Modern China

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*Modern China* 2008; 34; 165
DOI: 10.1177/0097700407308133

**Modern China**
Volume 34 Number 1
January 2008 165-175

10.1177/0097700407308133
http://mc.sagepub.com
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http://online.sagepub.com

# A Theory of Transitions

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This note offers three complementary comments on Sun Liping's essay, which appears in this issue. (1) The transition process China followed was indeed a unique path, but it is equally useful to distinguish among the divergent trajectories Eastern and Central European countries entered after the fall of communism. There are therefore three, rather than just two, trajectories leading out of socialism. (2) Nevertheless, there is evidence of some convergence among these trajectories during the past ten or so years. (3) Sun Liping concludes his article with a call for a sociology of practice. He recommends a focus on strategies of common people rather than elites. This is especially useful for the study of early stages of transitions, but with privatization of the publicly owned corporate sector, inter-elite struggle plays an increasing role in all former socialist societies.

***Keywords:*** *transition; convergence; practice; elite*

In this note, I offer some complementary rather than critical comments on Sun Liping's stimulating article. There is much I agree with in the article, and rather than dwelling on what are often only terminological differences between us, I want to emphasize the commonality of our analysis.

The aims of this note are threefold:

1. While I agree with Sun Liping that so far in the transition process China has followed a unique path, I believe it is equally useful to distinguish the divergent trajectories Eastern and the Central European countries entered after the fall of communism.[1] Based on my earlier work (Eyal et al., 1998; King and Szelenyi, 2005 and 2006), I describe *three*, rather than just *two*, trajectories after socialism.
2. Nevertheless, inspired by events since the late 1990s, I offer some revisions to my earlier theory of transitions. I present preliminary evidence of some *convergence* among these trajectories during the past ten or so years. This is as much an autocritique as a friendly dialogue with Sun Liping.
3. Sun Liping concludes his article with a call for a *sociology of practice*. He recommends a focus on strategies of the *common people* rather than elites. I sympathize with his position, but I argue that it is an empirical question in which part of the world and at what historical conjuncture history is driven by inter-class or intra-class/inter-elite struggles.

# Post-Socialist Capitalisms: From Socialist Convergence to Divergent Transition Strategies

## Convergences during Socialism

For some time after 1948-1949, the countries of the socialist world were on a rather spectacular path of convergence both in terms of levels of development and social, political, and economic institutions.

As Sun Liping points out, socialism was a distinct strategy of modernization and—let me add—one that particularly emphasized accelerated industrialization. In terms of economic growth, this benefited the less industrialized economies. Czechoslovakia (or Hungary or Poland), which was already quite industrialized, did not do as well even during the first epoch of socialism as did Romania or Bulgaria, which were mainly agrarian before socialism. China's economy grew fast before the grave policy errors of the Great Leap Forward and the Cultural Revolution. Hence, the initial developmental gap between countries entering the socialist path tended to close somewhat.

Institutional arrangements also converged during socialism. The Soviet model was followed even in China (Brugger, 1976), and it was quite rigidly copied in the European countries that became socialist under the occupation of the Red Army.

There should be no doubt about it: this socialist convergence was never complete. As Sun Liping correctly points out, there were substantial differences in the collectivized agrarian sector in China and the Soviet Union. Even the Central European agrarian cooperatives were not the same as the Russian kolkhozes, and the Chinese communes were grossly different from both of these collectivist forms. Some of these differences were caused by long durée effects (the Russian obshchina, the Chinese village commune, or the Central European latifundia had their impact on socialist agrarian organization). Differences in state policies, often stemming from competition or conflict of socialist countries with the Soviet Union (as in the case of post-1953 China or post-1948 Yugoslavia) also mattered. Nevertheless, the dominant feature of socialism was convergence at a similar level of development and a strikingly similar model of social and economic organization. All these countries were one-party states, legitimated by the ideology of Marxism–Leninism, and for all practical purposes they eliminated individual private ownership of the means of production and were based on a redistributive or centrally planned economy.

