

Imre Lévai

## The Evolution of Welfare Systems: Social Democratic and Social Autocratic Paths

*Students of global and regional political economy have produced a vast literature on divergent paths of capitalist evolution. The evolution of welfare systems, in general, and their different paths, in particular, have also widely been analysed in economic and social studies. The author, joining the discussions from a world system perspective, makes an attempt at presenting a global and regional political economic comparison of the seemingly similar welfare systems that have evolved in Northern and in Eastern Europe. The apparent convergence of the Sovietic type to the Nordic social democratic pattern is scrutinised, distinguishing it from the latter by the “social autocratic” label.<sup>1</sup>*

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Following the example of the pioneers of comparative social studies (historian *Arnold Joseph Toynbee*, political scientist *Karl Wolfgang Deutsch*, anthropologist *Clifford Geertz*, among the most authentic and genuine authors), students of global and regional political economy have produced a vast literature on the divergent paths of capitalist evolution. (For a good selection of comparative studies see *Crouch – Streeck 1997; Hall – Soskice 2001; Kitschelt et al. 1999; Rhodes et al. 1997*) Such comparisons between “varieties of capitalism” are not without antecedents. Contemporary commentators on the diversities of capitalism duly recall the bold initiation and major contribution by *Andrew Shonfield* (1964), who compared the basic institutions and post-war evolution of capitalism in Great Britain, France, Germany, Italy, and the USA, and stood firmly for a European Community protecting the values of the welfare state and social democracy. Some of the other major contributors speak of two opposing types of neo-liberal and regulated capitalisms (*Hooghe 1998*), while others make a distinction between neo-American and social democratic models (*Wilks 1996*), and still others talk about unfettered and institutional capitalisms as two different paths and patterns (*Crouch – Streeck 1997*). A more systematic exposition of *differentia specifica* of social structures of accumulation was presented by *David Gordon* (1980): he proposed the

*Scientific advisor, Institute for Political Science HAS (levai@mtapti.hu), associate professor, King Sigismund College, Budapest (levai.imre@zskf.hu).*

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following thirteen specific features of different “patterns of accumulation” (*cf. Lévai 2001*) to be scrutinised to see the differences between historical paths (*Gordon* confusingly speaks of “stages”) of accumulation in capitalist societies:

1. Corporate structure;
2. Structure of competition;
3. Structure of class struggle;
4. Structure of the monetary system;
5. Structure of the state;
6. Structure of natural supply;
7. Structure of intermediate supply;
8. Social family structure;
9. Labour market structure;
10. Structure of labour management;
11. Structure of final consumer demand;
12. Financial structure;
13. Structure of administrative management.

One of the less sophisticated studies by *Gerd Junne* (1999) examined scenarios of changing relations between different economic blocs. It concluded that after neo-liberalism, the age of state intervention and “managed rivalry” was to be expected. New trade conflicts would stem from state activities in different trade blocs with different traditions. International interdependence has reached such a degree, however, that protectionist measures may hurt not only foreign actors, but also domestic interests. The result would be a delicate balance between liberalism and protectionism, with a permanent shift back and forth in the different trade blocs. *Junne* recalled *Michel Albert’s* distinction between Anglo-Saxon and Rhineland cultures of capitalism (*Albert 1991:12–21*), summarising their major characteristics in a simple table. (See Table 1)

Table 1

### Differences between Anglo-Saxon and Rhineland Capitalisms

	Anglo-Saxon capitalism	Rhineland capitalism
Income differentials	High salary differences	Small salary differences
Social security	Little social security	Well-elaborated system of social security
Recruitment	Hire and fire	Conservation of human capital
Type of work	Highly Taylorised	More versatile jobs
Source of capital	Stock exchange more important than banks	Banks more important than stock exchange
Attitude to credit	Borrowing is stimulated	Saving is stimulated
Regulation	Comparatively little regulation	More intensive network of regulations

Source: (*Junne 1999:115*)

Most of the contributors took the above *Albertan* scheme as their starting point and went on with the Anglo-Saxon and Rhineland models refined. *Martin Rhodes* and *Bastiaan van Apeldoorn* (1997), following *Henk De Jong* (1995) and *Piet Moerland* (1995a/b), defined three system types by keeping the Anglo-Saxon system and by dividing the Rhenish one into two sub-systems: under the division of continental “network-oriented” capitalism, they got the Germanic or “social market” and the Latin or “pragmatic” sub-divisions of capitalism. *John Groenewegen* (1997) saw only the contemporary three major centres of world capitalism: the Anglo-American model, the Continental European System and the Relational Capitalism of Japan. *Robert Boyer* (1997) made a further sub-division but mixed up the above; thus, singling out distinctive forms of labour market, he had the following four types of capitalism: market-oriented (USA, Canada, Britain), Rhineland or corporatist (Germany, Japan), statist (France, Italy) and social democratic (Sweden, Austria). *Jonas Pontusson* (1997) defended the Swedish model against the German (“Rhenish”) one, rebutting the insinuation by Albert that in the battle of capitalism against capitalism the first casualty in the ranks of the Rhineland model would be Sweden. As an exception to the rule, *Susan Strange* (1997) stood more for convergence than divergence of different forms of capitalism. As I see it, in the ascending phases of world economic long cycles, it holds generally and obviously true, but in descending phases capitalist evolution seems divergent instead, as can be witnessed empirically and immediately, without any further theoretical proof, after the “great bifurcation” of 1929–33. (Cf. Lévai 1996, 1998, 2006.)

From a systems perspective, *regionalisation in the global system* can be seen as *asymmetrical globalisation*, generating the space-time continuum of hierarchical “centre – sub-centre – semi-periphery – periphery” relationships under world capitalist order. The central, sub-central, semi-peripheral and peripheral sub-systems appear on the respective and functionally overlapping sections of that continuum and they may and do change places according to the differing patterns of accumulation of their internal physical and human assets and to the concomitant restructuring in the external environment of the global pattern of capital accumulation. Consequently, regions are distinct (integrated), historically evolved and asymmetrically interdependent (differentiated) sub-systems, with their own centres, sub-centres, semi-peripheries and peripheries within the global system of capitalism, the place and part of which are path-dependent on the evolution of internal and external political and economic institutions (on the so-called initial or historical conditions).

