

**The Meanings of Capital:  
States and Multinational Corporations in East-Central Europe**

Paper to be presented at the POLIS 2005 plenary conference, Paris: Sciences Po, 17-18  
June 2005,

Workshop 3 The market and the State: business interests and corporate strategies in the  
enlarged EU

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## ***Abstract***

This paper describes transformations of dominant state projects, accumulation strategies, and state forms they gave rise to in the Czech Republic, Slovakia, and Poland. It is argued that after a period of distinctive national projects, the post-socialist states in ECE have embarked on the developmental strategies based on supply-side management and foreign-direct-investment attracting. I describe a relative convergence towards an emerging dominant state form, which I call Porterian workfare postnational regime, and assess its consequences on the relation between the state and capital.

## ***Introduction***

Recent emergence of the ‘regional tiger under Tatras’ as the financial press would have the radical neoliberal reform in Slovakia marks a shift in the policy orientation in East-Central Europe (ECE).<sup>1</sup> This shift reflects in a particular way the after-Fordist transformations of global capitalism. The post-socialist states in ECE have embarked on the developmental strategies based on supply-side management and foreign-direct-investment attracting. In ECE after 1989, the practices of capitalist governance were inculcated in the complex processes of recontextualization within which the ‘inflows’ of such practices were not a matter of simple replications or homogenization, but processes whose outcomes depended upon the local history, its environment, and upon the strategies pursued by both local and ‘external’ agents.

This paper provides a Regulationist, state-theoretical account of the transformation of state form, intervention, and strategy in relation to their effects on the production and reproduction of capitalism in ECE (see Jessop, 2002; Boyer, 1990). The underlying concern of this inquiry is how the reproduction of capital accumulation, which includes the reproduction of labor-power as a fictitious commodity, can be achieved. Given the fact that the ECE states have experienced the transformation from state socialism to capitalism only recently, I focus not only on the *reproduction* but also on the very *production* of capitalist relations and forms. Thus, first, I investigate a state regime that enabled *generic* forms of the capital relation to institutionalize in ECE. My primary concern is to describe a *particular* state forms that have co-constituted specific economic dynamic in the ECE states. Thus, I describe emergence and transformations of dominant state projects, accumulation strategies, and state forms they gave rise to with respect to their functional adequacy in relation to the dynamic of

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<sup>1</sup> East-Central Europe is used here to refer to post-socialist states in Easter and Central Europe; in particular, I refer to the Czech Republic, Poland, Hungary, Slovakia, and to the Baltic States. The actual analysis deals with the Visegrad countries only (i.e. the Czech Republic, Poland, Hungary, Slovakia).

capitalist accumulation.<sup>2</sup> This endeavor is largely descriptive in its nature. However, I try to bring some theoretical flesh when accessing the implications of these transformations on the relations of state and capital.

First, I introduce methodology and analytical dimensions of this inquiry. Second, I focus on the role of the state in introducing generic forms of capitalist relation into ECE. Third, I investigate the transformation of particular state projects, state forms and accumulation strategies according to these dimensions. Then, I try to bring these threads together and provide stylized models of dominant state projects and accumulation strategies with respect to their functional adequacy to socio-economic reproduction in ECE after the fall of state socialism. I claim that after a period of distinctive national projects, there has been a relative convergence towards an emerging dominant state form, which I call the Porterian workfare postnational regime. Finally, I move down on the level of abstraction and describe the operation of the policy of investment attraction, which is one of the principal policies of the Porterian workfare postnational regime. Here, I consider the implications of the emergence of this regime on the relations between the state and capital.

### ***Analyzing the capitalist state and the state in post-socialism***

Given the incomplete, contradictory, conflictual, and crisis-prone nature of capitalist economy, the state and other extra-economic institutions have a crucial role in reproducing capital relation, which comprises both economic and social reproduction. An comprehensive analysis of the state in these respects has to go along four dimensions (Jessop, 2002). The first dimension refers to the role of state in securing conditions for the *continuation of private business* from the viewpoints of particular capitals and capital in general (i.e. realm of economic policy). Market forces alone cannot secure the basic conditions for capital

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<sup>2</sup> For a detailed discussion of the concepts of state project and accumulation strategy, see Jessop (1990).

accumulation that are unprofitable from the viewpoint of individual capitals. The second dimension relates to the *reproduction of the labor-power* from the viewpoints of particular capitals, capital in general, and workers (i.e. realm of social policy).<sup>3</sup> Labor power is a fictitious commodity (Polanyi, 1944/1957) – even though it is bought and sold in markets, it is not itself directly (re)produced in and by capitalist firms; therefore, its (re)production complementary with the requirements of capitalist accumulation is by no means guaranteed. The third dimension concerns the structured coherence in the *scalar organization* of economic and social policy. In order to achieve relatively stable conditions of reproduction of an accumulation regime there has to be a relative degree of structural coherence or compatibility between the ways of securing social and economic reproduction so that different forms, institution, and practices become mutually reinforcing or at least relatively non-contradictory. Finally, the fourth dimension refers to the primary *mechanism of coordination* (i.e. governance) of supplementing market forces in socio-economic reproduction and compensating their failure. There is no guarantee that any of these conditions for the relatively stable economic reproduction will be performed functionally from the viewpoint of accumulation; instead, it is a matter of evolutionary trial-and-error search with identifiable agents behind this process. These analytic dimensions cannot be analyzed separately but in their mutual articulation. Thus, one tries to identify a dominant state form which may co-constitute an accumulation regime.

When analyzing post-socialist regimes that introduced capitalist forms only recently, it is necessary to deal with the role of the state in relation to the capitalist accumulation on two levels. First, we have to focus on the *generic* features of capital relation.<sup>4</sup> Thus, one has to deal with the questions whether and how the basic forms of capitalist relation were

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<sup>3</sup> Social policy is analysed here primarily in the context of reproduction of labour power, which implies that some aspects of welfare are ignored.