## Divergent Trends of Economic Growth during the Early Post-Socialist Epoch

As countries began to move away from socialism toward a market economy, they began to diverge again: each of the great historic regions—East Asia, Eastern Europe, and Central Europe—achieved different growth rates and eventually developed quite different institutions.

While the European socialist countries were stagnating during the 1970s and 1980s, China began its reforms and experienced a virtually uninterrupted rapid growth after 1978.[2] This trend was exaggerated as the socialist order broke down from 1989 to 1991 and a major transformational crisis evolved in all former socialist societies of Europe (Kornai, 1994), while China's growth continued uninterruptedly.

In terms of economic growth, the 1990s were a decade of substantial divergence even among the European post-socialist states. All former socialist countries of Europe were in free fall during the first years of the decade; Central Europe hit the bottom around 1995. The economies of this region grew fast during the second half of the 1990s and by 2000 they had fully recovered to pre-transitional levels. The economic and social decline in Eastern Europe was somewhat more subdued during the first years, but the decline lasted longer and the crisis was deeper. During the last years of the twentieth century, it appeared that Central and Eastern Europe were on different economic growth curves.

## The Three Pathways Leading out of Socialism

The three world historic regions began to differ from each other once again not only in economic dynamism but also in organization.

*The Chinese path*. The East Asian or Chinese path can be described by two complementary if not contradictory features. On one hand, the transition from socialism arguably began in China "from below." The reforms started in the countryside (and with agriculture) with the dissolution of collectives and the reestablishment of family enterprise (Sachs, 2005). As a result, in the early stages of the reforms—as Sun Liping also points out—the main beneficiaries of "market transition" were ordinary people, the "direct producers," in particular peasants (Nee, 1989; Szelenyi and Kostello, 1996). Market reform affected cities (the industrial and the tertiary sectors) much later, and initially it opened new spaces for small private businesses.

Even in the new economic zones, which were designed to attract foreign capital, for many years mainly relatively small investors—often Chinese living abroad—started businesses (Sachs, 2005). On the other hand—unlike in Europe—the transformation in China was guided by a *developmental state*. During the first two decades of the transition, the public sector was dominant in the urban economy and the government implemented industrial policies and pursued protectionist aims. If China by the first years of the twenty-first century was capitalist at all, arguably it was a sort of state capitalism where the state–Communist Party was a crucial balancing force among various social classes and social institutions. China was a mixture of "bottom-up" and state-led development.

As Sun Liping points out, the turn to market capitalism was much sharper in the former Soviet Union and its European satellites—because of the sudden loss of political authority of the Communist Party. In contrast to China, in the former socialist countries of Europe, capitalism was built "from above." But this top-down change was not directed by a developmental state; rather, it was promoted and exploited by various factions of the political and cultural elites. The transition to capitalism in the former Soviet Union and its satellites began with the privatization of the corporate sector, which offered various opportunities to elites to convert their earlier privileges into new ones or, if they were not privileged before, to secure privileges now for themselves.

*Eastern European neo-patrimonial systems*. Post-socialist European capitalism from above—so I have claimed—had two distinct forms. In some countries—in particular in Russia—the main mechanism of privatization was manager buyout and as a result often former managerial personnel, occasionally even former Communist Party officials, became the new owners. I called this type "making capitalists without capitalism" since, at least in early stages, until the mid-1990s, the transformation of property rights proceeded faster than the making of market institutions. Thus, for instance, while in Russia a new capitalist class was made almost instantly, barter still remained an important form of exchange (Burawoy, 1996; Burawoy, 2001a; Gustafson, 1999; Woodruff, 1999). Given the survival of the socialist patrimonial or paternalistic authority, some have called this form "neo-patrimonial capitalism" (Garcelon, 2005).

