had to make to the (perceived) threats of the losers of transformation, as well as to foreign investors, partly explain the relative instability of the Visegrád regimes. At the same time, under the conditions of inclusive democracy, a measure of political stability could only be achieved by "embedding" neoliberalism in protective welfare arrangements. Similarly, industrial upgrading in Eastern Europe – with the sole exception of Slovenia – could only be achieved by luring foreign investors with generous incentives.

However, embedding members of society and key actors of economy resulted in a whole set of new problems. The pattern of contradictory and costly public spending has led to recurrent macroeconomic instability. Faced with budget constraints, the Visegrád states seem increasingly compelled to reduce welfare expenditure within their budgets. More fundamentally, the resources Visegrád countries spend for welfare might just not be sufficient to protect their societies. Finally, in this context, the EU functions as an additional constraint on the Visegrád countries, pushing them towards compliance with the Maastricht criteria that might ultimately result in disembedded societies. Currently, Visegrád countries' domestic politics and policies seem to conspire with EU pressures for potentially less stable and perhaps even less democratic regimes.

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Béla Greskovits is professor at the Central European University Budapest, Hungary. In 1998-9 he held the Luigi Einaudi Chair at the Institute for European Studies at Cornell University, and in 2003-4 he taught as a Visiting Professor of Social Studies at Harvard University. He has published The Political Economy of Protest and Patience: East European and Latin American Transformations Compared *(Central European University Press, 1998). Currently, he is working on a book with Dorothee Bohle on varieties of transnational capitalism in Eastern Europe. His related articles have appeared or are forthcoming in* Actes de Gerpisa, Studies in Comparative and International Development, Labor History, West European Politics, *and* Competition and Change*.*

Endnotes

1For a detailed discussion of the Central-East European cases see Dorothee Bohle/Béla Greskovits 2007a: Neoliberalism, Embedded Neoliberalism, and Neocorporatism: Paths Towards Transnational Capitalism in Central-Eastern Europe. In: *West European Politics* May, forthcoming. For the extension of our concept and typology to the CIS countries see Dorothee Bohle/Béla Greskovits 2007b.: The State, Internationalization, and Capitalist Diversity in Eastern Europe. In: *Competition and Change 2(2), June* 2007, forthcoming.

2Most of the countries studied in the VoC framework are members of the Organization of Economic Cooperation and Development (OECD).

3To empirically establish the regime variation we consulted the following sources: EBRD Transition Reports. London: European Bank For Reconstruction and Development, various volumes; EuroStat database accessed online; COMTRADE database of the United Nations Statistics Division accessed online; Visser, Jelle 2005. *Patterns and Variations in European Industrial Relations.* Report prepared for the European Commission.

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Does Neoliberalism Work? Comparing Economic and Sociological Explanations of Postcommunist Performance

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At the onset of the transition from state socialism to market capitalism, Western-trained economists provided the postcommunist policy elite with the blueprint for constructing capitalism amid the ruins of communism. They created the Shock Therapy policy package which was adopted in some form by most of the postcommunist world. Shock Therapy was, above all else, a market-centered analysis: a successful transition to capitalism could be accomplished primarily by relying on the power of market forces, unleashed by the radical curtailment of the state's involvement in the economy. Whenever politically possible, "the market mechanism" would accomplish the tasks that, in the 1960s, most would have expected a developmental state to perform. Relying on the market, policy elites insisted, would unleash economic restructuring in the postcommunist world, leading to convergence with the West.

Despite this initial optimism, the postcommunist countries have fared much worse than anyone expected at the start of the transition. For most of the 1990s, economic performance outside of Central Eastern Europe and East Asian reform communist countries was disastrous: economic output has declined dramatically, and poverty skyrocketed. By the year 2000 male life expectancy in Russia was five years lower than it was 10 years ago, only 59.0 years, significantly lower than in China (68.64) and Vietnam (66.70). According to the U.N. population division, male life expectancy fell lower than the average in the "less developed regions." By 1992-1993 the death rate for working age men rose to the level found in war-torn countries of Africa like Sudan, Angola and Somalia, and by 2003 there were 170 deaths for every 100 births. A 2003 census – the first since 1989 – revealed that this demographic crisis translated into 7.4 million "missing" Russians.

Because of the prominence of fieldwork and network analysis in sociology, as well as the practical difficulties and expense of doing comparative surveys, the most prominent accounts are single-country studies. It is not surprising, therefore, that most sociologists have not developed a theory that can explain the observed variation in the postcommunist world. This void was filled by neoliberal scholars in the new field of "transition economics."

Neoliberal Theory

Neoliberals argued that free markets and rapid privatization, in a stable monetary environment, would transform the inefficient state-owned enterprises (SOEs) inherited from socialism into dynamic capitalist firms. Neoliberals advocated a policy package commonly referred to as Shock Therapy, which prioritized stabilization, liberalization, and privatization programs. As the European Bank for Reconstruction and Development (EBRD) put it, "private ownership would ensure profit-oriented corporate governance, while liberalization of trade and prices would set free the competitive market forces that reward profitable activities. Firms would have therefore both internal and external incentives to restructure" (1999: 167). It went without saying that price stability was also required to make rational calculations possible.

In addition to their economic logic, neoliberals had a political reason for supporting Shock Therapy. They believed that after the fall of Communism there was a period of "extraordinary politics" during which politicians could demand great sacrifices from the population. Leading neoliberals argued that if politicians did not seize this opportunity by implementing radical market reforms, especially the rapid privatization of SOEs, they risked the formation of an anti-reform coalition consisting of managers and workers of SOEs that would indefinitely postpone the transition to capitalism.

Neoliberals saw their blueprints enacted. "[T]he majority of countries in the former Soviet Union and in Central and Eastern Europe adopted what can best be described as shock therapy or the big bang approach …" (UNDP 1999: 30). And to this day, there has been very little change in the World Bank's or the International Monetary Fund's (IMF) approach to development policy. Monetary stabilization along with rapid liberalization and privatization are still pieces of the standard policy advice. It is noteworthy that the U.S. invited Yegor Gaidar, the Finance Minister who oversaw Shock Therapy in Russia, to advise the economic reconstruction of Iraq, including the privatization of its oil industry.

For most neoliberals, there is no need to re-think this policy package. They argue that the worst performing postcommunist countries did not adequately implement some portion of the Shock Therapy package. The policy package was fine, they argue, it just wasn't implemented because of bad leadership. Another line of defense that has been increasingly made after 1997 was that Shock Therapy was fine, but to be successful required an adequate institutional environment. So it was not bad policy, but bad institutions. A slew of econometric analyses were produced to demonstrate these points.

A Sociological Alternative

In the sociological tradition, unlike the neoliberal view, the state and the market are not seen as mutually exclusive. In the Weberian school, the "modern rational capitalism" requires not only market-dependent producers and free wage-laborers but also a well functioning bureaucratic state. By establishing strong property rights and enforcing contracts the state reinforces the market-dependent behavior of private actors by allowing them to make long-term economic calculation. The existence of a functioning bureaucracy precludes the resort to the process that Weber called "political capitalism" – corrupting officials obtaining opportunities for profitable activity.

In addition, as we know from theorists of late development, states can greatly facilitate both investment and innovation in the private sector. They provide investment funds for enterprises not available from the private sector to capture economies of scale. They stimulate domestic accumulation by shielding the home market from more advanced foreign producers. And they promote industrial upgrading by providing an educated workforce and support for research and development that is too expensive for any particular firm to undertake via industrial policy. As Peter Evans' (1995) claimed, the state needs "embedded autonomy" to facilitate the development of productive forces by the private sector. Often, the state promotes various types of "open industrial policy" that combines state support with trade liberalization.

From this perspective, Shock Therapy does more harm than good, precisely because it weakens the state, creating conditions under which corruption flourishes and a developmental state is bound to degenerate into rent-seeking. Shock Therapy creates supply-and-demand shocks that devastate the financial position of postcommunist firms. These firms are subsequently unable to restructure their production to be competitive on international markets or the liberalized domestic market. This leads to a decline in output, the lowering of the technological profile of production, and the retreat to non-market integrating mechanisms like barter. These processes drastically lower tax revenue, creating a severe fiscal crisis of the state, which in turn leads to the weakening of its bureaucratic character and the erosion of its support for the institutions that are necessary for modern capitalist development. The result is a system of predominantly capitalist property relations (albeit with a significant non-capitalist sphere) without a bureaucratic state. The neoliberal policy package, therefore, facilitates the rise of a type of capitalism incapable of generating dynamic growth or ensuring the welfare of the population, and instead produces what Michael Burawoy calls an "involutionary" outcome (see King 2002, 3003; King/Szelenyi 2005; King/Sznajder 2006).

The Consequences of Shock Therapy

The negative shocks to the domestic economy, which follow rapid liberalization of prices and foreign trade, as well as the shock associated with the austerity of "stabilization" programs, have been extensively discussed by critics of the Washington Consensus. Given the often monopolistic structure of Soviet-style economies, rapid price deregulation will lead to a rapid increase in the prices of inputs, creating a serious supply shock as producers are unable to afford adequate levels of necessary inputs. The wholesale liberalization of imports created a large drop in aggregate demand for domestic producers, since they now faced global competitors – some more technologically advanced, and others with cheaper labor.

The shock produced by the fiscal and monetary austerity of stabilization packages is also well documented. With low monetary emissions, the radical curtailment of government subsidies, and the price of credit sharply increased, most firms run into severe cash-flow problems and a shortage of capital for investments and even day-to-day operations.

The third component of Shock Therapy, the implementation of "mass privatization" programs, has not often been directly criticized. In these programs, the government sold at a heavy discount, or simply transferred for free, a portion of the shares of SOEs to firm insiders. The remaining shares were purchased with "vouchers" or "coupons" the government had distributed for free or a nominal price to the population. Alternative types of privatization were seen as far too slow to work. Foreign owners could not be counted on to come in large enough numbers because of the uncertainty in the transition countries. At any rate, neoliberals worried about populist/nationalist opposition to such moves. Neoliberals also argued that hoping to restructure SOEs prior to privatization would take far too much time, and was bound to fail in its own terms. Moreover, a large SOE sector was seen as dangerous to stabilization efforts by creating demands for subsidies, and as fertile ground for a feared "anti-reform" coalition. Thus, Mass Privatization programs allowed large SOEs to be quickly privatized even though no class of domestic capitalists existed.

The most immediate consequence of this strategy is that *firms privatized though such programs will not have owners with sufficient resources to restructure them*. Without any capital to carry out desperately needed restructuring, and without the injection of any new managerial talent, many firms found themselves in untenable positions. Owners, managers, and workers, unable to work cooperatively to better their common cause, pursued short-term, self-serving strategies to accumulate wealth and survive the transition. Mass privatization also created minority owners with no capacity to monitor firm insiders or other owners. This was inevitable because the institutions that protect shareholder rights and help "make markets" in advanced capitalist systems did not exist. This combination led to large amounts of asset stripping, wreaking havoc on the functioning of many firms.

There was also the devastating shock resulting from the dismantling of the old COMECON trading system (the economic equivalent of the Warsaw Pact). Neoliberals insisted on this, since COMECON was the international extension of the communist plan, and thus did not reflect "real" prices. For many states, however, a vast majority of exports and imports were from former COMECON members, accounting for a large portion of economic activity. The breakdown of this trading system therefore disrupted supply chains and created a loss of markets.

These four shocks – the swift and extensive liberalization, stabilization, mass privatization and the loss of the COMECON trading system – all weaken firms. When these shocks overwhelm upstream producers of crucial industrial inputs, an additional supply shock occurs for downstream industries. Many industrial-supply firms had asset specific knowledge, producing goods with the knowledge of the specific, and often unique, needs of their purchaser. These types of suppliers will be very difficult or impossible to replace in the short term. Even if a firm finds a replacement industrial input, it will probably be produced by a foreign company, and the price will probably be too high.

As a result of the multiple supply and demand shocks produced by Shock Therapy, most firms suffered severe financial crises. Firms responded in a number of ways. There was a huge decrease in paid wages, made primarily through arrears but also through payment in kind. For example, in 1999 almost 37% of Russian firms still had wage arrears. Firms also reduced their demand for inputs, especially investment goods. As Table 1 indicates, there was a huge decline in gross capital formation throughout Eastern Europe and the Former Soviet Union. By the end of Russia's mass privatization program in 1994, investment was only 30% of its 1990 level. By 2000, it was only 18% of its 1990 level, the same level of decline as in Ukraine.

As economic activity declined, tax payments shrank. In Russia, for example, receipts of the consolidated state budget declined from 41% of GDP in 1990 to only 26.8% in 1997, even as real GDP was halved (Vorobyov/Zhukov 2000: 5; EBRD 1999: 73). As a result, both state orders and state payments (for the remaining orders) collapsed, producing another major demand shock for firms. As Table 1 indicates, the decline in total government consumption is generalized throughout the

Postcommunist world outside of Central Europe and East Asia.

This loss of revenues, combined with the neoliberals' hostility to industrial policy, resulted in a lack of support for the institutions that enable firms to restructure in order to compete on the liberalized domestic or world market in high value-added goods. An important instance of this occurs when the state stops supporting the institutions that turn out skilled manpower (especially young experts) and support R & D (King 2003). In only two years (from 1993 to 1995), the number of technicians in R&D per million of the Russian population fell almost 24%, from 905 to 688. While some of this is brain drain, case-study data indicates that much is also the result of a shortage of new technicians (King 2002). Table 1 contains a measure of the decline of scientists during the 1990s. Russia's level fell by 19% from 1994 to 1999, which was after the biggest decline probably had already occurred.

These multiple shocks did not drive firms completely out of business, thereby freeing up resources to re-allocate to more efficient uses as neoliberal theory predicted. Instead, managers reactivated old network ties to managers at other firms. These ties were created through formal integration in the old economy, or were informal ones created to engage in barter to compensate for the scarcity of inputs in the shortage economy. These networks allowed the firms to withdraw from the market through inter-enterprise arrears, debt-swaps, and barter. This activity decreased the efficiency of transactions

Table 1: Firm Behavior and Restructuring

	% of Firms Using Barter In 1999	Change in Gross Cap Formation 1990-2000 constant 1995 US$	Change in Final Gov. Consumption 1990-2000 constant 1995 US$	Change in Scientists and Engineers in R. & D. per mill. 1992-99[1]
Russia	69.3%	-82%	-25.5%	-29%
Belarus	68.21%	-82%	-19.3%	-30%
Ukraine	67.9%	-46%	-27.2%	-26%
Kazakhstan	57.8%	-83%	-39.0%	NA
Uzbekistan	31.7%	NA	NA	NA
Romania	27.2%	-46%	+16.2%	NA
Bulgaria	33.8%	-34%	-56.4%	-71%
Czech Republic	25.9%	+24%	-23.0%	-32%
Slovakia	40.6%	+39%	-2.7%	-15%
Poland	33.6%	+92%	+16.7%	+19%
Hungary	10.3%	+83%	+16.7%	+5%
Slovenia	86.4%	+121%	+33.8%	-25%
China	NA	+184%	+166.1%	+30%
Vietnam	NA	+455%	+78.0%	NA

Note: Change in scientists and engineers in Slovenia is for 1992-1998, Russia 1995-1999, Ukraine 1995-1999, Belarus 1992-1996, China 1994-1996. Policy data comes from historical summaries presented below. Barter and wages come from the World Bank's BEEPS survey. Capital formation, government consumption, and scientist and engineer data come from World Bank 2002 (CD-ROM).