<sup>4</sup> The generic features of the capitalist type of state comprise institutional separation of state and economy, monopoly on violence, tax state, specialized administrative body, rule of law, and formal sovereignty (see Jessop, 2002, pp. 36-48).

institutionalized and whether the capitalist state in the generic sense has emerged in post-socialist societies. Second, only after considering the problems on the generic level, we can deal with the *specific* forms of state and accumulation regimes.

A conventional Regulationist, state theoretical *form-analysis* cannot be applied when studying post-socialist transformations.<sup>5</sup> One cannot expect to identify coherent organization of social forms in societies in radical transformation. Moreover, we are dealing with social formations where the basic social forms are in the process of institutionalization and are thus possible contested by different social actors and path-dependencies. There are two solution to this problem. First, one may use form analysis by following Robert Boyer's distinction between two ways of understanding of social forms' hierarchies. Accordingly, in the periods of transformation, "[a]n institutional form may be said to be hierarchically superior to another if *its development implies a transformation of this other form*, in its configuration and logic" (Boyer, 2000, p. 291, emphasis original). That is, it may impose its developmental logic on other forms in the process of co-evolution (cf. Jessop, 2000a). The second solution is to give up the ambition of considering formal adequacy of state forms and conduct a path-dependent, path-shaping *functional* analysis of the state forms in respect to a particular dynamics of capitalist accumulation and thus to focus on the trial-and-error search for an 'appropriate' state form that would co-constitute a relatively stable accumulation regime. Since an object of regulation and its mode of regulation are mutually co-constituted; one cannot presuppose a functionality in advance. Thus, a state form would be functional if it co-constitutes with its object of regulation a relative structural coherence that manages to reproduce itself. Therefore, functionality is a descriptive feature of a state form, not an explanation of its existence.

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<sup>5</sup> A form analysis identifies dominant social forms (e.g. commodity form, exchange value, use value, money, capital, the wage form, the price form, legal form, and state form) and contradictions; investigates whether and how they correspond to each other (institutional separation of economic and political is advantageous but also

In the analysis that follows, I follow mainly the second solution. Thus, I assess primarily functional adequacy of the state form in respect to the particular dynamics of capitalist accumulation that this form co-constitutes. Thus, I try to identify a dominant logic of state intervention (if any) which may co-constitute a growth dynamics. The analysis on the level of generic forms of capital relation and capitalist state form follows the functional logic as well. Thus, I do not provide an ideal type of a formally adequate state for the transition from state-socialism to capitalism; instead, I deal with the functionality of the form that emerged in respect to introducing generic forms of capitalism.

### ***Introducing capitalism into East-Central Europe: The neoliberal transformational state***

The transition of post-communist regimes to capitalism started at the time when the global hegemony of neoliberalism was at its heights (cf. Bryant & Mokrzycki, 1994). Thus, the neoliberal premises and respective advisors shaped the policies aimed at radical systemic transformation from non-capitalist regimes to capitalist ones. The transition to capitalism was designed to be essentially market-led. The invisible hand of market, was expected to discipline social actors on the way to capitalism. The policies also included IMF's one-size-fits-all monetarist panacea of anti-inflationary policy based on fiscal and monetary restraint. Moreover, for various reasons, it was considered crucial to introduce the conditions for emergence of the market at once and as soon as possible. Thus, most of the policy packages implemented in the post-socialist state comprised above mentioned anti-inflationary measures of budgetary and monetary restraint, shock price liberalization, privatization, and shock trade liberalization. The similar policy configuration was implemented in all countries of ECE and in many other post-communist states. Moreover, speaking about the Visegrad countries, reformers' original neoliberal enthusiasm for austerity measures was not fully materialized. Hence, some form of compensation and compromise to preserve social

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problematic for capital accumulation and interest of capital; thus, form problematizes function); and it examines

cohesion was an important element of the policy-mix on the way to capitalism. For instance, Poland experienced huge political backlash against the downturn caused by the textbook shock-therapy measures; thus, already in 1991, Olszewski's government "forfeited shock therapy" and attempted at a social compromise by a more cohesion-oriented strategy (Orenstein, 2001, Chapter 2). Thus, on the level of introducing *generic* conditions of capitalist accumulation, we can witness a distinctive form of state, which I call *Neoliberal transformational state* (see Table 1).

Table 1 about here

The Neoliberal transformational state was relatively successful in the state of ECE. It institutionalized basic forms of capital relation such as money form, wage form, and commodification of labor power; moreover, it managed to create states that have basic generic features and fulfill basic functions of the capitalist state such as institutional separation between state and economy, monopoly of coercion, tax capacity, and the rule of law. However, the Neoliberal transformational state failed in these respects in the post-Soviet states, leading to what Burawoy (1996) calls "involution" to a non-capitalist social formation (cf. King, 2004). The basic measures of property-rights provision, institutionalization of wage form, tax-raising capacity have been comparable or similar in the ECE states to the situation in the advanced capitalist countries already in the early nineties; the figures also show that the turnover in barter, which indicates institutionalization of the market and social forms it presupposes has been very low in the ECE states too (WB, 2003, 2005; WB & EBRD, 2005). Moreover, World Banks' indicators of governance that basically measure the formal adequacy of capitalist state group ECE states close to the advanced capitalist states – in contrast, the post-Soviet states group at bottom (Kaufmann, Kraay, & Mastruzzi, 2003). The relative success in ECE in contrast to the painful failure elsewhere is usually being explained

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how the dominant forms shape possibilities of action – identify their strategic selectivities (Jessop, 1982, 1990,

by the presence of foreign direct investment in ECE, by ECE's favorable location, by the initial level of development, and by the inherited institutional framework (e.g. King, 2004; Myant, 2004; Boer-Ashworth, 2000).