Obviously, regions are not merely geographical entities as *Samuel Huntington* (1998:130) intends to show, in order perhaps to expound his main (structuralist) idea in the most impressive way possible. Geographical proximity or neighbourhood and common borders do not create regions by themselves, whereas relatively distant places (e.g. nation-states) may constitute a functional region, having only symbolic external common (structurally even exclusive) borders. (Cf. *Giddens 1984:119–122.*) *Huntington* deserves credit for the interpretation of eight (Western, Orthodox, Chinese, Japanese, Islamic, Hindu, Latin-American and African) civilisations, a regional structure embracing almost the whole global system, by drawing up such symbolic (cultural) borders.<sup>2</sup> If he can be blamed for

<sup>2</sup> *Being an eminent structuralist-neorealist student of Toynbee, Huntington makes his point quite bluntly: “...by embracing two simultaneous opposing trends, the fragmentation-integration model fails to set forth under what circumstances one trend will prevail and under what circumstances the other will. [...] Viewing the world in terms of seven or*

anything, it is the over-generalisation of the symbolic-cultural borderlines, since this is what makes him accused of being a cultural determinist. As I understand, however, his scheme of clashing civilisations (*Huntington 1998: 245*) offers a model of complex economic, commercial and financial relations or networks among the major regional systems of global capitalism. By replacing the *Huntingtonian* “civilisations” with the notion of spatio-temporally differentiated and historically evolved and evolving *structures or patterns of accumulation, or “cultures” of capitalisms*<sup>3</sup>, one will get the regional mega-structure of global capitalist accumulation. (*cf. Lévai 2001*)

There also needs to be a radical reinterpretation of *Huntington’s* civilisations, when distinguishing between different regional patterns of accumulation of capital and patterns of exploitation of labour behind those. Think of the wide applicability, for example, of the “Indian” pattern to almost the whole of (not completely “Hindu”) South Asia and to some parts of South-East Asia – the main features of capitalism there can easily be detected. Similarly, instead of “Islamic” capitalism (civilisation), I would prefer to use the designation of “Arabic” pattern of accumulation, taking into consideration exclusively the common historical and cultural (not only spiritual but also social and economic) traditions and semi-peripheral social and economic attributes, fundamentally different from those of the other regional systems, and definitely not any kind of “racial” or “ethnic” differences. It is another matter that the Arabic pattern of capitalist evolution took root through the mediation of Arab merchants in different parts of the world.<sup>4</sup> Interpreting the evolution of different patterns of accumulation/exploitation and the reinforcing well-fare/ill-fare (*Zsuzsa Ferge’s [2001]* witty term) systems behind, the main topic of our analysis then is to inquire into the origin and nature of wealth/poverty of nations and regions in the historical and global context.

The evolution of welfare systems<sup>5</sup>, in general, and their different paths, in particular, have widely been analysed in economic and social studies right from the path-breaking contribution of *Gøsta Esping-Anderson* in 1990. His three (liberal, conservative corporatist, and social democratic) worlds of welfare capitalism had been heavily and duly criticised, and were subsequently corrected and refined by several authors (*cf. Deacon et al. 1997*) the major points of whose are summed up in Table 2 below.

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*eight civilisations avoids many of these difficulties. It does not sacrifice reality to parsimony as do the one- and two-world paradigms; yet it also does not sacrifice parsimony to reality as the statist and chaos paradigms do.” (Huntington 1998:36)*

<sup>3</sup> *There can be no doubt, moreover, that not only the emerged and emergent macro but also the micro patterns of accumulation (cultures of business) can conveniently be circumscribed after Albert’s different criteria and besides the two main macro systems several other sub-systems (e.g. Scandinavian or Nordic, Mediterranean or Latin, Benelux or Dutch) can be classified. (Cf. Lévai 2002.) This is what Jean-Pierre Lehmann (1997) could have had in mind when he set out to analyse the Anglo-Saxon, the Rhineland and the Mediterranean forms of corporate governance as well as the Japanese keiretsu, the Korean chaebol and the Chinese “bamboo networks”.*

<sup>4</sup> *For my reinterpretation of Huntington’s “civilisations” following Albert’s basic criteria and separating the East European pattern see (Lévai 2001).*

<sup>5</sup> *The first consistent theoretical formulation of a man-centred modernisation (“welfare”) strategy appeared from the pen of the Nobel laureate American economist, Theodore Schultz, as late as the early 1970s (in 1971).*

Table 2

### Welfare regimes in OECD countries and Eastern Europe

Welfare regime type	Typical country	Entitlement basis of benefits	Distributional impact of benefits
Liberalism (Protestant liberal)	USA Australia	Commodified	Inequality
Conservatism (advanced Christian democratic)	Germany France	Semi- decommodified (insurance)	Status differential maintained
Social democratic (Protestant social democratic)	Sweden Denmark	Decommodified (insurance)	Redistribution
Late female mobilization	Japan Spain	Semi- decommodified (insurance)	Status differential maintained
State bureaucratic collectivism	Bulgaria Russia	Decommodified (work loyalty)	Proletarianized but privileges

Source: (Deacon et al. 1997:42)

In what follows I will make an attempt at presenting a global and regional political economic comparison of the seemingly similar welfare systems that have evolved in Northern and Eastern Europe. There is almost full agreement among social analysts that the Nordic (sometimes referred to as “Scandinavian”) model represents the welfare system “proper”, though doubts about the common features of the five states in the region were raised by even Nordic authors themselves (Anderson 1987). I will discuss the apparent convergence of the Sovietic type of what Bob Deacon (1992) called the “state bureaucratic collectivist regime” to the social democratic pattern, distinguishing it from the latter by the “social autocratic” label and having in mind Stephen J. Gould’s wise warning:

“... convergence, however stunning in general adaptive features of basic form and function, can never be intricately precise in hundreds of detailed and highly particular parts – because converging lines begin from such different antecedents and must craft similarities from disparate starting points.” (Gould 1996:118.)