(because typically a middleman must be used), shielded firms from market pressures (because business partners are based on network ties, not price considerations), and made taxation very expensive and highly problematic (in-kind taxes are difficult to collect and easy to overvalue). Table 1 lists the extent of barter in 1999, based on a firm-level survey conducted by the World Bank and the EBRD.

The loss of tax revenue from enterprise failure, exacerbated by the rise of non-monetary transactions, inevitably weakened the state. As the state was increasingly unable to meet its formal obligations, it began to break down. Poorly paid (or unpaid) state officials are easily corrupted. The bureaucratic nature of the state decomposed as it became riddled by patron-client ties between government officials and businessmen. Private market success came to depend to a great extent on arbitrary political decisions and the exercise of private force.

The Evidence

When assessing economic policy we must keep in mind other determinants of performance. One important factor is the initial level of development. Switching resources from traditional agriculture to industry provides enormous one-time gains in labor productivity, since human muscle is greatly multiplied when put to work behind machines. Conversely, once industrialization has been achieved, more developed countries should have a greater stock of human capital and a more developed infrastructure, and therefore should have an advantage in global markets relative to the less developed societies. Countries with higher levels of foreign debt and greater integration into the COMECON system at the start of the transition will have a more difficult transition.

Measuring State Performance

It is notoriously difficult to provide a reliable and valid measure of the bureaucratic nature of the state or of state capacity. Table 2 provides several attempts at such measures. The EBRD Governance Indicator is a composite score ranging from 1 to 3, based on a survey that averages firms' perceived hindrance resulting from microeconomic factors, macroeconomic factors, physical infrastructure, and law and order (EBRD 1999: 116). Another indicator is tax revenue as a percentage of GDP; a strong state can extract more resources from society than a weak one. Strong bureaucratic states also protect property rights and contracts. The scores in Table 2 are the combined answers of "Strongly disagree" and "Disagree" to the question "To what degree do you agree that the legal system will uphold contracts and property rights?" Finally, the change in state capacity is captured by the increase in registered total crimes, since a state with greater capacity can prevent or deter more crime than a state with less capacity. However, in weaker states, fewer crimes will be recorded, and they are likely to be more serious and violent (UNDP 1999: 23). These indicators, while very far from perfect, give us some purchase on relative state capacity or strength of bureaucracy.

It is clear that in every region of the postcommunist world the countries that came the closest to the neoliberal blueprint (often because they carried out mass privatization schemes) had worse growth performance, less state capacity, and weaker property rights. This is so despite the generally advantageous starting position of the more radical neoliberal reformers, as can be seen from Table 3.

In the European parts of the former Soviet Union, who would have predicted that Belarus would outperform Russia and Ukraine in economic growth? Or that Uzbekistan would outperform the much more modernized and Westernized Kazakhstan in the protection of property rights? Or that the Czech Republic would perform worse than any other country in Central Eastern Europe, despite its history as the industrial heartland of the Austro-Hungarian empire?

In another analysis (King/Hamm 2005), we show that this finding holds for growth, and the Governance Index and Property rights variables for 25 postcommunist counties. We used a simple OLS regression focusing on the neoliberal policy which varied the most, i.e. the Mass Privatization programs, as the independent variable (there was not enough variation in the other policies to get statistically significant results). We include a number of additional control variables (war, oil wealth, democracy, other transition policies, population, prior level of development, and a dummy for Central Eastern Europe and the Baltics). We use change in GDP per capita and our two measures of state capacity as the dependent variables. We find that countries that implemented the neoliberal's Mass Privatization programs, everything else equal, grew about 49% less, and had a large deficit in state capacity and the protection of property rights and contracts.

Table 2: Measures of State Capacity, Security of Property Rights, and Transition Policies

	Neoliberal Reforms SP/SL/SS	Tax Rev. as % GDP 1994	% Above Regional Avg. Increase in Registered Total Crime 1989-1996	EBRD Governance Index (1-3) 1999	Insecure Property Rights 1999
Russia	SP/SL/SS	19	-17	1.16	41.6
Belarus		33	3.2	1.57	30.4
Ukraine	SP/SL/SS	22 (1999)	9.2	1.24	44.0
Kazakhstan	SP/SL/SS	14 (1997)	158	1.27	31.0
Uzbekistan		NA	-60	1.83	9.6
Romania	SP/SL/SS	26	32	1.07	21.6
Bulgaria	SL/SS	30	-32	1.38	20.0
Czech R.	SP/SL/SS	33	78	1.59	23.3
Slovakia	SL/SS	35 (1996)	17	1.65	14.0
Poland	SL/SS	35	-11	1.69	10.3
Hungary	SL/SS	38	18	1.98	12.0
Slovenia	SL/SS	39	-4.2	1.95	11.4
China	NA	8	NA	NA	11.0
Vietnam	SL/SS	19	NA	NA	NA

Note: *SP* (Shock Privatization) = Privatized at least 25% of large SOEs under a mass privatization program within two years. *SL* (Shock Liberalization) = Liberalized at least 75% of imports and domestic prices within two years. *SS* (Shock Stabilization) = Implemented an IMF approved stabilization package.Insecure property rights is the percentage in the World Bank's World Business Environment survey that reorted that they disagreed in most cases or strongly disagreed that the legal system will uphold contract and property rights. Governance Index is from World Bank 1999; revenue data from World Bank 2002 (CD-ROM). Crime rates from UNDP (1999: 24). Transition policies from historical narratives.

Table 3: Economic Policy, Initial Conditions, and Performance in Post-Communist and Reform-Communist Countries

	Neoliberal Reforms SP/SL/SS	GDP Per Capita 1990 in constant 1995 US$	Trade with CMEA as % GDP 1990	External Debt 1989 Per Capita current US$	Avg. GDP Per Capita Change 1991-2000 (in 1995 US$)	EBRD Governance Index (1-3) 1999	Insecure Property Rights 1999
Russia	SP/SL/SS	$3,666	11.1%	$364	-3.5	1.16	41.6
Belarus		$3,057	41.0%	NA	-0.5	1.57	30.4
Ukraine	SP/SL/SS	$1,969	23.8%	$11	-7.1	1.24	44.0
Kazakhstan	SP/SL/SS	$1,995	20.8%	$2	-2.5	1.27	31.0
Uzbekistan		$611	25.5%	$3	-2.0	1.83	9.6
Romania	SP/SL/SS	$1,702	16.8%	$473	-1.8	1.07	21.6
Bulgaria	SL/SS	$1,716	16.1%	$1,126	-1.4	1.38	20.0
Czech	SP/SL/SS	$5,270	6.0%	$636	0.1	1.59	23.3
Slovakia	SL/SS	$4,048	6.0%	$365	0.4	1.65	14.0
Poland	SL/SS	$2,990	8.4%	$1,134	3.7	1.69	10.3
Hungary	SL/SS	$4,857	13.7%	$2,040	1.3	1.98	12.0
Slovenia	SL/SS	$9,659	4.0%	NA	1.9	1.95	11.4
China	NA	$349	2.3%	$40	9.0	NA	11.0
Vietnam	SL/SS	$206	15.0%	$319	5.5	NA	NA

Note: SP (Shock Privatization) = Privatized at least 25% of large SOEs under a mass privatization program within two years.
SL (Shock Liberalization) = Liberalized at least 75% of imports and domestic prices within two years.
SS (Shock Stabilization) = Implemented an IMF approved stabilization package.
Source: Historical summaries and previous tables.

Conclusion

Neoliberals invoke two arguments to explain the post-communist variation, while still preserving their advocacy of the neoliberal reform package (i.e. as much liberalization as quickly as possible). The first is that some countries had bad leaders who didn't faithfully implement the shock therapy package. The second, which began to be made in the late 1990s, is that "institutions matter" – what was required was not only good policies, but the proper institutional setting. We show that the comparative record invalidates both these defenses. Policies do matter, but the causality is reversed. The more neoliberal the policy, the worse the economic outcome. Institutions do matter, but the evidence shows that the more neoliberal the policy package, the more damage done to the institutional order.

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Dress for Success? Entrepreneurial Careers in the Romanian Garment Industry

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Since the early 1990s, economic transformations of the former socialist countries have rapidly become an important field of research. Many neo-institutionalist economists paid special attention to macroeconomic reforms, especially privatization, and tried to analyze the impact of government's choices on firms' results (Vincensini, 2003). Or, as massive social changes occurred, other economists switched the focus on entrepreneurship and scrutinized more carefully the creation of new firms (McMillan and Woodruff, 2002). Because the emergence of new markets was not fully predicted either by local or Western analysts, economists concluded only recently that "entrepreneurs have a central role in transition economies".

Yet, some social scientists have always thought that entrepreneurs are the key to understanding the East European transformations (Staniszkis, 1991; Rona-Tas, 1997; Szelényi, 1998; Hanley, 2000). The main purpose of these social scientists was to identify and to characterize the actors who were actually shaping the post-socialist capitalism(s), both in the State-owned enterprises and in the private sector. They tested several hypotheses concerning the origin of the new capitalists and made efforts in gathering empirical evidence and in systemizing their theoretical framework.

For the case of Romania, the theory of political power resource conversion was particularly dominant as an explanatory framework (Szelényi, 1998; Stoica 2004). According to this theory, former members of the Romanian Communist Party were supposedly benefiting the most from their previous connections in setting up and operating big companies. Consequently, "the ghost of the defunct party organization" (Rona-Tas, 1994) seemed to have strongly influenced the most important economic outcomes in Romania.

Despite this interesting assumption, the notion of "political capital conversion" remained a black box for these sociologists. The basic point that I would like to make in this paper is that in order to provide a comprehensive explanation of the post-socialist entrepreneurial activities, social scientists must try to open this black box and if so, they should make two major methodological adjustments.

First, national statistical surveys which are predominant should systematically be completed by extensive qualitative data (i.e. face-to-face interviews). After 1989, Eastern European capitalists were simply described by very general statistical information (age, gender, residence, number of years of education, occupation before 1990, declared political commitment before 1990, etc.). But in-depth information about their work experience, career's choices or their personal network has been missing. Second, the existing literature tends to oppose the Hungarian or the Polish manager to the Romanian or the Russian businessman, rather than focus on sectoral differences. Running a bank or an oil company is not exactly the same as running a car plant or a textile enterprise. Therefore, one might expect to find significant differences in the ways of converting "political capital" (or other types of social resources) depending on the sector of economic activity. Most social scientists agree with this point, but keep examining only general differences between industry, services sector and agriculture or between full time and part time entrepreneurship (Rona Tas, 1994; Rona Tas, 1997; Szelényi, Eyal and Townsley, 1998; Laki, 2003; Stoica, 2004).

Considering the limits of the existing literature, my paper aims to advance our understanding of the post-socialist capitalists by presenting here some partial findings from my PhD research on Romanian entrepreneurial careers from the garment industry.

The case of the garment industry is particularly interesting for several reasons. Under the centralized economy, this field of activity had a peripheral position as compared with the heavy industry (machine manufacturing, mining, etc.). Technological investments were limited and highly qualified personnel was less numerous than in the heavy industry. After 1990, the garment industry in Romania experienced a rapid privatization and by the mid 1990s, it became a leading industry, with exports growing considerably. In 2004, this sector contributed more than 5% to GDP, 10% to GNP and over 35% to Romanian exports.

The success of the Romanian garment manufacturing considerably contrasts with the negative picture of Romania's economy depicted until recently by many observers (Fish 1998; Szelényi, Eyal and Townsley, 1998; Ahrend and Martins, 2003; Stoica, 2004). If the Romanian privatization programs have been slowly implemented after 1989, the case of garment industry proves that different privatization strategies are possible in the same national framework. Furthermore, taking into account the general supposition of "political capital conversion", one may expect that the former members of the Romanian Communist Party would be overwhelmingly represented in this flourishing sector. But, as I reported elsewhere (Surubaru, 2004), the majority of garment entrepreneurs from Brasov district had no real political commitments (or responsibilities) before 1989. These unexpected findings about the origin of many Romanian garment's entrepreneurs from the city of Brasov encouraged me to extend my study to the national scale.

Consequently, during my PhD research I constructed a representative sample of the biggest Romanian garment companies in order to carry out interviews with managers. Since 2004, I conducted 23 in-depth face-to-face interviews and I participated at several events which involved garment entrepreneurs (business group meetings, professional fairs, etc.). To complete this information, I reviewed professional press (from 1998 until 2006) and I discussed with economic journalists specialized in the garment industry related issues.

The next sections present the first results of my research. In spite of the great diversity of entrepreneurs' situations, three types of entrepreneurial careers are recurrent. If the three of them contradict to some extent my initial thesis about the lack of the former political commitments and responsibilities of garment entrepreneurs, they also shows how particular markets' configurations enable entrepreneurship to turn this political capital into valuable resources when they know how to mobilize it and combine it with other types of social capital.

The notion of "entrepreneurial careers" describes here the interaction between specific institutional arrangements and selected social actors. The entrepreneurial activity is not only the result of successive individual choices, but also the outcome of collective processes where different social worlds get punctually together and create temporarily a potential space of economic profit (Zalio, 2005). Individuals who are situated at this crossroad are then capable to identify this space of profit by mobilizing the heterogeneous resources that their particular location provides.

Romanian Garment Industry Before and After 1989

Before 1989, Romania's foreign trade was clearly dominated by commercial exchanges with other socialist countries. But by the mid 1960s, the Romanian Communist Party did not fully agree with COMECON's[1] decisions and decided to establish new relationships with Western companies as well.

If a Western European company wanted to subcontract in Romania, they had first to contact the Romanian government. After negotiating the terms of the contract with the highest Romanian officials specialized in foreign trade, they were directed towards a State economic board (*centrala*) which coordinated at national level the production of each type of good. For instance, there was a *centrala* for cotton products, a *centrala* for synthetic fibres, a *centrala* for garment items, etc. The board members decided together with the Romanian foreign trade professionals which factory would produce for Western markets and the foreign customer had no choice but to accept this decision if they wanted to proceed with the subcontract in Romania.

Some units of production, especially the biggest, were privileged in this process because the *centrala* repeatedly made the same choices and sent them the most important foreign customers. As a result, these enterprises managed to establish long-term relationships with Western European companies and became specialized in manufacturing high and medium quality brands. During the 1980s, the biggest enterprises generally had one or two regular foreign customers and several occasional ones.

In 1990, the new government abandoned the economic centralization function and got rid of the *centrale*. From that moment, enterprises were free to establish trade relationships with whoever they wished to. But facing this opportunity, the biggest Romanian garment enterprises reacted in different ways. Some of them succeeded in maintaining the old subcontracting relationships established before 1989 and, hence, during the 1990s, continued to produce as before. Other enterprises had real difficulties in approaching former customers and for this reason, they were rapidly confronted with two alternatives: either they accepted to replace the *centrala* by other go-between organizations, or they refused this and tried to find new customers by themselves. Because the domestic garment production was huge as compared to the domestic consumption, enterprises were forced to search for the Western European customers by any means, including intermediation, participation to expensive international fashion exhibitions, managers' personal trips aboard, etc.