***The state and the conditions for the continuation of private business (economic policy)***

After considering the successful introduction of basic forms of capital relation and basic features of the capitalist states in ECE, I move to the analysis of the *specific* features of state projects and forms in relation to the specific economic dynamic in ECE after the fall of state socialism. Starting with the realm of economic policy, I will depict transformations of states in Visegrad states along the analytic dimensions outlined above. As far as the early nineties are concerned, these specific and distinctive features are seen as a part of the broader project of the Neoliberal transformational state. Therefore, all these state regimes aimed at institutionalizing capitalist forms and relations. The neoliberal orientation explains the fact that in aiming to create capitalist economy and economic subjects, these states lacked any positive industrial policy: it was assumed that introducing basic and narrowly economic preconditions of market economy would be sufficient. The actors were assumed to 'know how' and if they did not they would be taught by the market. Thus we cannot speak about developmental states.

The economic policies in the Czech Republic (Czechoslovakia) in the early nineties were based on a peculiar mix of monetarism, economic nationalism, minimal regulation, and bank socialism. I call this policy mix *Klausian* as it very much reflects the way of thinking of the emblematic figure of Czech transformation, Václav Klaus. Klausian strategy included fiscal and monetary restraint; rapid privatization; intentionally weak regulation and control of

finance; and absence of positive industrial policy. In a naïve view of country's economic and industrial level, internal solutions, including domestic ownership was preferred (e.g. the privatization method was designed in order to prevent foreign capital to buy out Czech economy). Finally, there was an implicit policy of various forms of ad-hoc interventions to help bankruptcy-threatened enterprises (e.g. Myant, 2003; Orenstein, 2001). Klausian project however has been dismantled after the crisis of the mid nineties, which was largely caused by some of its elements. What followed was a sea change in thinking about economic policy of all key actors, indicating a broader shift in the hegemonic outlook of Czech policy makers. It is a shift from an internally-oriented economic nationalism towards an externally-oriented competitive policies of supply-side intervention. Since 1998, Czech Republic's policies are clearly oriented to attract 'appropriate' capital and thus manage insertion of locality to 'global' economy. I call these policies Porterian since the management of investment flows follows the place competition logic of Michael Porter (Porter, 1990). Accordingly, the policies aim at attracting skill-intensive and technology-rich investment and network investors to local institutions (clusters). The main policy instrument at the moment is the scheme of incentives subsidies for potential investors (offering tax breaks, job creation and training grants, low cost land) and emerging project of cluster promotion (see CzechInvest, 2004, 2005).<sup>6</sup>

After the split of Czechoslovakia in 1993, the Slovak part substantially slowed implementation of market reform. However, it maintained the orthodox macroeconomic policy stance pursued until 1993 under the Czechoslovak federation (Marcincin & Beblavý, 2000). Thus, for instance, monetary policy has been kept tight. Mečiar's government subordinated economic policy to its nationalistic project of Slovak resurrection. "[It] justified its privatisation policy in terms of the need to create a 'nationally conscious' entrepreneurial class capable of sustaining Slovak independence" (EIU, 1998, p. 20). Most state-owned enterprises have been privatized by direct sales while keeping the sale terms, ownership structure and identity

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<sup>6</sup> As in all ECE states, the subsidies package is offered to both foreign and domestic investors. However, given

of the new owners out of public control. The government stimulated domestic demand by huge debt-financed public investments in highway construction and other infrastructure. The specificity of this policy mix and enormous influence of then prime minister Vladimír Mečiar justifies calling this strategy *Mečiarian*. The 1998 general elections brought rightist coalition led by Mikuláš Dzurinda to power, which radically changed policy orientation of Slovakia. The government introduced fiscal restraint and subordinated its policy to boosting competitiveness and attracting foreign capital. In order to do so, the government pursues radically neoliberal reform of the state and provides investment subsidies (tax relief, training and employment generation grants, cheap loans). Slovak government has proven to be extremely accommodating in dealing with individual investors, willing to circumvent its own laws and giving up democratic accountability.

The strategy of economic reform in Poland was the least 'distorted' translation of the developmental panacea of neoliberal Washington consensus in ECE (cf. Williamson, 1993; Lipton & Sachs, 1990). Thus, its shock therapy was based on the monetarist reasoning of credit squeeze, fiscal consolidation, limiting wage growth, trade and prize liberalization, and absence of positive industrial policy. In contrast to the Czech Republic, the shock therapy did not include shock privatization. In Poland, we cannot observe such a sharp break in economic policy orientation as in the Czech Republic and Slovakia. The process of policy change has been much more gradual and continual there (Orenstein, 2001). However, we can witness analogous process of policy reorientation from a relatively inward-looking strategy towards an outward-looking one. Poland was offering different subsidies to foreign capital such as tax privileges and 'preferential regime' in its Special Economic Zones already with the emergence of *Solidarność* in the early nineties. However, its privatization strategy preferred domestic solutions (managers, employees), though keeping it relatively open to the foreign capital. There was a shift towards preferring foreign capital in privatization around

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the undercapitalised environment, it is provided mainly to foreign capital.

1995, which was also reflected in the increase in, till then relatively sluggish, FDI inflow (Uminski, 2001; Ádám, 2004). The attracting of FDI has become a key developmental strategy on various state levels (Young & Kaczmarek, 2000). The attracting of FDI follows the Porterian logic as it puts emphasis on bringing investment “concerning technological innovation” (PALIZ, 2005).