### The Social Democratic (Nordic) Path

Analysing the specific conditions of welfare system evolution in Northern Europe, reference must be made to the historical circumstance that, instead of the classical Germanic form of feudalism based on bondage and vassalage, another social and economic formation, defined by Fernand Braudel (1984:249–256) as “fiscal exploitation”, emerged at the dawn of capitalism in Scandinavia – with quite significant differences from country to country. In the small peninsula of Jylland, the economic and geographical conditions proved to be relatively favourable for the evolution of Danish serfdom, whereas the vast territory of the Scandinavian Peninsula opened up undiscovered inhabitable areas to a relatively

small population for internal migration. At the same time, the system of taxation, built on a certain kind of “reciprocity”, established a specifically “democratic community” of interests between the Swedish aristocracy involved mainly in foreign trade, on the one hand, and the peasant society obliged mostly to pay taxes and rarely to perform other services, on the other. Honesty and solidarity thus became the adequate ways and means of authentic life in Scandinavia. *Assar Lindbeck* makes a strong point in this respect, worth quoting at some length:

“Another important experience in Sweden during the century from 1870 to 1965–70 ... is that public-sector administrators seem to have been relatively honest. This was certainly not gift from heaven. Corruption had flourished in Sweden during the mercantilist period in the second half of the eighteenth and early nineteenth centuries. One reasonable explanation for the relative absence of corruption in the second half of the nineteenth century and first half of the twentieth century is that public-sector administrators did not have much left to »sell« after mercantilist regulations had been lifted. A complementary explanation is that they were well paid, which may have reduced the temptation to accept bribes: they could afford to be honest. [...] It is also likely that honesty evolved into a *social norm* among public-sector administrators during this century-long period. A high standing with colleagues and the general public probably required honest behaviour, in the sense that others expected it. The emergence of such a norm was facilitated because it was highly consistent with the existing incentive structure for government officials. The social norm of honesty – an important aspect of the work ethic – was probably internalized by the public sector administrators, who incorporated it into their system of values.” (*Lindbeck 2001:148.*)

Overcoming the particularly unfavourable geographical and demographical circumstances, and having been predestined to a semi-peripheral place and part of Northern Europe in the general process and trajectory of European capitalist evolution, led to the end of an era of Danish-Swedish political rivalry and the beginning of social reconciliation and to the ultimate formation of Nordic regional identity (or, in other words, attractor of behavioural pattern).<sup>6</sup> This could hardly be made possible by appealing only to the wise consideration of the Nordic peoples. The Nordic regional system, taking a specific path of

<sup>6</sup> According to the comparative historical analysis by Iván T. Berend and György Ránki: “Much more unambiguous a phenomenon than the extraordinarily slow and inconsistent internal transformation taking place in Eastern Europe and the Balkans was the progress being made during the seventeenth and eighteenth centuries in the most developed area of the periphery, Scandinavia. The alienation of royal lands and rents in the seventeenth century strengthened the position of the great landowning aristocracy ... The process tied in with the emergence of manorial estates producing for the market, a phenomenon that was, however, more characteristic of the Baltic and Livonian territories of the Swedish Crown than of Sweden proper, where there was a stronger trend to peasant landownership. [...] The changes taking place in Sweden in the course of the eighteenth and the nineteenth centuries also strengthened the trend to capitalist agriculture. [...] The large-scale parcelling of farms consequent on the population boom of the eighteenth century, the transformation – through the redemption of dues – of crown tenancies into freeholds and of crown tenants into freeholders, the gradual cutting back of the nobility’s prerogatives and then their abolition ... all contributed to the steady strengthening of the peasantry. [...] Concurrent with this was the development of Sweden’s iron industry, and with it the growing influence of the new, wealthy industrial bourgeoisie. ... and though this was not enough to transform the structure of her economy, it certainly reinforced the trends to capitalism. In the social sphere, the changes of the eighteenth century were gradually transforming Sweden’s feudal social organisation into a bourgeois class society.” (*Berend – Ránki 1982:19–20.*)

social evolution, which could be referred to as belated or isolated solely by breaking the methodological and theoretical rules of historical and logical analysis of social systems, entered the global system of capitalism by playing the part of semi-periphery subordinated to the centre and sub-centres of it. It is an historical and a theoretical misinterpretation to portray the whole of Northern Europe as undifferentiated periphery of European or world capitalism. In the early ages of its history, the Nordic regional system also included internal North European centre-periphery relationships (genuine roles of periphery were played only by Finnish territories, occasionally by Norway and for shorter or longer periods by Iceland and Greenland), on the one hand, and external Nordic (undoubtedly short-lived) aspirations for central colonial power were displayed equally by Denmark and Sweden in actual peripheries of the world system (the former in the East Indies, the latter in Africa), on the other.

In order to understand how a potential regional structure becomes an integral sub-system of the world capitalist system one should analyse its geographically and historically determined internal relations and external conditions of evolution in their entirety. Northern Europe could and did become an identifiable regional system there and then where and when its social, cultural, and economic evolution, breaking its internal and external limits, made it not only possible but also inevitable.<sup>7</sup> (*Cf. also Neumann 1999:113–141.*) The industrial revolution, taking place more or less simultaneously on widely differing national bases but under quite similar international circumstances in the Nordic region, occasioned a parallel and self-reinforcing process of evolving national as well as Nordic identities in the second half of the 19th century.