Following these situations, entrepreneurial careers varied. Available loyal customers mostly led former communist *cadres* to consolidate their positions inside companies and prevented from massive organizational changes. Even if the former top management was evicted after the breakdown of the communist regime, the middle management remained in place and pursued the same strategy as before 1989: stabilizing relationships with one or two foreign customers. For this case, the political capital conversion thesis is valid, but one must acknowledge that this politically-derived resource is closely related with the organizational knowledge that middle management acquired during the 1980s. This knowledge is a local one and highly depends on the conditions of production which characterize each particular factory. Therefore, it cannot easily be transferred or converted elsewhere.

In the second case, the Romanian companies did not succeed in negotiating directly with their former customers. New emerging entrepreneurs benefited from this failure and set-up structures that resembled the former *centrala*'s activities. Mainly ex-members of foreign trade ministry or State-owned foreign trade enterprises, these entrepreneurs became during the early 1990s the most important experts in intermediary services for clothing manufacturing. By mobilizing general organizational knowledge about Romanian production factories and personal connections with indigenous and foreign managers, these new entrepreneurs were particularly innovative. They diversified their field of activity and established several companies, including modern garment factories.

For the companies which could not maintain trade relationships with old customers, the emergence of these competitors was a serious problem. Instead of being direct subcontractors for Western companies, many former socialist factories were forced to become indirect subcontractors, working exclusively for those new entrepreneurs. However, some former socialist factories without loyal customers followed a different strategy and did not accept indirect subcontracting. Despite economic crises, these companies managed to survive and most of them finally found new foreign customers. In this case, entrepreneurial careers are more heterogeneous and it seems more difficult to generalize. Nevertheless, the communist middle management generally replaced top management and struggled to improve products' quality. In some cases, post-communist managers actively looked for a foreign partner and when they succeeded, the new investment saved the company. In other cases, Western European companies, which did not subcontract in Romania before 1989, approached the biggest garment manufacturers and established new trade relationships. Because subcontracting in Romania became very attractive by the mid 1990s, this category of entrepreneurs needed no longer to worry about finding new customers.

To illustrate the differences between these post-socialist entrepreneurial careers, I chose three representative examples. These empirical data give a comprehensive look of how economic actors mobilize heterogeneous resources and confirm that "the political capital conversion" is only a part of the story.

Old Customers-Suppliers Relationships and Local Organizational Knowledge

Confectia Company[2] located in a small Romanian town, enjoyed a rather special situation since its beginnings. In 1971, the communist government established excellent subcontracting relationships with a French company. But, instead of redistributing the orders to the existing units of production, the government built two modern factories in order to become the exclusive subcontractors of the French company. Production was therefore organized in accordance with Western quality standards and foreign technicians frequently visited the factory.

Even if the French contracts were signed by the highest Romanian officials, *Confectia*'s management benefited from a relative autonomy in organizing production. Thus, national economic authorities, including the *centrala*, intervened less than usually.

"Sometimes the centrala *criticized our production methods and asked us to rationalize differently the raw materials: use less tissue, don't throw rebuts away, etc. But I always explained them that here we have to work as our French customer wants…finally, they had to agree with me and stopped*

asking for changes." (interview 12, female, former Chief in Production, now Production Manager, 2005).

Yet, in the 1980s, *Confectia* was forced to diversify its products and began to export to USSR, too. Top management started to be more closely involved in *centrala*'s activities and learned how the international socialist market was functioning. Meanwhile, the production for the French customer continued as before and the Chiefs in Production acquired more organizational responsibilities. By the mid 1980s, these persons travelled to France and received training for the new technologies that the French company had brought from Western Europe to Romania.

The breakdown of the centralized economy did not affect the relationship with the Western customer. Orders slightly increased and former *cadres*, including top management, maintained their positions. The Soviet customers disappeared and were replaced by occasional Italian ones. Consequently, the number of employees decreased after 1989 from 3 000 to 2 077, out of which 1 500 are involved in the production of the French brand.

The first serious changes happened only in 1995. The old general manager, who explicitly retarded the privatization process, retired and a former member of middle management took his place. Ionescu, the new manager, a fifty two year old male, had a strong support from other former members of the middle management, mostly engineers. They decided together to privatize the company by using the Management/Employee Buyout strategy (MEBO) and one year later, the process was completed. After that, shareholders were extremely diffused and corporate control was never transparent. The entrepreneurial coalition of former engineers possessed only 8% of the shares, but they began to act as if they were the real owners of *Confectia*.

The consequences of this switch of power were important. First, the company was no longer State's property and new managers were free to develop more dynamic strategies. Then, the renewal of top management was likely to bring more organizational changes in order to reinforce *Confectia*'s privileged relationships with Western customers. But as an employee put it, the effects of this new configuration of power were mitigated.

"After privatization, some people in the company managed to buy some shares, but of course, they already had a good position: they were engineers. Nowadays, they are the real owners of the company and decide about our future. Unfortunately, I think they are not really interested in improving Confectia*'s economic situation. Instead of modernizing the company or raising wages, they invest the profit in all kind of businesses (medical engineering, retail and so on). As a workers and a shareholder of* Confectia, *I have no say, I accept everything because I don't have any other choice, the rate of unemployment is quite high in our region and for an older woman like me, there are no jobs!" (interview 13, female, former worker, now team leader, 2005).*

As a matter of fact, in 1997, Ionescu tried to diversify *Confectia*'s activities and invested the company's profit in building a syringe factory in another Romanian town. As the business failed rapidly, the factory's construction was not finished and *Confectia*'s investment was never recovered.

Afterwards, Ionescu explained to the shareholders that "doing business in a big town is not the same as doing it in a small town" (interview 10, Ionescu, 2005). He convinced his partners to invest in a small general store, situated next to *Confectia*'s workshops. He said that "*Confectia*'s workers will be perfect customers for the new store" and he personally promised to encourage employees to buy those goods. But workers did not respond to Ionescu's expectations and one year later, retail business got bankrupt.

The repeated failures of Ionescu's entrepreneurial initiatives outside *Confectia* show that converting local organizational knowledge is not always easy. If Ionescu managed to take the power inside the company, he was not so successful in doing business in other fields of activity. His professional experience and personal connections turned out to be irrelevant in medical engineering or retail operations.

In 2002, Ionescu started again a new business together with the former Local Police Chief, whose wife was actually the accountant of *Confectia*. But this time, Ionescu and his associates finally mobilized theirs specific organizations skills and opened a garment factory.

However, this project corresponded to a severe deterioration of French orders. During the 1990s, an American multinational bought the French company and started to reorganize the entire garment supply chain. New Eastern European subcontractors were found and *Confectia* progressively lost orders. Anticipating a deep crisis, Ionescu understood that big garment factories are no longer profitable.

*"*Confectia *is a mammoth. Nowadays, the Western customers need rapidity and high quality goods. We can't do this here, technology is obsolete and people are not motivated. That's why we invested in a new company and we hired only the best 200 workers from* Confectia. *The old French customer was delighted to work with the son of* Confectia.*" (interview 10, Ionescu, 2005).*

The loyalty of Western companies is thus relative. But old customer-supplier relationships enable entrepreneurial activities and new managers legitimately convert organizational experience into valuable capital. Because the frontier between executive and control functions was particularly blurred inside MEBO privatized companies, original entrepreneurial careers emerged and managers without majority of shares often became the new capitalists.

General Organizational Knowledge and Particular Windows of Opportunity

Next Clothing Company is located in Bucharest and belongs to a holding of companies owned by Popescu, a thirty eight year old male. *Next Clothing* was established in 1999 and employs around 750 workers. Specialized in medium and high quality ready-to-wear products, the company has had several Western customers since its beginnings.

The development of this company is closely related to the personal trajectory of Popescu, both owner and manager. Being rather an exception in the Romanian garment manufacturing, this type of entrepreneurial career, however, raises fundamental questions about the social conditions of emerging new businesses and surviving old ones.

Originally from Bucharest, Popescu graduated in Foreign Trade from Bucharest University of Economic Sciences in 1989. His first job was in a State-owned import-export enterprise. At that time, Popescu was in charge with administrative functions and followed a small part of French garment orders. When the State-owned enterprise was transformed in 1990 into a shareholding company, Popescu lost his job. Soon after, he got a job in a big Romanian garment factory, but he quickly abandoned it for starting his own business.

If working for the import-export enterprise was an excellent opportunity to acquire practical knowledge about foreign trade under a centralized economy, Popescu's first job was also a unique chance to make acquaintance with the Western companies already interested in subcontracting in Romania. At the beginning of the 1990s, most of the managers had no access to this type of information and their knowledge was limited to the customers sent by the central economic authorities. As a result, many former employees of the State-owned companies specialized in foreign trade became successful entrepreneurs.

Popescu's second work experience was also important because it gave him a chance to meet Lupescu, an elderly man who just lost a position among the company's top management. Former member of the Communist Party, Lupescu was not fired by the new manager but demoted to a lower responsibility position. Meeting Lupescu was crucial for Popescu's entrepreneurial career because the Lupescu was a great specialist in garment manufacturing and had a comprehensive knowledge about the Romanian enterprises.

First, Popescu established a firm of commission agents and hired Lupescu as a part-time consultant. Combining his personal knowledge about the Western companies and Lupescu's information about the Romanian production, Popescu convinced foreign customers to subcontract in Romania and persuaded the indigenous managers to accept the terms of the contract that he himself negotiated. In return, he received a commission. The enterprises which lost theirs customers after 1990 welcomed this initiative and contributed to Popescu's business welfare.

Progressively, Popescu extended his field of activity and invested in wood processing. He bought a company located in a hilly village and designated his cousin to run the business. Nevertheless, he continued to be mainly interested in the garment manufacturing and in 1999, he decided to open his own factory:

"When a French manager told me that he was selling a part of his factory's equipments, I thought that this was a great opportunity for me. I was tired of arguing with the Romanian managers about the bad quality of their products. Having my own factory was very important for me because from that moment on, I was able to control all the sequences of production." (interview 22, Popescu, 2006)

In 2002, benefiting from the reorganization of another French company, Popescu established a small knitting factory with 120 employees and designated Lupescu as the manager. Nowadays, the two factories are located in the same building and share six Western regular customers.

In spite of Popescu's statements, his business was not completely transformed by the opening of these factories. He continued to act as the intermediary agent and more than 25 Romanian companies are now depending on his orders.[3]

This type of entrepreneurial career shows how the former organization of the garment industry generates a window of opportunity for selected economic actors. Making profit by restoring past activities, Popescu finally reshaped the Romanian garment manufacturing by complicating the subcontracting process. A new structure of power emerged inside the Romanian sector and direct subcontractors, such as *Next Clothing*, became dominant players (Fligstein, 1996).

Combining Local Organizational Knowledge and Foreign Capital

Moda Company is located in a large town, in the northwest of Romania. The factory exists since 1949 and represents one of the first communist investments in the garment industry. During the 1960s, *Moda* increased its production and specialized in military ready-to-wear clothes. Then, during the 1970s it turned to produce clothes for women, men and children for the Eastern European and Soviet market. In addition, the *centrala* occasionally sent to them some Canadian and American customers.

Unlike the Western companies' socialist subcontractors, this type of enterprise possessed a design workshop. Despite *centrala*'s severe price and raw material control, before 1990 *Moda* was free to create and to sell collections on other socialist markets. Top management was directly engaged in establishing contacts in these countries and participated in the *centrala*'s activities.

After 1990, the company lost all the old customers, except for the Romanian army. Several financial crises shook the company, but the State intervened and the business survived. By the mid 1990s, some Italian and German companies contacted *Moda* and established sporadic subcontracting relationships.

Meanwhile, Petrescu, the former technical director, a fifty year old male, left the company and created a small ready-to-wear workshop of 25 employees. In spite of his good technical skills, he ignored the functioning of foreign trade and in the beginning had to accept only insignificant local orders. However, in 1993 he finally succeeded in signing a contract with an Italian brand and as a result, the workshop developed into a modern factory of 300 employees.

By mid 1990s, this company was a real successful business. But Petrescu had greater ambitions and wanted to return to *Moda*.

"*I worked 30 years of my life at* Moda. *Even though I was happy to be on my own, I missed the atmosphere of a big factory. Working for* Moda *was an every day challenge and I enjoyed it. But it isn't easy to come back, once you leave, you lose contact with people. They don't trust you anymore… I knew that* Moda*'s executive board didn't want me back so I did all I could to make them aware of my strengths and so… to accept me*".

Petrescu did not possess enough capital to buy *Moda*. Therefore, he actively looked for a Western investor and in the end, he convinced a German business woman to help him obtain the majority of *Moda*'s shares. At that time, nobody thought that *Moda* was worthy and for this reason, the capital invested was in fact less important than expected.

Petrescu abandoned his own factory and invested time and money in restructuring *Moda*. He upgraded technologies, modernized the design workshop, fired reluctant middle management, and hired young personnel. His German partner sustained this strategy and for her part, persuaded several Western clothing brands that Petrescu was a serious subcontractor. Moreover, the German investor promoted abroad *Moda*'s unique capacity of providing design assistance, if needed. As a result, three Western companies became regular customers and saved *Moda* from bankruptcy.

Considering this, one may notice that technical skills and local organizational knowledge are valuable resources in setting up new businesses. Nevertheless, in the case of former socialist companies which lost customers after 1989, these resources are insufficient. The intervention of foreign capital is thus decisive and newly established personal connections with Western investors contribute to reinforce the position of particular entrepreneurs.

Conclusion

The first results of my PhD research suggest that past institutional arrangements (i.e. foreign trade before 1989, *centrala*'s intermediation activities, etc.) structure post-communist economic outcomes and enable particular social actors to mobilize specific skills or networks in order to make a profit. The three entrepreneurial careers analyzed here illustrate how after 1989 the former political engagement can be converted into valuable entrepreneurial resources. For the first case, "the political capital conversion" turns out to be a direct result of the consolidation of a local pre-existing alliance (Ionescu and the others engineers). For the second case, the former political engagement seems relevant only indirectly. (In the illustrative case presented, Popescu is only a young graduate in 1989 but he benefits from a former top manager's expertise.) Finally, the last case shows that 'political capital' and local networks are sometimes poor resources for running a big company, and that technical knowledge and external support (from foreign investment) are more important. (Petrescu is a highly skilled technician who succeeds in setting up alone a small company, but needs external support (foreign direct investment) when he wants to return to Moda.)

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Endnotes

1The Council for Mutual Economic Assistance (COMECON) was an economic organization composed by several communist states (Bulgaria, Cuba, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, Vietnam and the Soviet Union) which encouraged exclusive exchanges between its members. Created in 1949, it was disbanded in 1991.

2For the purposes of confidentiality, all enterprises and entrepreneurs' names were changed.

3Interview 23, female, manager of a subcontracting company of Next Clothing.

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Networks and Institutions in the Economic Transformation of Post-Socialism: Harriman Institute Project, Columbia University

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Motivations

In September 2006, the Harriman Institute at Columbia University launched a year-long initiative on "Networks and Institutions in the Economic Transformation of Post-Socialism" led by David Stark. The initiative has brought together a group of scholars to study the role of politics-business ties in the economic transformations taking place in Russia and Eastern Europe. From different perspectives, these scholars explore how rapid political and economic reforms in the first years of post-socialism led to the emergence of powerful economic actors, well-connected politicians, and fluid and contested institutions.