Hungary’s reform strategy has been gradualist and more cautiously designed. Generally adopting a case-by-case approach, an aggressive privatization policy has been pursued since 1995. Duet to high-level of foreign debt and its position in the global political economy, Hungary was “forced to steer privatization in a direction that explicitly favoured TNCs” (Uminski, 2001, p. 63). Hungary’s economic policy has been from the very beginning very much externally oriented, its policies have been the most accommodating towards foreign investors among the Visegrad Four. Until recently, no other country has been prepared to sell major stakes in sensitive or strategic sectors such as banking or energy to foreign capital. Hungary guarantees free repatriation of after-tax profit and capital. Many of earlier investment incentives have been phased-out; those remaining include investment tax preference of 50 percent (100 percent in priority areas), subject to the value and value added of exports produced, and a reduction based on a percentage of future taxes to be paid, subject to the share capital invested, environmental factors and export potential, deduction and depreciation allowances for plant and machinery, as well as tax preferences for offshore companies registered in Hungary. Companies operating in free-trade zones are exempt from customs and indirect taxes. Tax holidays are available for investments in the depressed east of the country. Hungary grants the most tax and import duty allowances for greenfield projects in the region (EIU, 2004a).

### ***State and the reproduction of the labor-power (social policy)***

While significantly varying in their shapes, all four countries followed similar paths of social policy transformation after the fall of state socialism. In the first year of transformations, countries established various welfarist social policy systems, putting much emphasis on wage regulation and on setting up unemployment systems. The industrial relations were quite specific during the early nineties since the interests of capital and labor were not necessary antagonistic. On the contrary, managers of large enterprises often welcomed protest from employees over social issues as it was a convenient bargaining issue in their quest for a help from the government (e.g. Myant, 2000). In the late nineties, ECE states began to transform their social-policy systems, converging and moving in a workfarist direction in line with neoliberal thinking and advice primarily from the World Bank.

The actual reform strategy of the early nineties in the Czech Republic could be characterized as “social-liberal” (Orenstein, 2001; cf. Dangerfield, 1997). The social protection was an aim in itself. An elaborate and relatively generous system of welfare provision was introduced in order to guarantee social peace during the process of post-socialist transformation. Social policies also included soft approach towards large enterprises to keep them from falling. The collective bargaining mechanism was established within tripartite structure. On this platform, the government negotiated a wage control system which meant that prices could rise faster than wages, but it was guaranteed that the latter would not fall substantially. Here, the government also committed itself to various safeguards for the lowest paid such as minimum wage. The wage controls actually continued until 1995 (Myant & Smith, 1999). Despite the devaluation of the generosity of the system and its targeting in the mid nineties, overall trends remained stable (Potůček, 2004). Slovakia introduced analogous welfare system and labour code. In order to prevent unemployment, it kept subsidizing large enterprises even after their privatization. Moreover, these enterprises were not entirely separated from the government as they were interconnected via dense clientelist networks. Mečiar’s government

also kept regulation of substantial part of consumer prices (EIU, 1998). In Poland, deep economic downturn of 1990-91 caused social and political backlash, which made policy makers to forfeit orthodox shock therapy by a more cohesion oriented strategy (Orenstein, 2001). Poland introduced relatively less extensive and more targeted welfare system, provided flat-rate unemployment benefits and minimum-wage regulation. The industrial relations were complicated by the fact that the main trade union actually functioned as a (ruling) political party, which resulted in a 'blurred' system of collective bargaining. A focal point of this 'blurred' industrial struggle was the institution of the so-called *popiwiek* tax on wage increase above a centrally mandated level in state enterprises, which, among others, was introduced to limit room for maneuver of workers' council. These bodies had power to dismiss managers without having to gain permission from the Ministry of Industry. Hungary has introduced probably the most generous welfare system in the former Soviet Bloc (Baxandall, 2002). It was exceptional in the coverage and generosity of its family benefit system, it also provided relatively generous unemployment benefits, health-care system, and guaranteed minimum wage. In order to shrink the pool of potentially unemployed, a number of policies, including parental leave, sick-leave, disability and early retirement benefits, facilitated exit from the labor market. However, in conjunction with other transformatory policies and problems, Hungarian welfare state failed to translate social spending into general welfare of its citizens (OECD, 1997; Boer-Ashworth, 2000; Baxandall, 2002). Hungary has imported the German system of national wage bargaining (Frydman, Murphy, & Rapaczynski, 1998). The government sought to depress wages by indexing them below inflation with the policies negotiated within this framework.

From the mid-nineties, ECE states begun to retrench their social systems. The retrenchment was most visible and dramatic in Hungary in 1995, when a Socialist government initiated severe cuts in welfare under the so-called *Bokros* package of reforms. Social-policy reforms not only dismantle and target welfare provisions but they also reorient social systems into a *workfarist* paradigm (cf. Peck, 2001). Thus, they are aimed at motivating welfare recipients to

actively look for job and discourage them from passively consuming benefits. Social policy aims at promoting workforce flexibility. It makes workers employable by training them according to the needs of capital (for example from Poland, see Young, 2004, p. 114). Slovakia is a European leader in reorienting its social system and labor code in neoliberal workfarist direction. As a result of a comprehensive flexibilization overhaul of the Labor Code in 2003, employers have received enormous flexibility in hiring and firing employees. In addition, Slovakia introduced highly regressive tax system, setting a uniform 19 percent flat rate for corporate and personal income, as well as for value-added tax (EIU, 2004c). Current policy-making context (environment of strategic selectivity) very much overdetermines the workfarist direction of the social-policy reform. First, the competitive orientation of economic policy is a challenge for welfarist and redistributive measures. Thus, the policy makers are concerned with the implications of social policies on country's competitiveness. It is extremely important that the welfarist and redistributive orientation is *perceived* as at odds with the locational preferences of mobile capital. We can witness the competition of regulatory regimes in these respects. Accordingly, the radical neoliberal reform in Slovakia by Dzurinda's government is an important reference point in this discussion about social policy in ECE. Second, current global political-economic configuration makes welfarist and redistributive strategy and demand-side solutions extremely difficult for the ECE countries. Global financial system puts severe constraints on the social policies with its monetary and fiscal imperatives (e.g. Gamble & Payne, 1996). The policy adjustment in Hungary and in the Czech Republic in mid nineties was largely driven by adverse financial flows. The *Bokros* package experience in Hungary demonstrated enormous influence that the IMF and WB may exercise to push social policies in the direction of residual welfare state and workfare strategies. Third, the enlargement and EMU conditionalities of the EU have been pushing ECE countries into neoliberal restructuring rather than exporting EU's solidaristic project (Böhle, 2004). Fourth, the neoliberal reasoning has achieved hegemonic status in the discourse regarding social policy in ECE. Its elements are both imported by international organizations and domestic in origin (cf. Bockman & Eyal, 2002). For instance, the ideational