*Neoliberalism in Central Europe*. In Central Europe, the changes in economic institutions were faster, more radical, and more consistent than in China or in Eastern Europe. Public ownership was eliminated on short notice, and the economy, prices, and foreign trade were precipitously deregulated. These new capitalist systems arguably offered an even better fit with the neoliberal vision of capitalist institutions than those in the core countries, such as the United Kingdom or the United States, that have usually been seen as prototypes of neoliberalism. Property rights, however, in Central Europe often remained quite blurred. Managerial personnel—retained from the ancien régime or newly recruited—often exercised decision-making powers without becoming private proprietors. I have called this system "making capitalism without capitalists." Since after 1989 privatization was already under way in Central Europe, a capitalist "class" was emerging—but the corporate sector was privatized mainly by turning it over to foreign investors (King, 2000). Thus, "without capitalists" refers to the relative slowness of the emergence of a domestic "grand bourgeoisie," not to the absence of capitalists per se. Foreign direct investment, especially by large multinational corporations, led the transformation. Hence, another way of considering the Central European "path" is as making capitalism "from without" (King and Szelenyi, 2005), creating a region that is even more globalized than almost all other countries, at least in the developed world in the epoch of globalization.

How does the theory of multiple trajectories hold up in light of the development that occurred during the past decade? In some respects, there has been substantial convergence since 2000 in the post-communist world, but my contention is that some substantial differences remain in the "three worlds" of post-communist capitalism.[3]

## Prospects and Limits of Convergence during the Consolidation of the Market Economy

The trend of the initial post-socialist divergence changed, however, around 1999-2000. Growth in most of Central Europe slowed substantially, while Russia took off. During the first few years of the twenty-first century, the Russian economy outperformed those of Hungary and Poland every year, and the Russian growth rate was getting close to that of China. The gap that was widening between Central and Eastern Europe during the first ten transitional years began to shrink.

By the second half of the 1990s, economic institutions were converging as well. During the last years of the twentieth century, China began to privatize the state-owned public sector (Sachs, 2005) and opened up to multinational corporations as well. My characterization of China as "capitalism from below" fits best with the "first reform," that is, the epoch before 1989, than with the 1990s, and it might not fit at all with the first decade of the new century. Political capitalism was creeping into China as well. The Chinese nomenklatura had already learned in the township and village industries (Oi, 1999) how to take advantage of the market transition, and while the privatization of the corporate sector in China has been more gradual than in Russia, the beneficiaries tend to be the same: communist officials—and former officials—and their children and clients (Walder, 1996, 2003).

There was also some institutional convergence in the two worlds of post-socialist Europe. Central Europe is no longer a case of capitalism without capitalists. A new propertied domestic bourgeoisie is in the making, many of whom come from the ranks of former managerial personnel of socialist firms but some of whom have gained wealth in various ways, often in competitive markets. The Central European countries are today members of the European Union, and there are strong pressures on them to conform to the practices and institutions of Western liberal capitalism.

Russia also shows signs of some institutional convergence with the liberal model. Market institutions have become more clearly established—even Russia is hardly a case of "capitalists without capitalism." Yet we see intense struggle around newly gained property rights between the neo-patrimonial ruling elite and some of the wealthiest oligarchs. The Putin government even threatens to re-nationalize some of the oil industry, which was snatched by former communist cadres and turned into private property. This struggle, however, is mainly political. The neo-patrimonial political elite is on the move against oligarchs who have begun to have political ambitions. This is struggle for political power and not struggle against private ownership. Nevertheless, the role of barter has declined, market institutions have become more firmly established, and the oligarchs seem to be ready to make deals with the government about taxes and seem to realize that they need a more predictable business environment if they want to attract badly needed foreign capital and technology.

I completed the manuscript of *Making Capitalism without Capitalists*—my first comprehensive statement about the three post-socialist capitalisms—ten years ago. In writing this note (during the summer of 2007), there would be good reason to be more careful in distinguishing the various pathways from socialism. China may not be as exceptional as I tended to believe a decade ago or as Sun Liping suggests in his article.

But I do not want to push my self-criticism or the critique of Sun Liping too far. The central thesis of this note is still that this new convergence has its limits: there are still "three worlds of post-communist capitalism."

Given the privatization of the state-owned enterprises and the influx of multinational capital, precious little "capitalism from below" remains in China. Nevertheless, the Communist Party still holds a political monopoly, the state is still a developmental one, and ancient Confucian ideas of hierarchy and harmony appear to coexist or even compete with notions of liberal democracy (for various view concerning Confucianism and capitalism in China, see Eisenstadt, 1991; Guo, 2003; Yao, 2002).