The central agenda of transition has been the transformation or replacement of socialist-era institutions with new ones suited to governing markets and democratic polities. Against most expectations, sixteen years after the process of reform began, the region is still dominated by highly politicized markets, privately influenced politics, dense formal and informal connections among a core of key actors. While 1989 scrambled the social and cultural order of late-socialism, institutional transformation took place as members of shifting networks attempted to reconfigure their social capital and fought to retain their political influence through the process of transformation. Whereas it is often assumed that the business tycoons of the 1990s are solely responsible for distorted political outcomes, politicians also regularly use their relational and institutional power to interfere with the market. A key issue for scholars of economic institutions has been to understand how these new institutions took shape given the shifting but ever-potent force of social ties.

Questions

Among the questions the group is addressing are: what is the role of political actors in the market? What is the relationship between institutional design and social networks? How are state actors involved in institutional innovation affected by economic networks? Have institutional changes from the early postsocialist period acquired political support and survived? Did postsocialist institutional reforms require the support of powerful political constituencies? How are coalitions built between market actors and politicians?

These questions raise the subject of the social organization of firms and politicians for the purpose of pursuing political goals. Further questions are: What is the shape of enterprise to enterprise ties and how do these vary across our country cases? How is foreign direct investment related to inter-enterprise networks? Specifically, does foreign investment typically break up domestic networks or can it be integrated into these (restructured) networks? Can we identify politicized business ties? How do these vary across our country cases? Do we find, for example, some cases in which firms build and maintain close ties to a particular party that are relatively stable across the electoral fortunes and misfortunes of the party? Are there others in which firms break ties to a party that fails to stay in government and repeatedly form new ties to party/ies in power? Are politicized markets more likely to be a function of the early years of postsocialism or do we find cases where the politicization of the economy increases across the period?

Research

A core part of the project is research conducted by scholars brought to Columbia. With support from the National Science Foundation, David Stark and Balazs Vedres have constructed a very rich dataset on the Hungarian economy. For the critical years of transformation covering 1987-2006 these data include: 1) the complete ownership histories of the largest 1,800 Hungarian enterprises; 2) data on foreign investment in these firms, their revenues, capitalization, etc.; 3) the complete list of economic office holders (managers, and members of the supervisory boards and boards of directors) of the largest 1,800 firms and banks; and 4) the complete list of political officeholders in the country including the Prime Minister, all cabinet ministers, their politically-appointed deputies, the members of the last Central Committee of the Communist party, members of Parliament, and all mayors – with party affiliations of each politician. All changes of the corporate ownership and personnel data, as well as those of the political officeholders, are recorded at a monthly time resolution. With these data, Stark and Vedres aim to chart the complete network histories of interorganizational ownership ties, interlocking directorates, and personnel ties among enterprises and political parties for an entire epoch of political and economic transformation.

Although unparalled in their comprehensiveness, the Hungarian dataset does not exist in isolation. Substantial network data have also been collected for Slovenia, Poland, Romania, and Bulgaria. Partial, but very informative – because reaching back historically into the communist period – network data also exist for selected industries in the Czech Republic. Leveraging these data comparatively, we expect to discover differences in the way that the politicization of networks influences a variety of outcomes, from corruption and governance to patterns of innovation. Working together, the group will be able to draw on an unequaled number of country studies and complementary research to generate large-scale data-based knowledge about the network dynamics of post-socialism.

Activities

In addition to research, the project hosts a regular seminar series. In fall 2006, Gerard Roland, Gerald McDermott, Laszlo Bruszt, Federico Varese, and Keith Darden presented papers on topics ranging from the varieties of postsocialist capitalism to the spread of Russian mafia networks into Italy. For spring 2007, the seminar has invited Anna Grzymala Busse, Andrew Walder, and others to be announced.

In April, David Stark, Roger Schoenman and Balazs Vedres will convene a workshop related to the project theme. Titled Poli-ties, it will focus on the pattern of ties that link the polity to other social spheres. The workshop will seek to underscore the value of a network perspective in understanding the complexity of those linkages. Despite a long-standing recognition of the inseparability of markets and politics, relatively few scholars empirically study the personal and organizational interconnections between them. We propose to examine the relationship between the two key organizations of capitalism and representative democracy: the firm and the political party. Whether in the United States, Latin America, East Asia, or the postsocialist countries, to compete in the political field governing parties need to manage the economy, and all political parties need access to resources. Meanwhile, to compete in the economic field, firms need access to government contracts and to timely information about government policies. In short, to gain resources to compete for votes, parties compete for firms. At the same time and in parallel, to gain an upper hand in economic competition, firms ally with parties. The purpose of this workshop is to bring together scholars who study the multiplex networks of obligation and exchange that link the political and economic fields.

More information about the project, seminar, workshop, and participants can be found at
http://networks.harrimaninstitute.org/

A Note on Max Weber's Unfinished Theory of Economy and Society

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I.

Max Weber's two most important contributions to economic sociology appeared only posthumously. Both contributions, the *Fundamental Concepts of Economic Action*, which appeared in *Economy and Society* (Weber 1990), and his *General Economic History* (Weber 1991), featured a definition of *Wirtschaften*, of economic action, which went almost unnoticed, even though Weber had given it a good deal of attention in his comments in *Economy and Society*. He had also started to rewrite his *Herrschaftssoziologie*, his political sociology, due to certain consequences stemming from that definition. As far as I can see only Talcott Parsons discussed this definition of *Wirtschaften* in his book on *The Structure of Social Action*, noting that Weber made it difficult for others to see its scope by taking it up in separate chapters on the economic and the political sociology (Parsons 1968: 654-656). Wolfgang Schluchter reexamines carefully the problematic division of *Economy and Society* into two parts, a newer one (1918), as the first part, and an older one (1914), as the second part, which is the way the book was divided by Marianne Weber after the death of her husband Max (Schluchter 1989; cf. Mommsen 2005). Schluchter notes that it is the *Wirtschaftssoziologie* (economic sociology) which motivates a new *Herrschaftssoziologie* (sociology of domination), which has to be formulated before any *Rechtssoziologie* (sociology of law) and *Staatssoziologie* (sociology of the state) make sense. Indeed, for Weber, no economic sociology should ignore the way any economic calculus is dependent on the rules securing that present sacrifices are not only being taken but are also rewarded by the keeping of promises made to justify the sacrifice. That means that a whole edifice of a present calculus of future rewards embedded within systems and institutions attempting to guarantee both the present calculus and the future cashing-in emerges, which may be called the "society" which is mentioned twice in the title of Max Weber's book: in the society being called as such explicitly, and in the innocuous word "and" separating and linking that society from, and with, the economy.

Max Weber dealt with problems of economic sociology in almost all of his work. One of its most important parts, which is today rendered as sociology of religion, was originally conceived of as studies into *Wirtschaftsethik*, economic ethics (Weber 1988a). Yet, it was only when Weber gave his understanding of the economy – with regard to both its general history and its fundamental concepts – its final shape that he came up with a definition of economic action, which certainly must have struck him when he looked at it and began to deal with its consequences. *Wirtschaften*, or economic action, as Weber conceived, is to be defined as the "*friedliche* Ausübung von Verfügungsgewalt" (literally "peaceful exercise of the right of disposal", but note the use of the term *Gewalt*, violence, in the German wording of the concept) in the context of precautions, or provisions, towards the future satisfaction of future needs (*Fürsorge für einen Begehr nach Nutzleistungen*) (Weber 1990: 31; Weber 1991: 1).

To do justice to the English audience we must add that due to the very translation of the definition in all editions of the book, they stood almost no chance of hitting upon the problem Weber had discovered when he gave his understanding of economic action its final twist by condensing it into his definition. Frank H. Knight skipped the *Begriffliche Vorbemerkung* (Conceptual Exposition) in his 1927 translation of the *General Economic History* and thereby left out Weber's definition of economic action as well (Weber 1981). And Guenther Roth's and Claus Wittich's 1968 and 1978 edition of *Economy and Society* translated Weber's definition of economic action as "any peaceful exercise of an actor's control over resources which is in its main impulse oriented towards economic ends" (Weber 1968: 63). This translation makes it impossible to see Weber's problem. There is no talk of any force being exerted, let alone of any violence. The notes as well are translated in a way that makes it impossible to see that it could be interesting to take a closer look at that "exercise of an actor's control." And the temporal aspect of the definition which is of utmost importance is completely left out, because Roth and Wittich did not even try to translate the idea of Fürsorge, that is of a precaution being taken or of provisions being made.

Parsons' translation of Weber's definition as "*peaceful* exercise of power" (Parsons 1968: 654) is a better one. Weber indeed is dealing with questions of power, but not only of political power, as Parsons assumed, but more fundamentally with questions of the exercise of violence giving rise to the necessity of a certain political order. Weber indeed is looking at a paradox, namely at the paradox of peaceful violence. Note, however, that Parsons avoids the possible trap of rendering "Verfügungsgewalt" lexically correct with "right of disposal," which would reduce it to an exercise of legal rights, considered as an exogenous factor.

Weber seems to have known what he was looking at, even if, given his rather objectivistic and positivistic understanding of social sciences, he did not have the means to take it seriously as a paradox. That he knew what he was looking at is demonstrated by the italics he used for the word *friedliche* (peaceful) and by the extensive discussion not of power but literally of violence in the notes he added to the definition. He took care to include the exercise of violence among the means of an action that is economically oriented, on the one hand, and to distinguish the "pragma" (a kind of instruction to useful action) of violence from the "spirit" of the economy, on the other hand (Weber 1990: 32). He adds that even when rights of disposal are to be protected politically by the threat of the exercise of violence that does not turn the economy itself into some kind of violence (ibid.). And yet, he insists on the possibility to use the means of violence when pursuing economic ends (Weber 1990: 31-32). In the next, the fourth note, one might even see the great care Weber takes to distinguish his definition between a technical and a social understanding of the economy as another hint to pursue further the question of how that paradox of a peaceful violence is socially possible and fruitful (Weber: 32-33). The all important question of economic action, or so Weber eventually settles to say, is to secure *Verfügungsgewalt*, rights of disposal, over all kinds of economic means, including ones own labour, which is if we consider slavery not at all self-evident (Weber 1990: 34).

Almost nobody seems to have taken notice of the inherent paradox of the definition and of the possible consequences it has for Weber's economic and general sociology. Herbert Marcuse criticizes that Weber conceals the power aspects of the economy in his definition of it as a kind of rational action (Marcuse 1965). Friedrich H. Tenbruck is too fascinated by Weber giving an account of the dissolution of the idea of God the creator to ask which role first this idea and then its dissolution might play in the social establishment of economic action (Tenbruck 1975). Randall Collins admires Weber's *General Economic History* for its "institutional" explanation of the economy in terms of entrepreneurial organization of capital, rational technology, free labour, unconstrained markets, a helpful bureaucratic state, and the legal framing of bourgeois activity (all these terms allegedly being directed against their Marxist interpretation) and does not note how Weber takes care to again and again explain the ends and the means of economic action as the result from, and prerequisite for, the fight of man against man on the market (Collins 1980). Richard Swedberg proposes to go deeper into the notion of "interest" to explore how Weber related economic action and social structure, but even he, apart from rightfully drawing our attention to the distributive outcomes of "capitalism", does not explain the quality of this relation between the economic and the social (Swedberg 1998; cf. Swedberg 2005; Nee/Swedberg 2005).

II.

Even if Weber lacked the means to deal with a paradox in a sound theoretical way, given that these means are only nowadays developed due to an extensive research into the possible self-reference of social phenomena (Luhmann 1990, 1999), he certainly was on the right track when he asked for empirically forceful distinctions to unfold the paradox inherent in the idea of a peaceful violence. Given that social action in general is dependent on the possibility to give meaning to a certain behaviour, linking that behaviour to a possible interpretation and thereby to another individual's action (Weber 1990: 1), what is needed to turn the violence into something peaceful is the interpretation that violence could not only be endured or accepted but also welcomed as economically meaningful. But the question arises, as to what is economically meaningful? Weber's answer to this question, in accordance with both economics and sociology (Menger 1968; Keynes 1973; Luhmann 1970), is that the meaning of economic action consists in its ability to make provisions with respect to an uncertain future. As is rarely taken seriously enough in economic sociology or economics, the factor of time enters the very definition of economic action right from the beginning. There is no talking about economic action satisfying the needs of some individuals or some group, but always about it making provisions towards the possibility to satisfy, first, the needs of an uncertain future, and, second, those needs in an uncertain future. Economic action in the sense Weber conceives of it with his definition of *Wirtschaften* consists of both having a problem, thus entering into some state of worry, and envisioning a possible solution to it, thus believing some kinds of promises given by someone or something.

In brief, then, for Weber economic action deals with worries and promises with respect to the satisfaction of needs in an uncertain future. I think that Weber, when providing his definition of economic action, must have realized that his whole work relates to ways to unfold and use exactly that kind of distinction between the future and the present, between worry and promise, and between action today and satisfaction tomorrow. What he is calling the *Entzauberung* (disenchantment) and "rationalization" of the world, and what he is deploring, like Goethe did before him (Binswanger 1985), as the loss of the beauty, the evidence, and the enjoyment of it, consists of an ever more systematic (and possibly bureaucratic) unfolding of man's means to worry himself and to promise himself remedy.

That is why the most important contribution of Weber to economic sociology might indeed be his research into the different *Wirtschaftsethiken* of the religions of the world (Weber 1988a). What he is interested in, among other things, are the "premiums" called upon by these religions to enforce sacrifice, to endure hardship, and to promise reward, considered as frames to enter into business, to capitalize on its outcome, and to legitimate its possible profits. The Protestant idea of a profession verging on a calling, the Confucian idea of proper behaviour under all circumstances, the Hindu idea of an educated humbleness even in cases of worldly success, the Buddhist idea of composure towards both profits and loss, and the Islamic idea of a belligerent honour dealing with a possible collateral economic profit, are all configurations of these premiums with respect to both sacrifices to accept and rewards to expect. Yet, these religions are also ethics in that they help to shape the civilizing, or taming, of orgiastic passion into temperate emotion, supported in that respect by arts and sciences embedded within the social structure of cities, which force people for the first time in human history to live with each other without personally knowing each other and thus to change values without any possible solution of conflict among one another for problems seeking their mutual understanding (Weber 1991: 270-289; cf. 1990: 727-814, 1958, 1988b).

Weber started to look at his political sociology anew and afresh when he developed his definition of economic action, yet he did not have the time to finish his whole sociology with respect to the light now being shed over a whole range of social phenomena demanding their reinterpretation and institutional explanation with regard to their contribution to the unfolding of the paradox of peaceful violence. As it is, Weber ends his sociology on almost the same note as did Xenophon in his Socratic Discourse on *The Oeconomicus* almost two and a half millennia before, speaking, as it were, of the "mysteries of moderation" (*sophrosyne*) to be mastered by a diligent housewife if she were ever to rule the house in the way she is taught to do by her husband. To do a good kind of household management depends on the art of "ruling over willing subjects", an art given only to those "who have been genuinely initiated into the mysteries of moderation", all others having to resort to "tyrannical rule over unwilling subjects" instead (Xenophon, XXI, 12).