origins of Slovak reform can be easily traced to the ideational production of IMF and WB; the underclass discourse of non-deserving clients of the welfare state has gained on importance.

### ***Primary scale***

For most of the nineties, the national scale was a primary scale of intervention in the ECE. For instance, in the Czech case, Klausian monetarist reasoning of national aggregates combined with some elements of the economic nationalism made the national economy and national society taken-for granted object of intervention. It was the national open economy with its family-silver enterprises that competed in the wider environment. Foreigners were generally not welcomed in the privatization. Industrial relations were negotiated on the national tripartite platform. Policy making was very centralized; for instance, during the 'large-scale' privatization, these were few colleagues and friends in Prague who would sit days and nights to make enormous amount of decisions about destiny of all medium and large enterprises in the country (Husák, 1997), the same was true in Hungary (Uminski, 2001). The late nineties have seen rescaling of the state in all four countries. The power of the national state has shifted and transformed upwards, downwards, and sideways.<sup>7</sup> The accession of the Czech Republic to the European Union in 2004 represents a decisive shift of state power upwards. For instance, in the sphere of economic policy, most of the ECE states had to back-pedal their investment-incentives schemes in order to comply with respective EU regulations. Other international governmental and non-governmental organization such as CEE Bankwatch network, play important role in the decision making and political struggles. Moreover, ECE states engage in supranational place marketing such as Euroregions (shift upwards and sideways) (e.g. Young, 2004). As far as the shift downwards is concerned, the Poland established regional self-governing units in 1999, Czech Republic in 2000. Polish *voivodships* and *gminas* have important autonomous role in place marketing, including

investment attracting; they can reduce local taxes and provided other incentives such as training labor force (Hardy, 2004; Young, 2004). In the Czech Republic, regional units have rather limited power; however, there are some areas where their power is significant or about to grow. The workfarist social reform shifts some of responsibilities to the municipal scale. These scalar transformation makes the ability of social actors to 'jump scales' an important asset in the social struggle. Moreover, rescaling, along with the shift of power sideways (see below), has changed role of the corrupt personal networks; these network thus can be utilized as a mechanism of interscalar and intersystemic steering (e.g. Drahekoupil, 2004a).

### ***Primary means to compensate for market failure***

State has been the main means of supplementing market mechanism in ECE. Even though the market had primary and superior role in the discursive construction of desirable governance mechanism in the early nineties, both direct state intervention and indirect steering through personal networks had an important role in economic governance in that time. Compensatory state was actively taking care of both moderating and compensating for social cost of economic transformation (Greskovits, 1998). However, some trends and governmental plans indicate that the transformation will probably shift some of the state responsibilities sideways. The growing importance of the non-governmental agencies and forms of public-private partnership are most significant in the process of investment attracting in which economic, state, and non-state actors operating on different scales meet (e.g. Drahekoupil, 2004b; Young, 2004; Hardy, 2004). For instance, in the Czech Republic 2004 has witnessed development of the policy to promote public-private partnership (PPP), including launching of the Centre for Implementation of PPP. The future will show how significant this change is.

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<sup>7</sup> In no way I wish to claim that the nation states are necessary losing power in rescaling. This is not a zero-sum game. Instead, the role of the state is being transformed, they are acquiring a different position in respect to the scalar dimension of politics (cf. Brenner, 1999).

### ***Towards a Porterian welfare postnational state?***

I have described distinctive features of ECE state projects and forms in relation to capitalist accumulation. The early nineties have seen crystallization of distinctive state projects (Table 2). Later transformations of these state projects went along similar lines. The Czech Republic and Slovakia have experienced radical transformation of their state projects since 1998. We have witnessed emergence of state projects and forms that co-constituted accumulation dynamics that failed to reproduce itself. I construct their models in order to depict specific features of these period, not to characterize a solution for reproduction of an accumulation regime. The transformations in Poland and Hungary was much more continuous and gradual. It seems that the developments result in a relative convergence of state projects in ECE. After assessing functional adequacy of respective state projects and forms, I describe the point of convergence: a model of the state form that is emerging in ECE, which I call Porterian workfare postnational regime.

Table 2 about here

The Czech republic of the early nineties has witnessed an emergence of a specific state project, *Klausian welfare national state* (KIWNS). It was presupposed and co-constituted by a specific economic dynamic, which Martin Myant named “Czech capitalism” (Myant, 2003, 2004). Thus, the monetary shock overkill of 1990 did not prevent economic recovery. Instead, few years after 1993 saw accelerating, low-wage low-inflation growth. This economic boom, which was often interpreted as a ‘Czech economic miracle’ proving neoliberal prescriptions right, was not a ‘non-hyphenated capitalism’ that Klaus had announced to construct; instead, it was largely based on particular driving forces produced by KIWNS’s policies that can hardly be interpreted as ‘laissez-faire’ like. The KIWNS was to a limited extent functionally adequate to the growth logic of the Czech capitalism. It compensated for limited adjustment in some enterprises by securing conditions of soft-credit.