Russia has rather well-developed market institutions by now, but social relations there are still rather patrimonial, and although these relations may not ipso facto dictate that society be dominated by autocratic rulers, at least some commentators believe they are deeply socialized by a populace ingrained in Orthodox respect for authority.[4]

Central Europe, given its membership in the European Union, is the closest match with what we know as Western liberal capitalism, but with a clear neoliberal bent. There are very high levels of dependence on multinational capital, some strongly pro-business policies (e.g., a flat tax rate in, for instance, Estonia, Romania, and Slovakia, and other countries are giving serious consideration to introducing such a tax system; O'Dwyer and Kovalcik, 2007), and a drift toward the British–American rather than European social model.[5]

## Class Struggle and Elite Conflicts

Is there still a Chinese path out of socialism? The short answer is yes, but in light of developments of the past decade, it is less and less a question of "capitalism from below" and more and more pointedly one of state capitalism. But where does this leave us with Sun Liping's attractive call for a sociology of practice and emphasis on the common people? To search for an answer, let me translate this question into my language and write about struggles between classes and elites as driving forces of history. Marx viewed history as driven bottom-up by the struggle of classes. Weber saw it as a top-down process, the result of competition among elite fractions. Who is right? I suppose the answer depends on the historic circumstances in question.

Undoubtedly, bottom-up processes—in my terminology, class struggle—were crucial in China during the first stages of the reform. They also played a substantial role during the 1970s and 1980s in some of the Central and East European countries (see Szelenyi, 1988). The early reforms by Deng Xiaoping, much like the post-1968 reform by the Kádár regime in Hungary, were concessions by a divided ruling class to peasants and peasant–workers in order to buy political peace. In 1986, when I prepared the introduction to my *Socialist Entrepreneurs*, which analyzed the rise of a new class of small, propertied bourgeoisie, I wrote about a “silent revolution from below.” Let me cite myself: “This book emphasizes the vital contribution of rural semi-proletarians . . . in pursuing their goals of economic autonomy and citizenship. The humble task of the sociologist is . . . to act as a witness to history, to record events of this . . . wave of silent revolution” (Szelenyi, 1988: 22). And again, “The Hungarian peasants and, half a world apart, their Chinese brothers and sisters have over the decades patiently educated their new masters: . . . agriculture—and, of course society too—works better if people are allowed to live their lives their own way” (Szelenyi, 1988: xv). I suppose this was as much a viewpoint from “strategies adopted by common people”—to use the terminology of Sun Liping’s call for a sociology of practice—as it gets.

Nevertheless, soon after 1989, I realized that in Hungary at least one of the great losers of the transition were the popular masses. Shock therapy and deregulation of imports and prices wiped out the “socialist entrepreneurs,” those who started to gain social and economic autonomy in the so-called second economy. Output prices were driven down by unrestrained competition from West European farmers and input prices skyrocketed due to deregulation of the prices of fuel and fertilizers. The beneficiaries of the transition in agriculture were former cooperative managers. Similar trends could be observed in the rest of the economy. The year 1989 turned into a “revolution from above,” in which popular classes were demobilized and intra-elite struggles drove the transformation.

Hungary was not exceptional. Processes in other former socialist societies of Europe were rather similar. The most intriguing case was the Polish one. In 1981, the level of mobilization of the Polish working class was unprecedented in world history. It appeared that the first truly proletarian revolution might be taking place against a state that claimed to be a “dictatorship of the proletariat.” By 1990, the Solidarity government, however, was anything but proletarian. While some former workers, such as Lech Walesa, still played a political role, the country was governed by technocratic experts, some coming from circles of intellectuals who supported Solidarity, others from the socialist state–party apparatus. The latter implemented neoliberal policies that were hardly in the interests of common people. And despite falling living standards and rising rates of unemployment, society was silent. There were no strikes or demonstrations like the ones that took place in Gdansk in 1981, and turnout at the first democratic elections was depressingly low.