Sociology is interested in these mysteries of moderation. Max Weber's work may count among the first to tackle the mystery by the means of spelling out a paradox and searching, even if lacking the appropriate methodology, for the appropriate distinctions to unfold it. His most important contribution may even reside within the mysterious word "and" which he inserted, or did his widow insert, between the two terms: the economy and the society. The relation between the economy and the society revealed and at the same time concealed by that very "and" is the action of a society both enabling a violence to be exercised and a peacefulness to be implemented to moderate that violence. Without the society intervening, that kind of economy – envisioning an uncertain future and making provisions with respect to it – would socially, evolutionarily, and materially not be possible.

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Vadim Radaev Answers Ten Questions about Economic Sociology

Vadim Radaev received his first Ph.D. degree in political economy from the Moscow State University in 1986. He completed his second doctoral degree in economics and economic sociology at the Institute of Economics of the Russian Academy of Sciences in 1997. Currently, he is Professor and Head of Department of Economic Sociology, as well as First Vice-Rector of the State University - Higher School of Economics, Moscow. Professor Radaev is also Editor-in-Chief of the Web-Journal 'Economic Sociology' (http://www.ecsoc.msses.ru). He served as Co-Chair of the Economic Sociology Research Network at the European Sociological Association (1997-2000). His research interests are in economic sociology, institutional economics, and informal economy. He has published seven books, including: Economic Sociology *(2005, in Russian),* Sociology of Markets *(2003, in Russian),* Formation of New Russian Markets *(1998, in Russian), and more than 200 papers, including papers in* International Sociology, Economic and Industrial Democracy, Problems of Economic Transition, International Journal of Sociology, European Societies, Alternatives*. His recent publications in English include, "Informal Institutional Arrangements and Tax Evasion in the Russian Economy in Networks, Trust and Social Capital: Theoretical and Empirical Investigations from Europe", edited by Sokratis Koniordis.* Networks, Trust and Social Capital: Theoretical and Empirical Investigations from Europe*, edited by Sokratis Koniordis (Ashgate, 2005); "Coping with Distrust in Emerging Russian Markets" in* Distrust*, edited by Russell Hardin (Russell Sage Foundation, 2004); and "How Trust is Established in Economic Relationships when Institutions and Individuals Are Not Trustworthy: The Case of Russia in Creating Social Trust" in* Post-Socialist Transition*, edited by Janos Kornai, Bo Rothstein and Susan Rose-Ackerman (Palgrave Macmillan, 2004).*

1. How did you get involved in economic sociology?

I took my degree in political economy in 1983 and doctoral degree in 1986 at the Moscow State University. And till the end of the 1980s I had no idea what sociology was about. How did I get involved? During all my studies, I had an increasing feeling that there was a tension between the 'facts of real life' and abstract orthodox statements produced by the Soviet political economy of socialism. Official statistics were profoundly distorted and unable to fill the gaps in our knowledge. Under such circumstances, data collected from sociological surveys presented a seducing alternative to false statistical figures. At first I started to search for survey results, which could bring light at least to some points of my concern in the field of labour relations and social cleavages. A need to interpret those data pushed me to read sociological theory. Then I decided to conduct my own empirical research, and in 1992 established a small research unit for studying stratification and economic sociology at the Institute of Economics of the Russian Academy of Sciences. At that time a new demand for economic sociology was raised in the Russian academic community. I started to get phone calls from my colleagues who said: "Could you give a course of lectures in economic sociology for us. We have absolutely no idea what it is. But we feel it is important". These requests forced me to educate myself in economic sociology in a more systematic way. And I moved to this new field to stay for good.

2. Could you name books or articles that have profoundly influenced your own thinking about economic sociology?

In the Soviet epoch I was educated as a Marxist and took many pains exercising in Hegelian dialectics. Besides debates stemming from the famous "Das Kapital", we drew on Marx's earlier economic and philosophical manuscripts. So, my first book written with three other young co-authors was devoted to the concept of work alienation and its application to the Soviet reality. A bit later, in the 1990s I had an opportunity to visit a number of leading British universities. I spent much time there and these visits extended my horizons. As for classical authors, at that period I was impressed by works of Max Weber and Werner Sombart (the former is widely recognised today while the latter is suprisingly neglected). On the empirical side, I got enthusiastic about Neo-Weberian stratification studies. Thus, my second book co-authored with Ovsey Shkaratan was devoted to stratification issues (it was the first textbook on stratification in Russia). When writing this book I was strongly influenced by research of John Goldthorpe, David Lockwood, and Gordon Marshall.

As for economic sociology, like many others, I learnt about this tradition from Richard Swedberg's studies and wonderful collections published by Richard and his companions during the 1992 to 1994 period. Following the tradition of the "new economic sociology", I read all major American authors in this field. Among many others, I was heavily influenced by Neil Fligstein and his "political cultural approach". And I am still attached to this kind of the new institutionalism, which borrows some important insights from the new institutional economic theory but places it in a quite different (and more productive) conceptual frame.

Let me add that within the last five years we have translated into Russian nearly all papers, which I believe to be the most important contributions representing diverse perspectives of economic sociology. Among U.S. authors, we chose studies by Mitchell Abolafia, Howard Aldrich, Nicole Biggart, Paul DiMaggio, Frank Dobbin, Neil Fligstein, Gary Gereffi, Mark Granovetter, Walter Powell, David Stark, Harrison White, Viviana Zelizer, and some others. We have also translated some European scholars – Pierre Bourdieu, Jonathan Gershuny, Karin Knorr-Cetina, Laurent Thevenot. This is not much yet to represent the tradition, but we are taking efforts to extend the list and will translate papers of Patrik Aspers, Michel Callon, Don Slater and some others in the near future. As I myself am influenced by many streams of thought, I feel it's my responsibility to disseminate this conceptual spectrum to the Russian speaking professional audience.

3. Which countries/cities/universities do you consider to be contemporary strongholds for economic sociology?

We, Europeans, have to acknowledge that the U.S. economic sociology plays a leading part at present. I have in mind the important research at Standford, Berkeley, Princeton, Columbia, Cornell, Northwestern and many other universities, to mention the core. At the same time European economic sociology has become more and more active over the last years. Among European countries I would point to France with its great variety of distinctive perspectives and sources of inspiration, like Bourdieausian concepts, or economic theory of conventions, or a stream of thought initiated by Bruno Latour and Michel Callon. At present, economic sociology is developing in all parts of Western Europe. Though there are still some countries, like the U.K., where many relevant studies to economic sociology are being produced but most scholars do not formally acknowledge their links to economic sociology.

In Eastern Europe I would distinguish Hungary (especially the Budapest University of Economic Sciences). Hungarians have been the leaders in the area over the years, I suppose. In Russia, the Higher School of Economics I am affiliated with has won recognition and climbed to the leading position. Economic sociology is the main field of studies at the Department of Sociology here. Each year about 45-50 undergraduate, 25-30 postgraduate and 7-8 Ph.D. students choose economic sociology as their major.

4. How would you evaluate the state of the field in postsocialist countries?

The field is active for a number of important reasons. Dramatic economic reforms in the postsocialist period attracted a great deal of attention to the issues of economic and social change, including privatisation, employment patterns, increasing social cleavages, and others. At the same time, positions of the conventional economic theory are not that strong here due to the dominance of orthodox Marxism during the communist time. All in all, this leaves more space for alternative views including sociological interventions.

A specific feature of sociology in Eastern Europe originates from a principal diversity of academic background. The point is that many academics came to sociology (and economic sociology) from different disciplines (economics, psychology, history, philosophy). It was only in 1989 that the first departments of sociology were established in Russia. This causes a great deal of methodological diversity.

Another specific feature of Eastern European and Russian economic sociology was pointed out by Gyorgy Lengyel, one of the founders of our European research network. He claimed that Eastern Europeans are more "problem-oriented" rather than "paradigm-oriented". I would interpret this as saying that, in a way, in their research Eastern Europeans are more driven by what is currently in demand in their own countries and are not so keen on methodology though there are always some important exceptions to the rule.

5. Your work has focused on the transformations of Russian economy. What can economic sociologists learn by studying postsocialist transformations?

Without a doubt this is a great opportunity for sociologists to observe fundamental structural and institutional shifts that have taken place over 5-10 years, while normally, in stable western societies it would take several decades. In Russia and postsocialist countries social processes are compressed to the life-span of one generation. It is exciting to see how new markets emerge from scratch, and how new institutions are being constructed virtually in front of one's eyes. There are also tangible cultural shifts – almost visible because they are unbelievably fast. And this is both a challenge and a great chance for Western and East European scholars to reveal how these mechanisms work and to identify their possible impact on Western societies.

I believe that general attitude towards postsocialist transformations has been largely biased. Experts and analysts paid too much attention to the concept of transition from socialism to capitalism. And they truly believe that this problem has been "resolved" by now (though the degree of success varies from country to country). In my opinion, rather abstract models of capitalism (even with a common reference to 'multiple capitalisms') impose a rather restrictive framework assuming, among other things, that post-socialist countries merely follow the trajectories paved by developed societies. We should go beyond this transition/transformation discourse and explore the areas of intensive growth, emergence of multiple structural and institutional arrangements. Russia and the East European societies give examples of such areas along with the BRIC countries. This generates a demand for new insights to conceptualise economic and social change at the micro- and macro-levels.

6. What do you see as the main differences between economic sociology in the United States, Western Europe and Eastern Europe?

Economic sociology in the U.S. seems more refined in terms of methodological instruments. Scholars are also more attached to quantitative methods though there are influential contributions of historical and ethnographic culturally oriented research (like those of Mitchell Abolafia, Viviana Zelizer, etc.). I would stress that despite a great variety of approaches, U.S. economic sociologists speak a common language (both literally and substantively). The European tradition - it would be more correct to say "traditions" – is more fragmented. It is also more driven to "soft" methodologies. Eastern Europeans in this sense make an integral part of the European professional community (no matter whether they have joined the EU or not). In addition, the East European sociology is even more diverse due to its heterogeneous academic background inherited from the socialist past, as I have mentioned before.

There is one more point that could be important for the future. It would be good for us to remember that most classical authors in sociology (and economic sociology) originally came from Europe, and particularly Germany (Marx, Weber, Simmel), France (Durkheim), Hungary (Polanyi), and Russia (Sorokin). And I believe that Europe should take a chance to restore its position as a major source of new ideas yet again.

7. What are according to you the main current debates within the field?

To investigate this issue and to understand the structure of the academic field, I conducted a series of semi-structured interviews with the leading international scholars in economic sociology several years ago. My efforts have resulted in the book "Economic Sociology: Auto-Portraits", where I published the translations of these interviews into Russian. This collection followed, though in a different manner, the good experience of Richard Swedberg's book of conversations with famous economists and sociologists published in 1990.

Analizing these reflections I would agree with Carlo Trigilia's view that we do not see many hot debates over particular issues (see his interview in the October 2005 issue of EESN). Rather, it is important that continuous attempts are made to counterpose and refine different methodologies that originate from the network analysis, new institutionalisms, cultural studies, different sorts of political economies, and others. Economic sociology has grown up into a noticeable stream of thought. It has made a progress in institutionalisation. But still it does not have a recognisable methodological map and coherent internal structure. In my interviews, even those schlolars who know each other pretty well, usually suggested different classifications of major approaches in the contemporary economic sociology. After all, this is not surprising because economic sociology is a field that is still being actively constructed. Numerous references made by my respondents demonstrate that it is also a field which is open and sensitive to other disciplines, like social geography, linguistics, studies of new technologies.

Besides theoretical debates, many colleagues express their concern with the status of economic sociology in a wider professional and public community. They speak in favour of closer cooperation with economists and seek to have more influence on policy makers and the corporate sector. However, there is not much clarity as to the instruments that could help us reach these goals.

8. In your view, what research topics within economic sociology have so far been neglected or have not received enough attention?

There are some topics, which sociologists have left to neighbour disciplines and which as a result remain underdeveloped or even neglected. I would give two examples. The first is about the use of coercion and force in economic relations. We know that Max Weber excluded these aspects from his principal definition of economic action. But nevertheless they remain an important part of the economy as a complex constellation of economic and non-economic actions. Use of force was especially important for Russian business relationships in the 1990s. However, coercive pressures should be seen as in-built elements of any economy. And it would be naïve to wait for all necessary explanations from political scientists and lawyers.

The second example has to do with behaviour of crowds and, broader, mechanisms of mass behaviour. Their analysis has been very unfortunately left to social psychologists though, in my view, these illustrate only a specific type of social ties. Dismissing the economistic assumption of perfect and formal rationality of economic action in favour of bounded (or context) and substantive rationality, sociologists are still too concerned with the analysis of rational strategies. We need to know much more about social mechanisms which break down rationality and push economic agents to other modes of action. Meanwhile, these latent social ties strike back here and there. For example, Russia has experienced several collapses of the stock and real estate markets associated with crowd effects over the last 10 years, which destroyed not only private savings but rational strategies of economic actors. And from time to time it happens in any country. I think that sociologists must bring crowd effects back to their field.

Also, in some cases we need to choose a different dimension when treating a conventional concept. For example, a lot of work has been done on the informal economy. But in most studies it is treated as a set of marginal market and non-market segments and viewed either as a shadow/ criminal or migrant/ ethnic or family/ household economy. I think we should make a step forward and apply instruments of the institutional analysis here more effectively. The most principal issue which has not been sufficiently investigated is how informal elements of formal institutions operate in the very core market segments. We need to know much more about a phenomenon that I would call «institutional compromises»: conditions under which both market actors and controlling government bodies systematically deviate from the rules in order to make the formal institutional systems work smoothly.

9. Is it important for you to establish a dialogue with economists, and if so, what are feasible strategies to accomplish that?

When conducting my interviews with leading U.S. economic sociologists and economists, I was astonished by the extent of their mutual ignorance and absense of cooperation even if their departments are located next door. The situation in Russia seems a bit different at present. A large part of older and middle-aged economic sociologists took their degrees in economics. As a result, they can and do cooperate with economists, at least with those who study institutions. Thus, we do not have that dramatic gap between economists and sociologists – a characteristic feature of the state of the field in the USA and many other countries. Though I have to admit that younger generations of economists and sociologists find it more and more difficult to understand each other due to increasing specialisation and compartmentalisation of their professional training.

Strategies for successful cooperation between economists and sociologists are not easy to implement. Joint research projects should be acknowledged as a good instrument. But I think that some serious efforts should be also taken by universities at the level of undergraduate and graduate programs to extend the views of our students. Otherwise, we would be unable to overcome the compartmentalisation. There is little chance for mutual understanding among people who speak absolutely different languages. At the Higher School of Economics in Moscow we try to do this through offering a large number of lecture courses in economic theory to students of sociology and, vice versa, courses in sociology to economists to prevent these two disciplines from drifting apart. Though I am not very optimistic on this point.

10. What are your own current and future research plans on economic sociology topics?

As for my own research, I, with a team of other researchers, have studied new Russian entrepreneurs since the beginning of the 1990s to see how this new class was brought to life. We described their social profiles, channels of social recruitment, and structure of motivation that forced them to move from their traditional occupations.