KIWNS investment projects (such as rebuilding of infrastructure) and social spending also played an important role in stimulating demand. Further, KIWNS secured low-wage, low-currency value, and low-inflation environment. Among others, this environment enabled quick adaptation of existing enterprises, which was one basis of recovery from the depression.<sup>8</sup> Moreover, KIWNS had crucial role in securing social reproduction by socializing costs of transformation. However, Czech capitalism was not able to reproduce itself in the mid-term perspective.<sup>9</sup> The functional adequacy of KIWNS had its narrow limits. The factors that caused the downturn were largely the very driving forces of the Czech capitalism. The specific sources of growth were either exhausted (e.g. some transformation policies) or contradicted expanded economic reproduction (e.g. bank socialism and loose regulation). The Czech Republic experienced an economic downturn already in 1996. The government reacted by introducing two 'little packages' of restrictive economic measures. The packages were not able to revert the crisis; instead, they undermined some of the economic driving forces (Myant, 2003).

The story in Slovakia was to some extent analogous to the Czech one. It introduced a specific state project that proved to be to a limited extent functional for the local growth dynamic. Slovakia has experienced one of the highest growth rates among the post-socialist states in the mid-nineties. This growth was preconditioned on the specific policies of what can be called *Mečiarian welfare national state*. It was largely driven by domestic demand and by the exports of semiproducts and/or products with low level of processing. This growth dynamic was highly imbalanced and unsustainable (especially in the context of tight monetary policy) (EIU, 2004c; Marcincin & Beblavý, 2000). I surmise that Slovakia did not manage to develop a functionally adequate state form reproducible in the mid term

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<sup>8</sup> This often happened, however, by regressing to exporting products associated with lower level of development (Myant, 2003, p. 42).

<sup>9</sup> Thus, from a Regulationist point of view, it is clear that, even without considering its formal adequacy, the KIWNS was not a part of a mode of regulation.

perspective. Nevertheless, the radical policy reorientation of 1998 did not react directly on a crises of the Mečiarian model; instead it was driven by a political change.

Poland and Hungary did not experience such a distinctive period of a particular economic dynamic co-constituted by a specific state project. Hungary has been from the beginning very much externally oriented. It establishing itself as a low-cost assembly area for EU based supply chains in the early nineties; however, government spending and small-medium enterprises were important driving forces of its growth as well (EIU, 2004a; Boer-Ashworth, 2000). After the shock-therapy big bang, Poland has been developing and adjusting its policies very much gradually and continuously despite the political turbulence (Orenstein, 2001). Its economic recovery has been originally driven by consumption, then by investment, and later on by exports (EIU, 2004b).

Table 3 about here

From the vantage point of 2005, we can witness relative convergence of the dominant state projects in the ECE states. I call the dominant state project that is emerging in ECE as *Porterian workfare postnational regime* (PWPR) – see Table 3. First, PWPR is a competition state that aims at managing insertion of local economies into the circuits of European capitalism. In doing so, it follows the *Porterian* logic of competitiveness that puts emphasis on attracting skill-intensive and technology rich investment and embedding it in the local economy.<sup>10</sup> One should be aware that it is the state *project* that is Porterian in its logic. The actual practice of investment attracting in ECE, however, very often ‘takes everything if big’ (e.g. Mallya, Kukulka, & Jensen, 2004). Very often the policy makers justify this by the assumption that the respective regions cannot afford to attract anything better. The quality is

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<sup>10</sup> The reference Michael Porter needs a qualification. Porter is putting emphasis on the domestic capital that is key to regional competitiveness accordingly (Porter, 1990). The developmental strategy of ECE states is based on attracting foreign capital instead.

expected to follow later. Nevertheless, the states ultimately aim at attracting the 'high-quality investment'. In addition to investment, the PWPR competes for funding and support coming from higher scales such as the EU.

Second, the social policy dimension of PWPR is *workfarist* in its orientation. It is subordinated to the project of investment attracting and economic competitiveness. As I have mentioned above, social policy aims at promoting workforce flexibility and employability according to the needs of capital. This does not mean that the social policy would be expected to be abolished entirely as this is rather unrealistic expectation (cf. Pierson, 1994), but the point is that the aim and orientations changes from entitlements and compensation towards meeting the demands of capital. In this context, it is important to reiterate here that the dominant perception of the locational preferences is crucial in this respect. It is the neoliberal 'low road' to development and cost competitiveness that is considered as crucial for locational decision of capital even though that much of the empirical evidence suggests that other forms of competitiveness are much more influential in Europe (cf. Cooke & Noble, 1998; Ryner, 2002). In addition, Porterian demand management has a redistributive spatio-social dimension in all four countries under consideration: PWPR aims at attracting investment to the underdeveloped regions, being more generous in its supply side intervention there.<sup>11</sup>

Third, given the process of rescaling that I have illustrated above, PWPR is *postnational*. The national scale is no longer a taken-for-granted primary scale of social action and state power. However, this does not mean that the national state would lose on importance and power. Instead, it is acquiring new role as far as the scalar dimension of politics is concerned. Finally, with a considerable hesitation, I call PWPR regime as it seems to me that different

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<sup>11</sup> This is interesting in comparison to what Brenner (2004) observes in European state restructuring. According to him, states cease to tame uneven development as they did with Keynesian management; instead, they promote competitive regions, facilitating thus uneven development.

non-state means of compensating market failure will grow on importance. However, there is no sufficient empirical evidence of this process in ECE at the moment.