If we want to understand why socialism fell in Europe and the direction the various post-socialist countries moved, we have to look carefully at what was going on at the top of the social hierarchy. In Russia in 1991, bureaucratic power was practically uncurtailed. Gorbachev tried to shift power away from the bureaucratic faction of the communist ruling class—the technocracy—but he failed. The Russian nomenklatura was able to convert its political privileges into private wealth. In contrast, in Central Europe the power of the bureaucracy was gradually undermined, and by 1989 a coalition of the technocratic faction of the former nomenklatura and dissident intellectuals gained political power. This new post-socialist power bloc aligned against the bureaucrats was a major constraint on private appropriation of public wealth. The former dissident intellectuals were moral night watchmen. Their new allies, members of the former communist technocracy, often were well-trained economists or engineers, so they knew that to transform the economy into a well-functioning one, firms needed new owners with capital and with niches in the world market. These "smarter" Central European technocrats did not even try to "steal" public property. Instead, they sold the firms they managed to credit-worthy Western business partners with networks in exchange for managerial positions.

Did the practices of common people matter? I am afraid they did not matter much either in the Eastern or in the Central European version of "capitalism from above." Post-socialist capitalism was made according to the Chicago cookbook of economics by "experts" with little concern for the needs or desires of common people. According to Jeffrey Sachs's own account, he drafted the fifteen-page plan to transform Poland from socialism to capitalism in one night, between 11:00 p.m. one day and the early morning hours of the next day (Sachs, 2005: 111–17). A very smart man, but certainly with no particular expertise in the Polish or generally socialist economies—this was certainly capitalism by design or by the cookbook, hardly informed by the experiences or practices of the people affected.

My *Making Capitalism without Capitalists* was at the time an autocritique of the view I presented in *Socialist Entrepreneurs* a decade earlier. I had to concede that the silent revolution from below I had described earlier failed: the changes in former socialist Europe came top-down. But I believed China was different: China was still capitalism from below. In light of the privatization of the urban public sector, the increasing role of multinational capital, and growing income inequalities, this seems to be less the case than it was ten or twenty years ago. While capitalism in China will retain some of its Chinese flavor, the gap between post-socialist trajectories seems to be narrowing, and the action seems to be taking place at the top of the social hierarchy in all transitional societies.

Practices of common people matter, but how much: is it more or less than they used to? This remains a question for careful empirical investigation and should not be treated as an epistemological assumption.

## Notes

1. By *Eastern Europe* I mean Russia, Byelorussia, and the Ukraine. *Central Europe* refers to the former Czechoslovakia, Poland, and Hungary. It is disputable how to classify the countries of the former Yugoslavia, the Baltic states, and Balkan countries. Arguably, as they join the European Union, they are shifting from Eastern to Central Europe.

2. In 1989-1990, China's annual growth rate was down around 4 percent, but since 1991 it has been close to 10 percent, and sometimes even higher. See http://www.chinability.com/gdp.

3. My theory of transitions (a theory of comparative capitalisms, what I also have called neo-classical sociology; see Eyal at al., 2001, 2003; and Burawoy, 2001b) is intended to be a contribution to the "varieties of capitalism" literature (Esping-Andersen, 1990; Coates, 2000; Hall and Soskice, 2002). It adds post-communist forms to the list of different types of capitalisms identified by other authors.

4. A Russian think tank, Society Project Institute, carried out a public opinion poll of a large random sample in November and December 2004. Of the respondents, 73 percent told the interviewers they most trusted the presidency of the Russian Federation. The second most-trusted institution was the church (at 59 percent), followed by the army (at 50 percent). The least-trusted institutions were the parliament, political parties, and the media. Furthermore, most respondents, if asked to choose between freedom and equality, opted for equality. It is debatable whether these attitudes reflect nostalgia for state socialism or a rejuvenation of orthodox values, expressing respect for order and authority.

5. The social welfare system has been the last to be reformed in post-socialist societies; that is the case in Central Europe as well. But as the new EU members are pushed by the union to balance their budgets and make their welfare provisions market conforming, ironically they seem to be moving more toward the Anglo-Saxon system of pensions, medical care, and tertiary education rather than adopting the European social model, no matter how much ideological commitment the European Union has to it.

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