Then we investigated the structure of transaction costs of the newly born private firms when they confront bureaucratic extortion, infringement of business contracts, and use of force in business relations, which were widespread, especially in the 1990s.

Unfortunately, I have not been able to be that active in empirical research in the last several years due to the increasing amount of administrative duties. I hold a position of First Vice-Rector of a new university, which aims to position itself at the top in the social and economic sciences in Russia. However, I am not going to give up. Now I am doing theoretical research on sociology of markets. Two years ago I published a book, which presented the major theoretical approaches and some illustrative cases of empirical research that I had previously conducted with three Russian business associations. It was the first volume devoted to sociology of markets that ever appeared in Russian. I am planning to develop this study further and then, probably, will devote my time to translating it into English.

On the empirical side, me and my colleagues focus on studying new FMCG (fast moving consumer goods) markets. We are following very closely the fundamental and dramatically fast changes in the Russian retail sector, as domestic markets are being penetrated by global operators. I must say that it is overwhelming for a scholar to watch entirely new market structures and institutions appear within a very short period of time, and to see them change previously existing competitive orders and business practices.

Read and Recommended

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This "Read and Recommended" section will be focused on three ambitious pieces of work. Each deals with the relationship between social networks and individual action. Although this relationship is surely at the core of new economic sociology, the debate does not seem to have found a consensual and univocal answer. Networks can be endogenous to individual level action (e.g. generating one's social capital), or exogenous to it (e.g. beneficial "heritage" from social structure). They may be included in a utility function and treated as in standard microeconomics or game theory (parametric and strategic rationality), or networks can be included in a more general model of action, ranging from intentional action to more conventional and normative forms of behaviour. The typology generated from these two dimensions (rational-non rational and exogenous-endogenous) illustrate four possible perspectives on the problem at hand, largely (although sometimes implicitly) diffused in today's economic sociology: endogenous/rational; endogenous/ non-rational; exogenous/ rational; exogenous/ non-rational. The three works I am going to discuss nicely cover this logical space, showing the strength of each perspective. I let the reader guess which piece of work belongs to which cell in the typology (and which of the cells remain empty, if any).

The first is an article which recently appeared in the *European Sociological Review*, entitled "Social Network and Labour Market Outcomes: The Non-Monetary Benefits of Social Capital", by Axel Franzen and Dominik Hangartner (2006). Despite its shortness (or maybe thanks to it), the article offers one of the clearest examples I have ever read of the effect of social networks on labour market outcomes. The Authors test Granovetter's hyphotesis that networks affect positively labour market results by showing that the predicted effect remains true only for non-monetary benefits (e.g. career perspective and the matching between one's education and the job), while no effect is found with regards to monetary benefits. The article uses two large-scale data sets (the 2001 International Social Survey Programme and the 2001 Swiss Graduate Survey) to test the previously described hypothesis through multivariate statistical techniques. Along with its empirical rigour, one of the most remarkable aspects of this article is the careful and detailed theoretical discussion where the authors develop and apply Montgomery's intuition (1992) that social networks can be interpreted through their effect on the reservation wage: "Individual with larger networks (…) may expect to receive more job offers, which increases the reservation wage" (Franzen and Hangartner, 2006: 354) and "The more offers and individual expects, the higher his or her reservation wage and the higher the probability to find a better-paid job" (ibid.). But reservation wage matters also for the difference between formal search channels and informal search channels, so individuals who accepted a job offered through a formal offer had on average more offers to choose from and were therefore better able to select the best offer. Both hypotheses find empirical support in the data, with a caveat worth mentioning. These kind of data (cross-section data) do not allow to control for the temporal order of events: we don't know, for example, if T0 friends cause T1 wage or T0 wage causes T1 friends, but both cases are logically plausible in terms of causal mechanisms.

However, to spell out the mechanisms which generate the statistically observed relationship between labour market outcomes and social networks, the temporal order of events must be included. This perspective is at the core of Peter Hedström's book entitled, *Dissecting the Social: On The Principles of Analytical Sociology* (2005). The scope of this book is much wider and more ambitious than the one I can address here, but the relationship between inter(action) and social networks is one of its most important themes (see especially ch. 4). In this case also, networks are introduced as a crucial element to explain labour market dynamics (ch. 6), but with a substantial difference from the previously illustrated work. First of all, the role of networks is specified at the level of interaction (not just individual action like in the Franzen/Hangartner article) by asking through which micro-level element networks influence labour market dynamics. For instance, if I interact with unemployed peers this can influence my opportunities to find a job (lock-in information), my beliefs about it (discouraged worker effect) or even my job-related desires (being unemployed may have different psychological salience in different social networks). Another distinction of Hedström's work is its dynamic perspective: networks should be introduced in a macro-micro-macro framework (the so-called "Coleman's Boat"), as a intermediate link between macro level states at time T and macro level states at time T+1. This general idea is made specific in the empirical application, where the author proposes an "empirically calibrated agent-based model" to reproduce the macro-level dynamics of the unemployment length in the Stockholm metropolitan area. A further value of this work is that it shows how data-rich context (including various information on all 20-to-24-years-olds who ever lived in the Stockholm metropolitan area during 1993-1999), allows for a better testing of sociological theories, like the (inter)action-in-network favoured by the author.

The third work I want to recommend starts from a point that Hedström does not consider in his theoretical perspective: namely, the influence of networks on how individuals discount future events (2005: 42, footnote 13). Marianna A. Klochko and Peter C. Ordeshook, in their book *Endogenous Time Preferences in Social Networks* (2006), start from the importance of the "shadow of the future" to explain cooperation rates in strategic interaction. Their goal is to dig deeper in the unexplored area of endogenous discount rate: "This shadow, as usually modelled – as a private time discount rate – is taken as fixed and exogenously determined parameter" (Klochko and Ordeshook 2005: 240). People learn not just preferences and beliefs from each other, but also how to weight the future: for instance, youth in "ghetto" who interact with peers may prefer short-term aims to long-term ones, or even crime and drug-addiction can be modelled using discount rates as critical parameters. Time-preferences are considered as "memes", patterns of behaviour that can be transmitted from one individual to another by way of learning or imitation and the less successful will imitate the more successful ones. "Success" is operationalized as per capita consumption and the learning is set at an exogenously fixed rate. All chapters offer innovative insights about the relationship between social network and individual action and the book may be considered a good example of formal theory in sociology. The empirical application, as the authors themselves acknowledge, is the less developed part of the book. Nonetheless, the authors offer many ideas on how to develop a theoretically guided empirical research.

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Book reviews

Book: MacKenzie, Donald, 2006: *An Engine, Not a Camera.* Cambridge: MIT Press.

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A formula, not a network

Donald MacKenzie's latest book, *An Engine, Not a Camera: How Financial Models Shape Markets*, has landed with a loud thump on the desks of economic sociologists and economists. Indeed, rarely does a book pose a real challenge to an academic discipline, let alone two. But MacKenzie's work and the theory of performativity has managed to fascinate across disciplines.

Consider the book's core claim. What does MacKenzie mean by "performativity," and why does it trouble both economists and sociologists? At the core of the performativity hypothesis is the contention that the calculative, robot-like economic decisions that economists posit in their textbooks – appropriately captured by the cliché expression *homo economicus* – are made possible precisely by the very models proposed by economic theory. Economics, in other words, is not successful because of its accuracy, but accurate because of its success (see also Callon 1998, Ferraro Pfeffer and Sutton 2005, Callon and Muniesa 2005, Preda in press).

Given the stakes, it is no coincidence that the book is being talked about. It has been subject to an endless number of reviews (including this one). It is the focus of lively blog debates (see, for example, http://orgtheory.wordpress.com/book-seminar-an-engine-not-a-camera/) to the point that a recent sociologist from London exclaimed at Columbia, "in Europe, it's *bad* – performativity is everywhere." In this review I will echo the existing debate on performativity and join the tussle with my own opinion. Incidentally, I should also disclose that I am MacKenzie's coauthor on other projects (e.g. Beunza, Hardie and MacKenzie 2006).

MacKenzie nails his case with the analysis of the Chicago options market and the Black-Scholes formula, the *grande dame* of economic theory. When the Chicago Board of Trade began trading in options on stocks in 1973, the Nobel Prize-winning formula had barely left the blackboards of MIT. Black-Scholes was not part of mainstream finance, let alone the Chicago pits, and it did not describe option prices with any accuracy. But an interesting phenomenon followed. As the formula became adopted by pit traders, option prices began to exhibit a near-perfect fit to the values predicted by it. Hence the notion of performativity: economic theory does not just describe the world… but shapes it, mediates it and, in short, performs it.

MacKenzie had already made this point in a celebrated article with Yuval Millo (MacKenzie and Millo 2003). Their paper, recipient of the Viviana Zelizer Award by the US economic sociology division of the ASA, spread the notion of performativity from Europe to the US. In the process, it also generated its share of criticism from institutional and network theorists. How, they ask, is performativity a new idea? How is it different from social construction? Does performativity mean that finance theory, along with the Nobel Prizes awarded to it, is just a hoax?

In the book, MacKenzie responds to his critics. First, performativity is different from other processes of collective construction in that it pertains to the narrow issue of how economic theory relates to markets. Second, the mechanism that brings performativity about is the material technology of the capital markets: its "algorithms, procedures, routines and material devices" (p. 19).

Finally, performativity does not imply that the formulae are "made up." Far from it, it means that these formulae allow market actors to better engage in a productive discussion about value. In other words (and as the title of the book suggests), MacKenzie does not see financial formulae as cameras, meant to capture a pre-existing reality, but as an engine, meant to allow traders probe economic phenomena and develop a conversation about it.

Enclosed in MacKenzie's argument is an implicit, yet radical, critique of economics and contemporary economic sociology. As I see it, performativity grants orthodox economists empirical validity: option prices between 1975 and 1987 did indeed resemble Black-Scholes. But performativity also challenges the greater claim that textbook rationality is an innate property of market actors. Instead, MacKenzie exposes textbook rationality for what it literally is – the outcome of a textbook. Formulae travel from the textbooks of the MBA students, to their Excel spreadsheets, to the equity derivatives trading rooms of Chicago and Wall Street.

Interestingly, performativity constitutes a sharp critique of that loud critic of *homo economicus*, behavioral economics. To the behavioral claim that financial actors lack the brains to compute Black-Scholes in their head, MacKenzie points to the folded sheet of paper that CBOT traders used in the 1970s to deploy the formula while bouncing in their pits. With the widespread adoption of technology in the capital markets, the cognitive limitations of humans have become less and less relevant as an explanation of market outcomes. Artificial intelligence and computer science are now the way to go.

Most importantly, MacKenzie's book argues for a methodological redirection of economic sociology. The proper study of markets, MacKenzie argues, should focus on the assessments of worth made by market actors, rather than their network ties or political ideology (on this, see also Stark 2000). Admittedly, this form of sociology takes a lot of homework: the book's seven appendices dedicated to financial formulae attest to it. And in this painstaking work, MacKenzie leads a widespread effort, from Paris to Oxford, New York to London, to import the methodology of science and technology studies into the study of the economy. These efforts have now crystallized into a literature that goes by the name of the *social studies of finance* (Lepinay and Rousseau 2000, Godechot 2000, Muniesa 2000, Knorr Cetina and Bruegger 2002, Beunza and Stark 2004, Zaloom 2003).

Beyond Black-Scholes, MacKenzie's book puts the performativity lens to work on other notable marriages of financial convenience. The book discusses the CAPM model and the related rise of index funds; portfolio insurance and its fatal role in the 1987 crash; or the limits of arbitrage and the fall of Long Term Capital. Of these, I am most fascinated by the story of the CAPM and the mutual funds. To my knowledge, never has imitation and mediocrity been as lucrative. Mutual funds charge investors for creating portfolios that simply replicate the market index or some close substitute of it. Interestingly, this state of affairs is not the result of historical coincidence or corporate laziness, but of the idea, induced by the Nobel Prize-winning Capital Asset Pricing Model, that stock prices are impossible to predict and that the best that investors can do is to diversify. MacKenzie explains how and why this happened.

As a fascinating side note, MacKenzie also examines the central role of Chicago Graduate School of Business in bringing about performativity. Chicago faculty developed the models, their MBA students then went on to apply them, and eventually came back for consultation, endorsement or simply to hire their professors, further encouraging the spread of mathematical finance. The story raises interesting questions for sociologists, at a time when network theory is now being deployed in social networking web sites, peer-to-peer file exchange, or user-rated e-commerce platforms. Once every professional is part of LinkedIn.com, and their structural holes have been identified and bridged by some go-make-friends website, what will network questionnaires show?

All in all, MacKenzie's book constitutes a rare intellectual accomplishment. Like the great works of Marx, Weber or Simmel, MacKenzie engages with a central economic phenomenon of his time and age: the capital markets and the high-modern quantitative revolution engendered within them. To this, MacKenzie adds an empirical focus and methodological elegance rarely found in books that are as enjoyable to read as this one. For these reasons, MacKenzie's book is an impressive work of scholarship that will shape academic thinking about the capital markets in years to come.

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Book: Knorr Cetina, Karin/Alex Preda (eds.), 2005: *The Sociology of Financial Markets.* Oxford: Oxford University Press.

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Two important movements become visible in drawing a comparison between the recent edited collection by Knorr Cetina and Preda (2005), and an earlier volume by Adler and Adler (1984): the first move is made by social scientists, and the second is made by finance itself.

The rather heterogeneous 1984 volume contained some remarkable and innovative pieces, most notably the one by Baker, but it also gathered together a set of more general contributions which did not rest on real investigations and which were often written by scholars who did not belong to the discipline of sociology. The issue was then to occupy a virgin land by gathering any kind of existing knowledge. Among the 14 contributions to the 2005 Knorr Cetina and Preda collection, one does not find pioneering papers like some in the Adler and Adler volume of 1984. But what one does find are solid contributions, well-anchored in the discipline, based on empirical investigations and resting on important bibliographies that successfully demarcate various aspects of financial markets.

The introduction by Knorr Cetina and Preda is set to assert the autonomy of the sociology of finance. They draw a strict opposition between this emerging field and the now classical economic sociology that has proliferated during the last twenty years. The editors argue that because of its focus on social relations constituting the markets of producers, economic sociology cannot truly capture the specificity of global finance: anonymous and electronic interactions on a global and abstract market. In Chapter 2, Knorr Cetina pushes the idea of the autonomy of finance even further. As she studies the transformation of the foreign exchange markets – formerly split up between various centers that were laboriously inter-connected by telex and telephones – into an unified, global and decentralized electronic market, she deciphers a new life form for which she proposes an ontology: the global reflexive screens of the traders, which, once switched on, enable connection to the Market, an information flow architecture, in perpetual motion. One might remain skeptical in face of such a metaphysical operation, which for the moment hardly exceeds the erudite translation of a commonplace reality: today, traders access the market with their computer.