PWPR is distinct from the state form that is crystallizing in the advanced capitalist countries as a result of a search for an solution to the crisis of Fordism. Jessop characterizes this form as *Schumpeterian Workfare Postnational Regime* (SWPR) (Jessop, 2002) – see Table 4. Indeed, many social forms and projects have been imported to ECE from the advanced capitalism including the elements associated with the SWPR. The appropriation of these forms was a process of selection and recontextualization. Moreover, ECE is an integral part of the European capitalism for quite some time and thus part of these social forms. The distinctiveness of PWPR largely reflects the mode of insertion of ECE into the flows of European capitalism. It is a question, which cannot be answered here, whether, or in what time horizon, can we expect a process of convergence. As the names of the models indicates, the main difference in their orientation is that, in contrast to SWPR which promotes innovation in the Knowledge based economy (KBE), PWPR's aims at attracting 'appropriate investment' in a global economy of flows.

Table 4 about here

PWPR is acquiring functional adequacy in the states of ECE as it is the 'foreign capitalism' that is an important driving factor of growth in ECE these days (Myant, 2003; EIU, 2004a, 2004b, 2004c). This is not surprising as all the local articulations of the Neoliberal transformatory state in ECE lacked the developmental dimension (positive industrial policy). Instead, its comparatively underdeveloped industries were exposed to external competition from the beginning of transition.<sup>12</sup> The experience of the advanced capitalist countries has shown that the industrial sectors have to be nurtured before they are able to compete. Thus,

while having not developed domestic capital to be competitive, the ECE states have to rely on foreign investors. Not surprisingly, the foreigners have proven to outperform domestic firms substantially (e.g. Uminski, 2001; Zemplerová, 2004; Rojec, 2001).

### ***How does the PWPR actually work?***

By no means can a possible functional adequacy of the PWPR explain its emergence. State transformation is not a matter of necessity or automatic steering towards an 'adequate' regulatory regime; on the contrary, it must be perceived as one of the possible and contingent outcomes of the search for a solution to the transformational dilemmas of the ECE states. The PWPR is a political project with social forces behind it. In this section, I present empirical material from the Czech Republic in order to show how the PWPR operates and to identify some of the social forces that stand behind it or act through it. Thus, I explore some directions that a possible explanation of the emergence of PWPR can follow.

At the moment, the primary economic policy of the PWPR in the Czech Republic is the attempt to attract foreign investors. In order to do so, it provides the investors various kinds of subsidies such as tax relieves, provision of land and necessary infrastructure, grants for employees training, etc. I briefly present three cases of major investments supported within the framework of investment incentives in order to show the nature of the service that the state provides to the investors.

*The case of LG Philips.* TBA (ELS, 2005)

*The Case of Nemač.* TBA (Drahokoupil, 2005; ELS, 2003)

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<sup>12</sup> Paradoxically, the exceptions were some sectors that were bought by foreign companies who were able to negotiate with the state their protection (e.g. Pavlínek, 2004b).

*The case of TPCA. TBA*

There is a recurring pattern present in all the investments. The investor, the state, and a municipality conclude a contract or a 'memorandum of understanding' obligating the investor to invest specified amount of money and create a number of jobs. The state and the municipalities, on the other hand, commit themselves not only to provide financial and realty subsidies but also to guarantee that the decisions of state institutions related to the investment (e.g. construction permission process, land-use decision) will be subordinated to the interests of the investor. The obligations of the state can go even so far that it guarantees that the expropriation of land will be executed before a given date. The relation of the investor, on the one hand, and the state and municipalities, on the other hand, can be hardly characterized as equal not only because of the nature of mutual obligations, but also because of the unequal nature of the sanction regime. Accordingly, the investor can withdraw from the contract while merely giving back some of the subsidies;<sup>13</sup> however, the state/municipality has to pay the investor relatively high fines if it does not manage to follow its obligations on time. In all three cases, we can observe a coalition of forces that promote the interests of investor and the investment scheme. Apart from the investor, the coalition comprises actors within various state apparatuses and private actors who benefit from the investment (local business). This coalition, by controlling crucial power position within the state apparatus, has been able to steer various decision making bodies on the lower and local levels of the state. It has been able to exert considerable pressure as it managed to promote the interests of investors not only against the interests of local citizens and environmental concerns, but also with disrespect to the legal regulations and even with methods that are on the margin of criminal activities. Thus, we can clearly observe enormous pressure from above on the lower levels of state apparatuses to satisfy the investors; nevertheless, it is an agenda for further research to map the operation of these coalitions on

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<sup>13</sup> See (Drahokoupil, 2003).

the level of the upper reaches of the state, which is the primary institutional location in this respect (cf. Poulantzas, 1978, p. 156).

The shift towards PWPR can be understood with reference to the theories of transnationalization of the state (e.g. Robinson, 2004; Cox, 1987, pp. 214-281). Accordingly, the state takes charge of the interests of transnational capital (Poulantzas, 1975, p. 73) and secures extra-economic conditions for the reproduction of the transnational capitalism (e.g. labour power, infrastructure). As Poulantzas would have it, the state is neither an autonomous subject nor an instrument of the transnational capital (or any other social group), it is a material condensation of social relations (Poulantzas, 1978, pp. 128-129). The process of condensation, however, cannot be understood as an automatic translation of structural features (e.g. transnationalization of production, FDI stock in the country); instead it is a result of particular strategies conducted in the path-dependent context of a given social formation in the uneven playing field of a given environment of strategic selectivity (Jessop, 1990). There has been a considerable research done on the strategies of European and transnational capital in relation to the EU's and international organizations' policies towards ECE countries and in relations to these countries as such (Bohle, 2005; Shields, 2004; Holman, 1998; van der Pijl, 2001). These studies show how the interests of the capital were translated into some of the policies. I have attempted to argue, however, that the shift towards PWPR, or the transnationalization of the states in general, is a local project at the same time. Thus, in order to explain, why the ECE states tend to represent the interests of transnational corporations more than before, we need to analyze not only the agency and projects of global/European capital, but also to take into account the local histories and path dependencies, such as the crisis of KIWNS in the Czech case, and strategies and projects of local actors. What is lacking, for instance, is the account of the formation of the local intermediary of foreign capital, 'comprador bourgeoisie' (Poulantzas, 1975, p. 71), and explanation of its role in the shift towards PWPR. In the Czech case, this would entail investigation of the Association for the Foreign Investment (AFI), which is an association of

business interests that benefit from foreign capital (financial groups, consulting agencies). AFI has vivid link to the investment promotion agency CzechInvest and organizes various lobbying activities. Moreover, it is probably a field of interest formation.