The industrial revolution, that is the avalanche of accumulation of productive industrial capital replacing or, rather, surpassing the relatively slow flow of accumulation of commercial capital, inspired the path-dependent evolution of a particular social system in Europe, initiating the emergence of the historical preconditions for the North European welfare system.<sup>8</sup> As *Iván T. Berend* recapitulates in several places of his latest book:

“Welfare policy ... had a long history and was not a postwar novelty. Its roots also went back to non-socialist, paradoxically even anti-socialist politics of late-nineteenth-century Bismarckian Germany, and turn-of-the-century Scandinavia.” (*Berend 2006:191.*)

<sup>7</sup> “In the Scandinavian countries the theory that the community has duties towards its members beyond external defence and maintenance of internal order dates back for many centuries. Following the Lutheran reformation, when the State assumed control of the Church and its property, the public authorities also had to accept the important social welfare functions previously exercised by the Church. As elsewhere poor relief, locally administered, became the general method by which those in economic distress were assisted. It is significant, moreover, that in the Scandinavian countries the State very early sponsored programmes of public health and public hospitals, the first such institutions being established during the 18th century. Ever since it has been considered a matter of course that hospital care was a responsibility of the community. Also, for more than a hundred years the educational system has been based upon the public and free elementary school.” (*Nelson 1953:7–8.*)

<sup>8</sup> Here I can refer to the scholarly investigations by *Berend and Ránki* again: “In Scandinavia, foreign direct investment was significant mostly in the period when the economy got off the ground; by the time the countries of the area entered the period of »self-sustained« economic growth, development was backed mostly by domestic capital resources, with foreign capital being pushed into the background. The spin-off industries started by the export sector initiated a process of internal accumulation that was ever more capable of supplying the economy’s capital needs.” (*Berend – Ránki 1982:87.*)

And later, a bit more specifically:

“The development of mass democracies and the possibility of expressing and representing mass interests in legislation led to the spread of welfare legislation. Besides workers defending their interests, other layers of society exercised pressure on social issues. The peasantry and the middle class in the Scandinavian societies and the middle class in continental Europe often realized their interests via liberal and even conservative political parties. [...] Welfare policy, as a consequence, was expanded, and the first welfare state emerged in Sweden, under social democratic rule, from 1932.” (*Berend 2006:229–230.*)

Upon viewing the historical and cyclical evolution of the Scandinavian welfare system in the early 1950s, *George R. Nelson*, as an insider, did not lose sight of the occurrence of confronting political interests in the countries of the region from time to time. Still, he laid stress instead on the fundamental social consensus achieved in the course of common history:

“If Scandinavia appears as one unit to the outer world this is due to a large extent to the relatively harmonious and successful manner in which the three countries have managed, by legislation and collective action, in solving a number of those acute problems of community living which seem inextricably bound up with modern Western civilization. In this connection a prominent place is usually given to that wide range of activities which are considered by the Scandinavian peoples as belonging to the social field and which have for their common denominator the underlying conviction that society should be so organized as to ensure to any member a reasonable measure of security and well-being. This basic conviction is today shared by practically all Scandinavians, regardless of party colour. In spite of the considerable economic inequalities found even at the present time, it is safe to say that today in Scandinavia no one need go without at least the bare necessities of life. [...] The development of social welfare legislation cannot be attributed to any single political party. Undoubtedly the rise during the last two generations of strong Labour parties has been a factor of very great importance. Many of the early advances were, however, made by Liberal or Conservative governments and although most of the decisive reforms during recent decades have been made under Labour rule, often against stubborn opposition, it is true to say that today all major parties are in basic agreement as to the necessity and desirability of social welfare programmes.” (*Nelson 1953:7, 11.*)

The *Nordic “path”*, identifiable as a particular and irreproducible regional evolutionary pattern in the global capitalist order, *ascribes an active and institutionalised role to the state in the reproduction of labour-power* (model of “welfare states”), on the one hand, and *subscribes to a progressive and adaptive self-organising public and private part in the global and regional security and co-operation arrangements* (model of “small states”), on the other. (*cf. Lévai 2007*) This pattern is particular and irreproducible, not because the North European nations are “produced” by superior Nordic individuals with “particular” talent, but because the social evolution and institutionalization of these nations and of this region was conditioned by self-reinforcing (reflexive) and path-dependent (particular) historical and geographical (initial) circumstances. The social democracy inspired welfare system was part and parcel of the whole social and economic system right from the beginning

of Nordic regionalisation in the global environment. Its evolution did not restrict the freedom of the labour market; to the contrary, it strove to improve the market conditions of valorization and realisation of labour power not only on a national but also on a regional scale (the Common Nordic Labour Market from 1954). The specific pattern of capital accumulation inherent in the long-term economic policy of the social democratic welfare system was defined by the Hungarian economist, *András Bródy*, in the following way, almost four decades ago:

“Resources tied up in reproducing manpower tend to grow historically – not only in absolute terms but in relation to those tied up in production. Therefore we may conjecture that the properly orienting system of prices will deviate from classical production prices more and more and become nearer and nearer to value prices. If man becomes the greatest asset – if the resources tied up in its reproduction outgrow every other sort of funds – then the »two-channel« prices will approach value prices. Certainly the historical phase when we can neglect all investment except that tied up in reproduction of manpower is far off.” (*Bródy 1970:82–83.*)

At the cost of yet another lengthy quotation, I feel obliged to cite Nelson from 1952 on the functioning of the Scandinavian welfare system in order to make my distinction between the social democratic and the social autocratic patterns clear:

“Modern social legislation in all Scandinavian countries had its beginning shortly before or after the turn of the century when the great social insurance schemes were established and developed with varying degrees of public support. [...] Formerly based upon assistance to those in distress, social welfare policy has increasingly come to centre upon efforts for the prevention of such distress. Instead of treating the symptoms of economic insecurity it now attempts directly to attack the causes of poverty. With this reorientation social welfare policy is gradually being transformed into a policy of social planning centering upon programmes for full and productive employment, family welfare and housing, prophylactic health and rehabilitation of disabled persons. It has spread far beyond its traditional boundaries and considerations of social welfare today influence decisions over a wide range of government planning and action, especially in the economic field. [...] In its essence modern Scandinavian social policy signifies that the community has assumed the responsibility for ensuring a decent minimum standard in the life of every citizen. And it may be added that the standard applied, as yet modest enough, has been continuously rising. Clearly such a policy has aimed at and has also brought about a reduction of the previous gulf between rich and poor. Fundamentally, however, social policy can no longer be adequately defined in the simple terms of a redistribution of income, the taking away from the rich to give to the poor. True, the higher income brackets pay a higher proportion of costs, but to an increasing extent social measures, and especially those of more recent vintage, have assumed the character of public services and facilities which are in principle available to the whole population, regardless of economic circumstances. Feelings of compassion and social justice still play an important part as stimuli in many departments of social welfare. The main motive power is, however, today found in a conviction that numerous improvement in living conditions are best obtained through community action. An inevitable and recognized consequence of the resulting expansion of public activity is

that the great majority of beneficiaries have to contribute a considerable part of the costs involved.” (Nelson 1953:9–11.)

The wide-scale social consensus and a strong common Nordic identity provides broad space for internal and regional policies to assume different (Atlantic, Euro-Atlantic, neutral and European) and, at the same time, convenient and moderate places and parts in the foreign and security policy arena, and for acknowledged and distinguished “small state” and sub-regional status among the nations and regions of the globe. At present, the Nordic model, in general, and the “flexicurity” policy – in other words, integrating labour market flexibility and social security of the employees – adopted in different forms in the region, in particular, are viewed as examples to be followed and prescribed as “recipe for success” in the European Union (Jensen – Larsen 2005; Jørgensen – Madsen 2007), and in Eastern Europe (Cazes – Nesporova 2007; Paas – Eamets 2007). Flexicurity policies, relying on the internal economic possibilities and social pressures within the state space of the systems concerned, appear as adequate national and sub-regional responses to the challenge of globalisation and self-organising adaptation to the changing environment. The achievements of the welfare system, the high level of education and qualification and that of scientific and technological development may enhance dynamic comparative advantages not only for the North European sub-region as a whole, but also for the employees and employers of the Nordic nations on a regional and global scale. (C.f. Kosonen 2001:171–172.)

### The Social Autocratic (Sovietic) Path

Viewed from a world system perspective, the revolutionary attempt to secure “victory of socialism in several or even in one capitalist country alone” (Lenin 1976 [1915]:631) may be seen as a co-evolutionary path having arrived at an involutory (protectionist) pattern of state capitalism. Instead of feeding back profits of accumulated capital into the complex system of society, that is tying up investments in the reproduction of manpower, the use of physical and human resources were governed by the state to restore the autocratic social system as a whole. Autochthonous accumulation of capital and exploitation of labour by the state should have served the aim of technological modernisation in a “catching-up” race with liberal private capitalism, but this path inevitably led to the creation of sectoral inclusions in the economy and to the emergence of ideological exclusion in the society. What the East European people had “in place of the old bourgeois society, with its classes and class antagonisms”, was not “an association, in which the free development of each is the condition for the free development of all” (Marx – Engels 1977 [1848]:127), but a new class society with new class antagonisms. The welfare systems of protectionist state capitalisms in Eastern Europe did not evolve in a democratic self-organising way<sup>9</sup> (“from below”) by the society but<sup>10</sup>, to the contrary, the system of welfare measures were introduced and governed

<sup>9</sup> Abram de Swaan (1988) traces the evolution of welfare systems back to the modernisation process in Western societies.

<sup>10</sup> János Kornai advances my comparison by the following remark: “All over the world there are political currents that use the term »socialism« in a normative sense, attaching specific ethical principles to it. Although they interpret the value system of socialism in a number of different ways, most have a constituent in common: they see the combating of poverty and helping the needy, weak, and disadvantaged as one of the main objectives of socialism. By this definition, a socialist state has a duty to redistribute material welfare more fairly. Now measured by this yardstick, the

(“from above”) by the state and merely appended to the whole social autocratic system to counterbalance low levels of (net) wages and thus to ensure its smooth functioning. *Claus Offe* correctly emphasises the “associational weakness” or social inertia in the East European states (*Offe 1994:241*) but he is sadly mistaken when he compares an allegedly highly integrated social policy in the East to the separate institutional welfare system in the West (*Offe 1994:235–239*). No doubt, the “productivist” system of social autocracy could and did oblige the state-owned enterprises and institutions to perform welfare functions for their employees, but these functions were not at all integrated in the basic structure of the system as *Offe* appears to believe (in the sense of investment in more productive workers) – recreation e.g. in the company- (or the infamously dysfunctional trade union-) owned resort-hotels was financed from meagre profits or even losses and/or state subsidies and was intended to alleviate the otherwise heavy (implicit) tax burdens of labourers. To put it in more abstract technical terms: the redistribution of the national income functioned as an “equaliser”, defusing potential economic and social tensions, among employees under protectionist state capitalism, but did not assume the function of “amplifier” in the system of quantitatively and qualitatively extended reproduction of labour power, specific to a social democratic path of evolution. *Iván T. Berend*, speaking of an undifferentiated state socialism in Central and Eastern Europe, unintentionally describes a redistributive welfare system, oblivious of its economic and social system specificities, that could generate envy among people in other parts of the world:

“The creation of a welfare state was a deliberate part of the Bolshevik Revolution. [...] The Soviet regime, and then Central and East European state socialist systems, introduced an even broader welfare system, including guaranteed full employment, free education at all levels to university, and free health care to every citizen, though on a poor level. Families received a fixed amount of child support per child. Extended maternity leave ... also became part of the welfare package. Hungary, twentieth among the European countries in per capital GDP, was twelfth in social insurance spending. Welfare policy, as a consequence, somewhat counterbalanced Third World-level wages.” (*Berend 2006:165–166.*)