In addition to Knorr Cetina's chapter, the first section, "Inside Financial Markets", includes five contributions, which bring us at the heart of the financial markets. Hassoun (Chapter 5) explains to us quite clearly (and even enables us to share in) the strong emotions of actors on the floor in an open outcry market. He shows that on these modern and active financial markets, passions and interests are far from being opposed. Closely overlapping, both elements provide liquidity to the market. Have we reached the heart of the financial markets yet, the anteroom of the financial decision-making, where economists await decisive contributions from sociologists? Beunza and Stark (Chapter 4) attempt to explain the main elements of arbitrage strategies. The secret of arbitrage lies in cognition devices distributed inside the dealing room, which make it possible for the various teams to pass information to one another and to sharpen their financial intervention. Although evocative, this description remains sometimes functionalist and, in the absence of a true sociology of work relationships, seems to lack a critical view. MacKenzie's chapter completes our understanding of arbitrage by describing one of its most spectacular failures: the LTCM crash of 1998. LTCM's arbitrages were classic, very lucrative and little risky, but they were heavily imitated and rested on illiquid products. The Asian crisis produced a flight to quality reflex in all of the financial markets. This panicked movement led to the divergence of prices of the products dealt by LTCM, which were usually convergent. The first rumors of LTCM's losses accentuated this phenomenon. The hedge fund and all of its imitators were subsequently unable to hold their positions, a situation that led LTCM into bankruptcy. Nevertheless, as the story goes, the position became profitable again once the panic disappeared.

Other contributions to this part of the volume are less on the "inside". Sassen explains why the decentralization of electronic markets paradoxically reinforces the biggest financial centers: networks of informal contacts play a great role and favor a process that agglomerates modern finance in a few centers. The contribution of Czarniawska is somewhat puzzling. She does not directly study women in financial markets but, instead, chooses to follow diverse accounts (press, novels and sociology) of their presence there.

The second section of the volume is entitled "The Age of the Investor". Here, Preda in this chapter returns to the cultural emergence of the figure of the investor. If during the 18th century the investor was associated with a passionate gambler, during the 19th century the investor is equipped with much more rational attributes. He becomes a calculator, a planner, a user of technical tools, and even a manipulator of scientific apparatuses. With the help of a questionnaire among small investors in Europe, De Bondt in Chapter 8 completes Preda's picture, by analyzing the social and cultural roots of financial beliefs and attitudes towards risk in 2001. To list one striking example: bonds purchasers are more likely than share purchasers to think that it is noble to work for the government. In the final chapter of this part of the volume, Swedberg, in a somewhat heteroclite account, studies the emergence of the public and impersonal figure of the investor whom the regulator must defend against the embezzlements of professionals, by analyzing lawsuits.

The third section entitled "Finance and Governance" is interesting because it establishes a bridge between the sociology of finance and classic economic sociology, two domains that the introduction of the book placed in opposition. Abolafia brings us right into the historical meeting of FED's board of directors in 1982, which led to relinquishment of strict monetarist policy. Clark and Thrift describe the rise of bureaucracy in large investment banks and relate this phenomenon to the more sophisticated organization and control of transactions, which now take place 24 hours a day. Power, who is a pioneer of the "anglo-foucaldian" sociology of accountancy, shows how the emergence of risk management transforms the regime of control inside banks and leads to the rise of a powerful chief risk officer. This officer is the person who will deduce the risks taken by the shareholders from any apparent flow of profit, and therefore, command the allocation of capital inside the company. In their chapter, Zorn and colleagues ingeniously continue Fliegstein's work by studying transformations in the executive of large companies, under the pressure of financial markets over the last twenty years. The hostile takeovers of the 1980s and the increased importance of analysts made companies switch from a model of diversification, where companies were governed by a tandem Chief Executive Officer – Chief Operating Officer, to the shareholder value model governed by a tandem Chief Executive Officer – Chief Financial Director. The final contribution by Davis and Robbins analyzes "interlocking directorates." The authors find that these do not substantially influence firm performance but they do increase the conformity of the company to government standards as they pertain to the financial world.

The Sociology of Financial Markets draws an instructive panorama of present research in the sociology of finance. It underlines some of its strengths. It analyses the impact of mathematical and technical tools, in particular in the case of arbitrage. It stresses the role of history. It is now able to build bridges with the neo-institutionalist economic sociology. But one could also see in its limitations important future topics of research. First, little is said about speculation. What do people really do when they try to guess the evolution of prices? What type of knowledge (economics, charts, etc.) do they really use? How do they anticipate (or not) others' anticipations? Second, social relations, which are generally considered as a key for the building of economic sociology, are a somewhat left aside. Although it is true that on an electronic market, social relations between buyers and sellers may seem rather abstract and special, one must not forget that the most relevant social relations may be work relations inside the financial firms. Paying attention to the way people at work both compete and collaborate is a good key, in finance as elsewhere, for understanding how they act.

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Book: Trumbull, Gunnar, 2006: *Consumer Capitalism: Politics, Product Markets and Firm Strategy in France and Germany.* Ithaca: Cornell University Press.

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In the huge popularity of current academic studies of consumer society, the focus has invariably been on the social and cultural dimensions of consumption. Relatively little has appeared on the more legalistic, bureaucratic and political aspects. Yet as Gunnar Trumbull reminds us in his excellent account of consumer protection in France and Germany, "Consumers in advanced industrialised countries operate in a dense institutional environment. These institutions take the form of complex regulations covering product safety and labelling, restrictions on retail practice and consumer contract terms" (p. 161). Such subject areas have certainly not dominated a burgeoning consumption studies literature. Trumbull's work, written from the perspective of a political scientist, is therefore extremely welcome. It builds upon similar studies of Japanese consumer protection and provides an important account of the development of the forms of 'consumer capitalism' in which we currently reside.

Trumbull's starting point is to ask why consumer protection regulations came about just as labour and capital markets were being deregulated. How is it that consumer protection became so popular when consumers as a collective interest group were supposedly so weak and disorganised? Certainly, his statistics bolster such an approach: in Germany, there were just 25 new laws relating to consumer protection from 1945 to 1970, but there were a further 338 adopted by 1978; in France there were similarly just 37 laws and ministerial decrees before 1970, a total which had grown to 94 by 1978. Moreover, consumer protection became a hot political topic. Political manifestos began to include regular appeals to the consumer interest in the 1970s. Impressive institutional settings were created, ranging from consumer councils to full government ministries devoted to consumer affairs. And social movements of consumer activists campaigned not only for better information through magazines such as *Que Choisir?* and *Test*, but for further regulatory measures to shield them in the marketplace.

Trumbull seeks to compare and contrast the consumer protection mechanisms in the two countries. In doing so, the narrative is not simply an account of the different institutional frameworks; it is about the contestation over the very meaning of the consumer, a battle between consumers and producers for the very shape of contemporary capitalism. He refers to three models or ideal types: a protection model which has stressed the political rights of the consumer; an information model which has emphasised the economic role of consumers; and a negotiation model which has been advocated by consumer groups and which sees consumers as a social interest group that ought to have an equal representative role in the state infrastructure. In the struggle over the meaning of the consumer, Trumbull argues that in Germany, where producers were well organised and consumers relatively weak, protection measures were introduced which favoured producer interests. The model that German consumer protection has therefore most closely resembled is the information one. In France, however, consumer groups were highly mobilised while industrial groups were relatively disorganised. Consumers were therefore more successful in influencing the policy agenda according to their own aims and, consequently, a system was implemented most closely resembling the protection model: consumers were seen as political citizens who had the right to be insulated from market risks.

The book is organised through more detailed investigations into different elements of consumer protection. An early chapter traces the development of a consumer interest through a study of the organised consumer movements of both countries. The early intervention of the German federal government into product testing in some ways served to weaken the consumer cause by making redundant the need for a strong independent movement (such as the Consumers' Association – now Which? – in the UK). Other chapters examine the nature of consumer risk and the liability mechanisms which have been introduced to alleviate it, the regulation of advertising, the provision of product and market information, the use of quality certification schemes and design standards, the control over the writing of contract terms and the fixing of prices.

Unlike certain other works of political science, Trumbull is keen to present his findings in a highly readable and accessible manner. He has also spent a very impressive amount of time in the archives and demonstrates a deep level of knowledge about the countries he has chosen as his case studies. This is an excellent piece of research and writing. It will not only demonstrate the importance of consumption to his own discipline, but will be of interest from scholars in history, sociology, economics and consumer studies generally. No doubt there will now be further studies of consumer protection in other countries and further comparison of different protection regimes will appear. But, for these future works, *Consumer Capitalism* has certainly set the standard.

Book: Baecker, Dirk, 2006: *Wirtschaftssoziologie.* Bielefeld: Transkript.

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Rather than giving an introduction to economic sociology, Baecker ventures to make his readers familiar with his – and his teacher's Niklas Luhmann – systems theoretical approach to economic sociology. The compact, partly chatty, and partly densely written book starts with the observation that the ongoing rediscovery and reestablishment of economic sociology unhappily still refrains from general theoretical ambitions. Time has come, however, to assemble the bits and pieces of recent socioeconomic research and to renew Marx' idea of developing a general social theory of the economy. But instead of reducing social structures and processes to its 'real' economic basis and of analyzing the opposition of labor and capital as the dominating fault line of modern society, Baecker proposes to make the 'paradox of scarcity communication' the starting point and recurrent theme of economic sociology (ch. 1).

What distinguishes this proposal from the classic assumption that the economy deals with "the relationship between ends and scarce means which have alternative uses" is (i) that scarcity is not considered as being an objective feature of the physical world but as a social construction and (ii) that every effort to overcome scarcity necessarily reproduces or relocates it. Scarcity is not only a historically and culturally contingent phenomenon, but in itself an ambivalent or even paradoxical notion, because one's action to reduce his or her scarcity inevitably increases the scarcity of (all) others. Thus, economic sociology has to study why and where scarcity is deemed to exist and how societies manage to convert this at least potentially violent paradox into more or less peaceful economic transactions and/or productive wealth enhancing activities.

No doubt, this is one possible and even promising point of departure, and in Baecker's book there are many hints at how to historically substantiate this abstract reasoning. Weber's religious sociology, for example, must be read as an investigation of the ideological prerequisites of calculating and communicating scarcity. Further, the institutionalization of property or rather the articulation of its different forms is decisive for the development of any kind of exchange. Likewise, markets are no 'natural' spheres of economic encounter but underwent long, complex, and highly preconditional processes of social differentiation. "Boundary maintenance" is a problem every economy has to deal with. In fact, "the economy" cannot be separated from and juxtaposed to society but on the contrary must be conceived of as one of its integral, however disruptive and conflict-laden parts (ch. 4).

It remains unclear, however, why this sociologically indeed central insight presupposes and demands a strictly systems theoretical approach and vocabulary. And it remains unclear why Baecker rejects similarly minded embeddedness-studies as too simplistic, whereas Swedberg's interest-based economic sociology is seen as inherently compatible with systems theory. Yet, this surprising leaning might explain that the author interprets even gift exchange as one (more) form of scarcity communication. But if gift exchange were indeed just another strategy to execute an allegedly universal will of possession, one had to wonder whether scarcity communication – or the economy – can still be considered, as Baecker rightly maintains, as a "singular invention," instead of being "out there" since the beginnings of human existence.

However, the general advantage of a systems theoretical (maybe one should say phenomenological) viewpoint is that scarcity communication is not misunderstood as mere action but as action as much as experience. Everything one visibly does will be experienced by others. Conversely, every action is based on earlier experiences and the observation of others' actions. Indeed, this is no trivial statement, since scarcity communication, alias economic action, presupposes that bystanders and even one's 'business partners' at least temporarily accept that ego's reduction is alter's increase of scarcity. Thus, what economists rarely see but what in fact constitutes the core problem of every economic system is its basic need of being considered legitimate.

This "finding" also instructs the chapter on money (ch. 2). Baecker rightly assumes that money is not only a tool to circumvent the inconveniences of barter. First of all, money itself has to become accepted, i.e., it has to become accepted that there are instances, opportunities and, of course, collisions of interest which might be tackled and overcome by using a "media of communication" that transforms the ambiguity or "double contingency" of social interaction into a precise and definite settlement of accounts. In fact, the acceptance of money is the same as the differentiation of economic communication from other forms of communication. But since the establishment of different codes of communication does not mean that there is a clear demarcation of different fields of action (and experience), the legitimacy of actually using money in specific cases is not a definitely settled affair. In other words, where there is money, there is corruption. But even if Baecker clearly sees the "contagiousness" of monetary communication, he too strictly links it to rather technical advantages of the media – especially its ability to "liquefy" exchange – instead of analyzing the deeper structural causes of endless economic growth. The fundamental question why money not only represents but at the same time is value is not being posed.

In chapter 3 Baecker mainly follows and refers to Harrison Whites' analyses of markets as networks of "second order observation". It is convincingly made clear that the mechanism of peaceful or rather pacifying competition must not be misunderstood as a simple balancing of offers and demands but as a complex and necessarily non-transparent interplay of producers observing producers to find out what the consumers might desire, and of consumers observing consumers to find out which product might fulfill their whishes. Here one also finds the thesis that modern monetarized markets will always have to be complemented by organization, and organization (or economic planning) by markets, since markets are too quick and instable to allow desires to become products whereas organizations are too blind and insensitive to perceive the instability of needs. On this important topic, however, Baecker could have dwelled more extensively.

Chapter 4 finally pays tribute to Parsons and Smelser's rather neglected Economy and Society and, along their lines of reasoning, lists a couple of subjects a systems theoretically informed economic sociology should deal with. The chapter also repeats the claim that the economic and the social spheres cannot be opposed but that the economy must be conceived of as part of the society. Yet, even if one can frankly admit the truth of this statement, and even if one shares Baecker's view that the sociological study of the economy must not be radicalized to criticizing the economic system in general, I cannot see, as Baecker supposes, why and how the statement in itself should prove that the economy can only be considered as simply one among many functionally differentiated social systems, instead of being indeed something like the infra- or superstructure of modern societies. At least, the question should be dealt with.

Altogether, to profitably read Baecker's *Wirtschaftssoziologie* requires a basic familiarity with Luhmann's systems theoretical approach to the economy, and I wonder whether the reader would not be better off to directly consult Luhmann's and also Baecker's earlier socioeconomic writings. Nevertheless, the book is a good guide to the literature on which Luhmann's and Baecker's economic sociology is founded.

Ceterum censeo, although I seriously try, I cannot find the intellectual surplus value of reformulating otherwise "ordinary" wisdoms in a strictly systems theoretical language.

Ph.D. Projects in Economic Sociology

Civil Society from Abroad: U.S. Donors in the Former Soviet Union

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After the demise of the Soviet Union the US government and private American philanthropic foundations initiated programs supporting the development of post-Soviet civil society. These programs have centered on promoting non-governmental organizations (NGOs) and resulted in the creation of thousands of NGOs all across the former Soviet space, including Russia and Kyrgyzstan. I examine what the principal US donor organizations providing civil society assistance are; why they came to embrace the notion of civil society and view NGOs as the embodiment of civil society; how these donors have been promoting NGOs; and, finally, what the post-Soviet NGO looks like and how it interacts with donors, the public and the state. The analysis incorporates several literatures from different disciplines that are relevant for improving our understanding of the donor-NGO interaction but are rarely brought together in a sustained discussion.