### ***Concluding remarks***

I have described transformations of dominant state projects, accumulation strategies, and state forms they gave rise to in the Czech Republic, Slovakia, and Poland. There has been a relative convergence towards the Porterian workfare postnational regime. Let me raise few concluding clarifications and caveats. First, I have investigated functional adequacy of the respective state projects and forms. It is an interesting question for future research, whether the PWPR may acquire formal adequacy to the emergent accumulation regimes. A thorough assessment of the potential of the PWPR to be a part of a (formally adequate) mode of regulation would have to leave the national scale. The potential object of regulation of the PWPR would be the ECE economic space as inserted to the globalizing knowledge based economy. Following the logic of scalar transformation, Czech PWPR as a mode of regulation has to be conceived as a part of the European triadic governance regime (possibly a SWPR). This is the level on which the emergent principal contradiction and dilemma can be addressed.<sup>14</sup>

Second, the emergence of PWPR is not a matter of necessity or automatic steering towards an 'adequate' regulatory regime; on the contrary, it must be perceived as one of the possible and contingent outcomes of the search for a solution to the transformational dilemmas of the ECE states. PWPR is a political project with social forces behind it. It is a challenge for future research to illuminate the conditions of its existence.

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<sup>14</sup> On the new contradictions and dilemma of the knowledge based economy, see (Jessop, 2000b; 2002, pp. 138-140, 271-275).

Third, in the cases of relative discontinuity (i.e. the Czech Republic and Slovakia), I have emphasized breaks in the dominant state projects. However, the transformation of the dynamic of accumulation has been much more gradual. The break here refers to the shift in the primary object of economic intervention, which is a subset of 'real economy'.

Finally, in the course of the presentation, I have mentioned some adverse consequences of the Porterian developmental orientation on social policy; however, it is necessary to be aware that even from a narrowly economic point of view, this strategy may be deeply problematic and thus should be object of critical social research (e.g. Turnock, 2004; Pavlínek, 2004a; Smith & Pavlínek, 2000).

## Tables

**Table 1 Neoliberal transformational state in ECE**

Shock stabilization
Shock price liberalization
Shock trade liberalization (+ reorientation)
Privatization
Some form of compensation and compromise to preserve social cohesion

**Table 2 State projects and forms in their 'economic' (capital theoretical) dimension in the early nineties**

<i>Distinctive set of economic policies</i>	<i>Distinctive set of social policies</i>	<i>Primary scale (if any)</i>	<i>Primary means to compensate market failure</i>
<b>Czech Republic</b>			
Nationalist monetarism; Minimal regulation; Bank socialism;	Silent' welfare provision; Tripartite collective bargaining; Low-wage low-unemployment policy;	Monetarist reasoning of national aggregates; Centralized administration; Economic nationalism in an open economy	Compensating state
<i>Klausian</i>	<i>Welfare</i>	<i>National</i>	<i>State</i>
<b>Slovakia</b>			
Nationalism with economic means; Debt-financed demand stimulation; Tight monetary policy	Employment-keeping subsidies to private sector; Welfare state; Consumer-prices regulation	Project of national resurrection; Centralized administration; Monetarist reasoning of national aggregates	Compensating state
<i>Mečiarian</i>	<i>Welfare</i>	<i>National</i>	<i>State</i>
<b>Poland</b>			
Shock therapy; Gradual privatization	Modest, targeted welfare; 'Blurred' collective bargaining; Wage indexation; Workers councils	Monetarist reasoning of national aggregates; Centralized administration; Shock therapy in an open economy	Compensating state
<b>Hungary</b>			
Externally oriented; Gradual reform; Aggressive, case-by-case privatization	Relatively generous welfare measures; Tripartite collective bargaining; Wage indexation	National open economy	Compensating state

**Table 3 Porterian workfare postnational regime [accentuation of trends]**

<i>Distinctive set of economic policies</i>	<i>Distinctive set of social policies</i>	<i>Primary scale (if any)</i>	<i>Primary means to compensate market failure</i>
Manages insertion of the locality to 'global' economy; Supply-side intervention; Emphasis on skill-intensive, technology rich activities	Subordinates social policy to economic competitiveness; Emphasis on employability; Downward pressure on the 'social wage' and attack on welfare rights	Shift of power both upwards, downwards, and sideways; New role of the national scale	[Shift to governance]
<i>Porterian</i>	<i>Workfare</i>	<i>Postnational</i>	<i>Regime</i>

**Table 4 Schumpeterian workfare postnational regime**

<i>Distinctive set of economic policies</i>	<i>Distinctive set of social policies</i>	<i>Primary scale (if any)</i>	<i>Primary means to compensate market failure</i>
Focuses on innovation and competitiveness in open economies, with increasing stress on supply-side to promote KBE	Subordinates social policy to an expanded notion of economic policy; downward pressure on the 'social wage' and attack on welfare rights	Relativization of scale at expense of national scale. Competition to establish a new primary scale but continued role of national state(s).	Increased role of self-organizing governance to correct both for market and state failures. But state gains greater role in the exercise of metagovernance.
<i>Schumpeterian</i>	<i>Workfare</i>	<i>Postnational</i>	<i>Regime</i>

Source: Jessop (2002, p. 252, Table 7.1)

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