A more critical *János Kornai*, evaluating the achievements of the “socialist system” and qualifying its welfare sub-system as “premature” relative to the “maturity” of the economic system as a whole, takes a surprisingly uni-linear evolutionist standpoint<sup>11</sup>:

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*classical socialist system just partly fulfils its mission. Some of its institutions help fulfil it, while others hinder; its policy in this respect is inconsistent and self-contradictory. For those who consider this criterion the hallmark of a socialist social system, the Scandinavian countries have made far more progress toward socialism than the socialist countries.”* (*Kornai 1992a:327.*)

<sup>11</sup> *Analysing the special case of Hungary, he cannot escape the uni-linear trap either: “The Hungarian welfare state was born »prematurely«. There is generally a close positive correlation between a country’s level of economic development and the scale of its welfare services. Development is not the only factor, but it is undoubtedly among the decisive ones. Hungary was ahead of itself in this respect. To a certain extent, the classical, prereform socialist system rushed ahead when it made a constitutional commitment that it would satisfy a number of basic needs free or for minimal recompense. It introduced free medical services and education and introduced a pension scheme covering almost the entire population; it subsidized the prices of foodstuffs, set rents for state housing at an almost nominal level, and so on. Later on it proved incapable of keeping its promises. Chronic excess demand appeared for the free or unrealistically cheaply priced services, and the quality of them was often very poor. Added to the unkept promises of the classical system were the new concessions introduced during the process of reform that began in 1968. It was one of the characteristics of the Hungarian reform, sometimes referred to as »goulash communism«, that it tried to turn its back*

“There is certainly no question of the socialist system bequeathing a mature welfare state. They are inconsistent, distorted, »premature« welfare states that have committed themselves in their inherited legal systems to welfare tasks they are incapable of fulfilling to an adequate standard owing to their low level of development. The system of old-age pensions is very extensive, but the living standard provided by most of the pensions is one of penury; everyone is entitled to free medical care, but the health service is seriously backward. In the Scandinavian countries, where the most highly developed form of welfare state can be found, a start was made to organize such institutions and legally enacting the state’s welfare obligations only *after* several decades of unbroken economic development. Fulfilment of the welfare tasks undertaken by the state in the post-socialist region, amidst recession, inflation and high foreign debt – in other words macro-disequilibrium, promises to pose a grave and persistent problem. For all these reasons, deep dissatisfaction among broad strata of people over the stagnating or falling material standards of living, and the unemployment and social insecurity suddenly falling on them, must be expected for a long time to come. It will be hard under the circumstances to ask people to make further sacrifices. That is another reason why the rectification of the macro-disequilibria will be protracted, not to mention the dangers the discontent poses from the point of view of maintaining democracy.” (Kornai 1993:62.)

The self-restoring social system described above is what I call social autocracy irrespective of the label the governing state attaches to it<sup>12</sup>, on the one hand, and of the ideological prejudices of some critics of the system<sup>13</sup>, on the other. None of its parts or sub-systems is, however, to be seen as “premature” or “over-mature” – the whole system continues to evolve

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*on the previous policy of forced industrialization and devote greater attention to the needs of the general public. A measure of liberalization was accompanied by a growth in the political influence of the forces known as the »living-standard advocates«. However, the gulf between promises and their fulfillment remained and in fact widened due to the slowdown and then the stagnation in economic growth. Some new concessions were granted, while others were withdrawn. Finally came the political turning point, and the population – understandably from a psychological point of view – expects the new system to fulfill the promises made, but not kept, by the old. People are irritated by the state interfering in their private lives and harassing individuals, but many of them still want a caring, paternalist state as well.” (Kornai 1992b:15–16.) Kornai did not hesitate to invite attention even of the first Socialist-Liberal coalition government of Hungary after the “change of regime” to the “pre-maturity” of the welfare system maintained. See Kornai 1997:156.*

<sup>12</sup> *In a thoroughgoing opus ambitioning the analysis of the socialist system and laying the foundations of the political economy of communism, the author should have been more precise than just restricting the scope of his inquiry the following way: “Could not one term socialist a Scandinavian welfare state where for decades there was a social democratic government and where a large degree of egalitarian redistribution has taken place? Or could one not so describe some African and Asian countries, which may not have a Marxist-Leninist party in power but consider themselves socialist and have certain features of a socialist kind? This book provides no answers to these questions. ... it has no desire to take a position on whether systems like those just mentioned qualify as »true« socialism. All that needs pointing out for fear of misunderstanding is that the expression »socialist system« in this book exclusively signifies the system in the countries run by a Communist party. Other systems are mentioned only for the sake of comparison and otherwise fall outside the book’s subject matter.” (Kornai 1992a:11.)*

<sup>13</sup> *“The claim that contemporary Communism is state capitalism [emphasis in original – I.L.] is prompted by the »pangs of conscience« of those who were disillusioned by the Communist system, but who did not succeed in defining it; they therefore equate its evils with those of capitalism. Since there is really no private ownership in Communism but rather formal state ownership, nothing seems more logical than to attribute all evils to the state. This idea of state capitalism is also accepted by those who see »less evil« in private capitalism. Therefore they like to point out that Communism is a worse type of capitalism. [...] Even if it is accepted that it has many of the characteristics of an all-encompassing state capitalism, contemporary Communism also has so many of its own characteristics that it is more precise to consider it a special type of new social system.” (Djilas 1958:172.)*

in its own path-dependent way, conditioned by particular historical and geographical circumstances. *Berend* – without any reference to *Kornai*'s usage – uncritically takes up the misleading attribute “premature”:

“On an orthodox ideological basis Stalinism scored important achievements in social policy. Several major steps were made to broaden social insurance and build up a premature [italics mine – I.L.] welfare system in the early fifties. The Stalinist dictatorship and its violent class policy, however, openly discriminated against large numbers of the population. The private peasantry, still the greatest part of the population in most of the countries, was excluded from most of the welfare measures. Discrimination affected small-scale businessmen and in certain respects even intellectuals, let alone »alien« class elements and their children. The »attentive« state thus sought to protect and assist only a minority of the population. Moreover, governmental care was drastically counterbalanced by oppression, police terror, and brutality. Social policy, the building of a consistent social safety net and, given the economic standards of the countries, a *premature* [italics mine – I.L.] welfare system became prevalent during the post-Stalinist decades. Social policy measures were nationwide and applied to all citizens. Egregious discrimination against significant layers of society disappeared.” (*Berend 1996:165.*)

And later again:

“Because of its ideological underpinnings, state socialism built up a welfare system that included free medical and educational services, a low retirement age and long, partially paid maternity leaves. Moreover, staple food products, rents, children’s clothing, and cultural services were highly subsidized. State socialism combined a very low, virtually non-European income level with a *premature* [italics mine – I.L.] complex welfare system. The deepening economic crisis of the 1980s already undermined this welfare system. Its basic institutions, however, did not change until 1990. From that time on the decline was startling. This was partly a natural consequence of marketization. The expansive welfare system, which created an unbearable burden on the state budget and was one of the sources of the malfunctioning economy, had been inefficiently run and offered increasingly diminishing services. The system was ripe for change. Its gradual erosion, however, was taking place without the replacement of a new social safety-net ...” (*Berend 1996:345–346.*)

Adherence to a uni-linear “stages approach” to social evolution would lead to democratically unjustifiable conclusions, anyway:

“Another problem ... is the growing view that free trade unionism is somehow incompatible with economic development, that only the most highly developed industrial democracies can afford the »luxury« of independent unions. This belief is shared by individuals from a cross section of the ideological spectrum: foreign policy specialists, businessmen, and of course, those sympathetic to those forms of authoritarianism under the guise of »socialism«. Although the notion that free unions and economic advancement are incompatible is usually raised in connection with the Third World, this view also influences attitudes toward the Eastern bloc. These countries, it is asserted, could not have achieved their level of economic

growth or modernization without adopting centrally planned, command economies which tightly control, restrict, and regiment the workforce.” (Karatnycky et al. 1980:10.)

A protectionist social system, functioning at the upper limit of its capacity, can enhance its adaptive potential not only by increasing but also by decreasing its complexity, thus taking a devolutionary path. And this is exactly what happened to the social autocratic systems of the East and Central European region: being incapable of adaptive self-organisation, these systems, having arrived at a point of bifurcation, took a new, but quite similar to the old, trajectory of social evolution. The ruling “new class” of labour aristocracy under protectionist state capitalism, having formally adopted democratic structures of political institutions, responded to the global challenges by adapting some of the social sub-systems, including their welfare systems, to the changing regional economic and political environment with a view to European integration, in general, and to the legal requirements for acceding to the European Union, in particular. (Cf. Deacon 2001:70–71.) Liberalisation and privatisation were meant to be the proper ways and means of modernisation by breaking unilateral (protected) economic and trade relations with the Russian Empire, and by integrating the huge informal sector in the formal (taxed) sectors of the economy and business, respectively, but the system of welfare redistribution remained seen as an appended social burden to be reduced, and policies of reinvesting extremely high tax revenues in “human capital” (more precisely: in human infrastructure and superstructure, i.e. in health and environmental protection, communication and transportation, on the one hand, and in science and technology, education and culture, on the other) were repeatedly declared but ultimately neglected or definitely ignored.

It is at this point where the East European pattern of accumulation, transformed into an appendix-like structure and resembling the Latin American semi-periphery (Nowotny 1997), appears about to enter the picture as an “overcome and preserved” sub-regional system of European capitalism. It characteristically bears the marks of *relatively intense and structurally asymmetrical dependence on the international economic, commercial and financial systems* (“dependent” accumulation) and also those of a *relatively large sub-system of traditional and informal functions* (“primitive” accumulation) in the national economic system (cf. Böröcz 2000; Lévai 2002). In place of an asymmetrical dependence mainly on the “Rußland” and partly on the “Rhineland” sub-centres before the 1989–93 “small transformations” (cf. e.g. Böröcz 1993; Lengyel – Rostoványi 2001), the East European semi-periphery from the Baltic to the Balkans is now dependent mainly on the Rhenish sub-centre and partly on the Anglo-Saxon “hard core” (Böröcz 1992; Lévai 2002). Semi-periphery is to be understood as a regional system behaving structurally and functionally mostly as periphery and less as centre *vis-à-vis* other regional systems and not as a region “in-between” in the latter loose sense of Wallerstein (1974:349) but in the former complex sense of the same author (Wallerstein 1984:97, 1985). (Sub-centre conceived accordingly.)

Taking a stand on the controversial issue of “East” or “Central” European identity or culture (a perpetual controversy initiated by Milan Kundera in 1984 and escalated by Timothy Garton Ash, Michael Mertes and Dominique Moïsi in 1991 on the pages of *The New York Book Review*) let it suffice to quote the head of the Russian Research Centre at the Norwegian Institute of International Affairs in full agreement with my view:

“The discourse on Central Europe was and is a moral appeal to Western Europe on behalf of an imagined community born of frustration with the Soviet hegemony in Eastern Europe. As with any other sign, attempts to grasp the meaning of Central Europe without taking context into consideration are futile. Only when that hegemony started to slip was this discourse able to make the impact on the wider foreign policy debates in the West that was desired by the participants. ... After the regime changes in Czechoslovakia, Hungary, and Poland in 1989, the existence of the discourse provided a framework within which appeals to Western Europe for assistance and inclusion could be made. [...] Appeals to Western Europe on behalf of Central Europe are consistently made by differentiating Central Europe from a barbarous East – first and foremost Russia.” (*Neumann 1999:158.*)