Stated briefly, my main arguments are as follows. US civil society assistance is a mechanism for diffusing the organizational and cultural form of the professional NGO to receiving societies and, more generally, donors are important, but under-appreciated, agents behind the worldwide diffusion of Western organizational and cultural models. The donor-driven diffusion aims at imposing a familiar conceptual order on an unfamiliar institutional and cultural terrain. When US donors first set foot in the former Soviet Union, the organization of post-Soviet society was illegible to them. Populating the post-Soviet terrain with familiar organizational forms has made it more legible and created clients for donors' funds. After more than a decade of assistance, American donors became institutionalized having established a universe of post-Soviet NGOs vying for their continuing support. At the same time, although NGOs appear natural to US donors, they represent an institutional form unfamiliar to post-Soviet society. This unfamiliarity has not diminished after more than a decade of Western donor involvement, because NGOs' activities and discursive practices continue to be determined by donors' preferences and priorities. Therefore, unable to build a local constituency, post-Soviet NGOs derive their legitimacy from Western donors' financial and moral support; when the former seek to influence the post-Soviet state, they do so by appealing to donors. As the earliest, largest, and most vocal promoters of NGOs, US donors in particular act as mediators between post-Soviet NGOs and the post-Soviet state.

This research advances our current state of knowledge on the topic of US attempts to promote democracy and civil society in postsocialist countries in several directions. First, I seek to provide a counterpoint to existing accounts of US civil society assistance written – mostly by political scientists – within the framework of the post-Soviet democratization. These accounts, like the donors themselves, take for granted the desirability of Western-style professional NGOs for receiving countries, the superiority of Western models of social organization, and the notion that Western donor institutions are capable of providing the necessary guidance. In contrast, using the tools of cultural and organizational sociology my study recognizes these taken-for-granted assumptions and examines their implications. Once we stop viewing the emergence and growth of the post-Soviet NGO sector since the early 1990s as entirely self-evident and intrinsic to the presumed democratization, it becomes possible to see the agency of Western donor organizations actively populating the post-Soviet world with the organizational form of the professional NGO.

Second, because of my focus on donor organizations, I refer extensively to development studies that have long analyzed foreign aid, its origins, patterns, institutions, relations of power between the state and society implicit in aid's operation, and effects on the ground. Although US civil society assistance is a new kind of assistance that emerged in the early 1990s (and, as I argue in one of the dissertation's chapters, in response to the Soviet Union's demise), foreign aid itself has a much longer institutional history rooted in the confrontation between the United States and the Soviet Union. Despite the prominence of democracy and civil society promotion in US foreign policy and foreign aid rhetoric, civil society assistance provided by public and private donors constitutes a small share of the overall flow of foreign aid. In short, US civil society assistance is embedded in the larger foreign aid system, the implications of which have so far received scant attention from scholars of Western democracy promotion policies.

Third, the Russia-Kyrgyzstan comparison seeks to illuminate how the context of reception affects US civil society assistance. That foreign aid donors can produce change in countries as different in size and structural characteristics as Russia and Kyrgyzstan has been assumed rather than posed as an empirical question. My study shows that these two countries have a very different relationship to foreign aid. Kyrgyzstan since the early 1990s has become severely dependent on foreign aid whereas in Russia aid has played a marginal role. By examining the two countries' positions within the Soviet framework of center-periphery relations, I argue that foreign aid became entrenched in Kyrgyzstan within a short span of time because it transposed itself onto the earlier, Soviet, model of peripheral dependence on external resources. Soviet legacy made Kyrgyzstan both an eager client for foreign aid and a receptive ground for international donors seeking to make themselves relevant in the post-Soviet world. US civil society assistance constitutes a small share of the overall foreign aid flow for the former Soviet Union. In Russia, NGOs live off foreign assistance; in Kyrgyzstan, both NGOs and the state do. Therefore, in Kyrgyzstan foreign aid itself structures the context in which US donor-supported NGOs operate, and the latter have to confront both the illiberal host state and the multiple flows and goals of foreign aid.

Two dimensions of this research could be of particular interest to economic sociologists. One is the role of foreign aid as *the* principal channel for integrating small and aid-dependent countries, like Kyrgyzstan but unlike Russia, into global political economy. Civil society assistance is meant to complement the much larger flow of aid intended for economic and state reforms, which, in turn, is meant to open doors for foreign investment and other market-oriented developments. The other dimension, then, is the role of foreign aid and international philanthropy in shaping structural and institutional processes that underlie the creation of market economies in receiving societies.

My primary methods for studying the operation of US civil society assistance have been ethnographic observation and interviews. In the course of my research, I attended numerous donor-NGO events, such as seminars and roundtable discussions, in the United States, Russia, and Kyrgyzstan. In all, I conducted over 100 interviews with representatives of US donor organizations and local NGOs that took place in Washington, DC, New York City, Moscow, and Bishkek in 2002 and 2003. I also held numerous conversations with people familiar with the operation of US foreign aid from other institutions, such as academics, think tank experts, journalists, and government officials. Finally, I consulted a broad array of donor and NGO literature, documents produced by US government agencies estimating the size and evaluating the performance of US civil society assistance, and macroeconomic data for the two countries.

MNEs in the CEECs: Shaping the Microeconomic Architecture of States in the Context of EU Integration

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A huge literature is dedicated to the positive role of multinational enterprises (MNEs) and foreign direct investment (FDI) over host economies' productivity and exports. Scholarly work on the transformation of Central and Eastern European countries (CEECs) has given a specific flavor to this literature by generating knowledge about restructuring efforts of the post-communist states and the role of multinationals in the context of EU integration.

It is worth understanding, however, that FDI *per se* does not guarantee increased competitiveness and economic growth in the long run and what matters is the ability of the country to beneficially embed FDI. I consider that beneficially embedded MNEs are those multinational companies which are part of the national system of innovation, i.e. collaborate with local research institutes, universities, financial institutions, business organizations and also contribute for the local development by helping domestic companies to upgrade. In this light, this dissertation asks: 1) *Are MNEs embedded in the CEECs*; 2) *If yes, what determines beneficial MNEs embeddedness?*

I answer to these inter-related research questions by focusing on the agri-food sector. It is a sector with high importance for the local economy as employer and GDP contributor. But it has received relatively little attention by scholars. I undertake an in-depth study of the strategies of the largest food MNEs – Nestle, Unilever and InBev – in four CEECs: Bulgaria, Romania, Hungary and the Czech Republic. I rely on interviews with the CEOs of these companies at their headquarters in Vevey, Switzerland (Nestle); Rotterdam, Holland (Unilever); and Leuven, Belgium (In-Bev). The crucial finding is that these MNEs have the same policies in all four post-communist countries, but they differ substantially in terms of volume of investment, product portfolios and relations with suppliers. Hence, food MNEs are more deeply embedded in Hungary and the Czech Republic compared to Bulgaria and Romania. Then, the question is: what matters for firm embeddness if not the mother company strategy?

National innovation system literature gives an answer: what makes a difference is the absorptive capacity of the country, the role of formal and informal institutions, and the role of economic actors. Contrary to this view, the findings from my interviews conducted at the subsidiaries of Unilever, Nestle and Inbev in Hungary and the Czech Republic do not completely support this argument. After 2004, when these two countries joined the EU, the food MNEs, which seemed deeply embedded up to that point, closed (completely or partially) their plants and moved production to the neighboring economies. Why? I adopt an explanation from the strategic management literature which states that worldwide competitiveness of MNEs requires centralized management of their international business units; standardized products; focus on core businesses; economies of scale and scope. The search for synergies between the different subsidiaries that form the global structure of food MNEs leads to restructuring operations. As in the EU there are no more trade barriers, no protectionist measures from the governments and the logistics of goods is improved, MNEs can follow their efficiency strategies much easier. In this sense, the decision of a multinational to close a plant is based on efficiency motives.

The question whether the national innovation system has an influence over the level of embeddedness of food MNEs is irrelevant for Bulgaria and Romania as my analysis shows that these two countries have very weak innovation systems. The effects of EU membership remain to be seen as Bulgaria and Romania joined the EU club only in January 2007. It is likely that company restructurings will happen, but subsidiary closures should not be expected in Romania, being a larger market with high growth opportunities.

The dissertation concludes that the national innovation system is a factor that is not strong enough to lock-in food multinationals in a certain country; at least not when there is a liberal trade regime. The size of the market and the global company strategies are the factors which predetermine their level of embeddedness in the host economy.

Transformation of Organized Labor in Serbia, Slovenia and Poland after 1989: An Ideational Perspective

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This project explores the definition and transformation of organized labor after 1989 from similar, yet increasingly autonomous "transmission belts" in former socialisms of Poland and two republics of socialist Yugoslavia (Serbia and Slovenia) into radically different roles within the emerging new polities: neo-corporatist co-determination in Slovenia, labor instrumentalization in Serbia and neoliberal marginalization in Poland. My aim is to trace these processes and offer explanations for the patterns of strikingly different incorporation and institutionalization of trade unions within the emerging three polities.

Except for rare single case studies within the vast literature on the "transition" from socialism to market democracies, the transformation itself has not been grasped systematically at the medium level, focusing on an actor representing collective interests. At the same time, patterns of trade union incorporation, the impact of ideologies, along with the role of trade unions in the transformation have remained a neglected subject. In my analysis I bring in an ideational framework for studying systemic crises, through comparison of three significant cases.

If there are any East European socialist countries that can be considered workers' states in the strictest sense, then these are Poland and SFR Yugoslavia. Both countries constructed their "Third way" socialisms based on the ideology and (partly) institutionalized workers' self management. Moreover, in the context of harsh economic and systemic crises, the strongest labor movements in the last decade of socialism emerged exactly in these two countries. Yet, how to explain that the main candidates for neo-corporatist, worker self-managing societies transformed into a variety of political-economic settings, with essentially different roles for trade unions?

I hypothesize that ideas linked to actors (in particular the "elite") in the period of systemic crisis is of crucial importance for understanding the specific outcomes. My claim is that within the process of constructing relevant actors of the new polity, the interpreted socialist labor-related legacies and the participation of labor in the events between 1988 and 1992, along with the emerging new ideas, determined the way in which organized labor was defined and incorporated into the new political-economic settings. Moreover, the newly constructed role of trade unions, as defined in this early transformation period, determined the systemic position of labor in the new polities after 1992.

In my project, I first provide a comparative framework concerning the institutionalization and ideology of workers' self-management in socialist Poland and SFR Yugoslavia, especially reflecting on the fragile coalition between the communist parties and workers, and the changing contexts of socialist modernization and economic crises. Second, I compare the outcomes of different incorporation: the (constitutional) roles and strength of and relationships among (different) trade unions in Slovenia, Serbia and Poland from 1992 until 2005. Finally, I construct a theoretical model on the importance of ideas for institutional design during systemic crisis. I specifically focus on ideas of influential intellectuals, trade union leaders and decision-makers on the (new) role of organized labor. Relying on newspaper articles and other materials from archives, secondary sources and interviews with relevant actors, I apply a process tracing method in order to test my claims.

Who Governs the Bazaar: Politics, Policy, and Protest in Central Asian Markets

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During the Soviet period, despite the state's efforts to control trade through a centrally organized production and distribution system, bazaars continued to exist in Central Asia and were formally granted a place in the Soviet trade system in the 1930s as "kolkhoznye rynki" or farmers' markets. When the USSR collapsed, existing bazaars expanded in size/territory, and new ones mushroomed across the region. They are now the primary place to buy and sell goods ranging from produce to imported clothes and cars. Furthermore, many affiliated businesses, including credit, banking, and transport services, revolve around the bazaar. It is not surprising, then, that bazaars became the object of conflict and ownership struggles throughout the 1990s and up until the present.

My dissertation explores how and the extent to which state and political actors and institutions gained control of bazaars in Kazakhstan, Kyrgyzstan, and Uzbekistan. While in the West "state and political actors" and "businesses" are often juxtaposed, my research highlights the overlap between those who own and control bazaars on the one hand, and legislators, executive-branch family members, and municipal authorities on the other. Investigating these relationships between state and political actors and business in bazaars across Central Asia allows me to shed light on two other important dynamics: contemporary state policy towards bazaars, and elite and mass protest surrounding policies and ownership.

This study builds on the literature on post-Soviet political economies and societies by adding two new dimensions. First, bazaars are important institutions and assets in this region that have not been studied from the perspective of political science or economic sociology, despite the clear linkages between political power, bazaar ownership and state policy. My focus on politics, policy, and protest surrounding bazaars provides a lens through which to view changing patterns of social and political power in Central Asia today. Second, influenced by the work of historical institutionalists and economic sociologists, I situate my analysis of bazaars in the broader political, economic, and institutional contexts of each country. By focusing on concrete actors, policies, and institutions, I am able to trace the evolving contours of power and protest in Central Asia. Data and sources for my research include personal interviews and observations at bazaars, as well as statistics, books, and newspaper articles in Russian and regional languages.

Centralize to Liberalize? The Politics of Creating Electricity Markets in Post-Soviet Russia

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In the 1920s Lenin had an ambitious vision: the electrification of the Soviet Union. He realized the tremendous economic, political and symbolic importance of bringing electricity to all corners of the new empire, distilled in the equation "Communism = Soviet power + Electrification of the whole country." As the privatization of the "Unified Electricity System" (UES) began in the early 1990s, the extraordinary value of the assets of the electricity sector and the advantages of controlling power generators and transmission grids were obvious to many.

My dissertation examines the privatization of assets and the creation of the institutional framework in the electricity sector in post-Soviet Russia. During much of the 1990s, in a time when Moscow was struggling to retain political authority, regional governors and regionally-based industrialists sought, gained and held control over assets and tariff setting institutions in the electricity sector. In 1998, Anatoly Chubais, the archetypical liberal reformer of the early 1990s, became director of UES. He vowed to liberalize the electricity sector and create markets to attract investments for the ailing infrastructure.

The basic question of the dissertation is inspired by Polanyi's proposition that free markets require a concentration of power in the national state. My dissertation shows how the liberalization and the creation of the institutional underpinnings of the electricity market went hand in hand with a centralization of political power. In order to liberalize, Chubais and the central government had to centralize control over regulatory institutions. My dissertation traces the changing relations between reformers in Moscow and regional power holders in four regions (Irkutsk, Krasnoyarsk, Primorye and Kamkatcha) from the early 1990s until today. I take a sociological approach, allowing me to view markets as a set of interactions that are historically contingent and result from struggles between actors embedded in complex economic, political and social relations. I show why, how and how successfully Chubais and the central government wrested control over assets and institutions from regional actors during the process of unbundling and privatizing vertically integrated regional monopolies. I draw on evidence from local newspapers, from interviews with key stakeholders in Moscow and the regions, and on regional tariff statistics.

The implications of my study of the recent history of the Unified Electricity System are twofold: First, the power struggles between regions and the center provide a perspective on the interaction between Putin's establishment of a "verticality of power" and the economic reforms in a sector that had been a key resource for regional governors. (By controlling electricity sector assets and tariffs, governors could subsidize regional industrial elites, gain legitimacy among constituencies and assert their independence from the central government.) Second, the analysis of the rise and fall of regional-level control of regulatory institutions may contribute to debates about the building of institutions for market-led development in transition and developing economies. The project provides evidence of how the decentralization of economic decision making that liberalization aims to achieve actually required a centralization of institutional relations and regulatory decision-making.

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