Differentiating – even if not by the “degree of barbarism” –, however, cannot be avoided since the Commonwealth of Independent States formed in the early 1990s with Russia, the “New Byzantium” (*c.f. Toynbee 1948:164–183*) in the centre, and the post-Soviet (only partly Orthodox Christian and mostly Asian) states, in the periphery, appears and acts as a self-contained regional system or sub-centre of the global capitalist system. It is in this sense that, taking account of common marks of the historically evolved pattern of accumulation with its Byzantine impressions, one can speak of “East European” capitalism of countries East of “Rhineland” and West of “Rußland” and retain an understanding about Central Europe being the structurally and functionally central part or sub-system of “Rhenish” capitalism in the geographical and historical sense, i.e. in the sense of Continental Western Europe dominated by the Germanic pattern of accumulation.

The above interpretation of Eastern Europe as a self-contained, though semi-peripheral, regional system may remind the students of history of another perception of an East Central Europe locked between Western and Eastern Europe, as expounded by the late Hungarian historian, *Jenő Szücs* (1988). The only major and essential difference between the two interpretations is that the former – contrary to the latter – does not visualise shallow and deformed structures of East European as compared to the West European path of social evolution. In my view, none of the sub-centres and semi-peripheries (or peripheries) is merely a “distorted” version of an ideal or typical centre or some kind of “mixture” of eastern and western (or southern and northern) characteristics of social evolution. Each regional system (dominant and dependent alike) emerges as an historical pattern of the multi-linear evolution of global capitalism, with its own particular (path-dependent) social, economic, and cultural trajectory. *Kornai*, trying to avoid the inconvenient consequences of his uni-linear view of social evolution instinctively perhaps, unmistakably calls attention to the path-dependency of welfare system evolution in a metaphorical way<sup>14</sup>:

“... it is extremely important to remember where one is moving from and to. It is one thing to decide whether a state should give its citizens a right they have not enjoyed before and another to decide to withdraw from them a right they have gained and become accustomed to. A curious *institutional ratchet-effect* can be seen here. The cogwheel of historical development turns one way, but it cannot turn back in the opposite direction. If Britain

<sup>14</sup> It is interesting to note that *Huber and Stephens (2001)*, strongly emphasising the path-dependence of welfare system evolution, consistently use the term “ratchet effect” but without any reference to *Kornai*. See particularly *Huber – Stephens 2001:14–38 and 312–345*.

had not had a national health service already, the government of Margaret Thatcher would certainly not have proposed introducing one; but as it existed before Mrs. Thatcher's time, her government did not suggest closing it down." (*Kornai 1992b:16.*)

Obviously, the peoples of Eastern Europe, having liberated themselves from the fetters of social autocracy, did not want to take an all-too-well-known unfettered path of liberal capitalist evolution, as was observed by several Western scholars (*cf. e.g. Galbraith 1992; Wright 1996*) They would rather have chosen the more attractive path towards a generous welfare system of the so-called regulated social market economy of the Western type. Understandably, anything "social" sounded quite frustrating to the ears of the people at large for some time (*Offe* empathically raises this point: 1996:240), but East Europeans came to terms with social democracy finally – for certain periods at least. Now they apparently do not care what kind of label the political parties attach to their programmes, it is only the maintenance or restoration of a "self-similar" pattern of welfare system that counts. It is in this context the occurrence of overt or covert nostalgic feelings towards social autocracy of protectionist state capitalism is to be interpreted in view also of internal and external labour mobility constraints.<sup>15</sup> *Paul Pierson* (1994:17–50) must be right when stressing the strong path-dependency of the evolution of welfare systems. A broad path to further research in this direction has already been opened (*cf. e.g. Torfing 1999; Burawoy 2001; Geyer et al. 2005*), and the simplistic and misleading question "why seek a label for these [i.e. socialist – I. L.] countries other than the one they apply to themselves?" (*Kornai 1992a:10*) shall be asked and answered in a different context from a complex, comparative historical perspective.

### Concluding Remarks

The author must confess that he has no ready-made answer to the above question. Neither can he offer a cure-all solution for the unstable state of affairs in the current critical period of world system evolution. Not pretending to be a genuine "realist", however, I tend to agree with *Robert Kagan's* vision of two diverging paths of democratic and autocratic socio-political evolution (*Kagan 2008*). By what has been outlined above, I tried to show that the social democratic path of welfare system evolution appears to follow the trajectory of self-sustained social inclusion, the latter point so strongly emphasised by *Niklas Luhmann* (1990). Autocracies, dictatorial or social, do not seem to be able to sustain achieved welfare provisions as they lack an all-inclusive integrated welfare system. Their paths may either diverge from or converge to an unpredictable trajectory after bifurcation at this critical point of the global state space. A similar case in point would be the evolutionary path of

<sup>15</sup> *The striking difference between the initial conditions in the West (and, as we have already seen, in the North) and the East European regions is presented by Offe in this respect: "The transition to a market society uproots individuals by rendering sizeable quantities of labor power economically superfluous, partly due to the shrinking demand for labor per unit of output and partly due to the obsolescence or nonconvertibility of skills acquired under state socialism. During the industrial revolution in Western Europe, it was only through the possibility of relocating large masses of surplus labor power to other parts of the world through emigration, largely to the virtually »empty« continent of North America, that the hardship of the transition to a market society could be gradually diminished. As the emerging proletariat had no voice, they resorted to departure in massive numbers. No equivalent to this »no voice – empty space« scenario is available today, and Western European political elites and publics will take an active interest in seeing to it that their countries are not mistaken for »empty space.«" (Offe 1996 231–232.)*

some unstable liberal democracies on the globe in the unforeseeable future. The special cases of dictatorial and social theocracies in some regions also deserve attention.

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