

**Governance of social change – Lessons
learned from the transformation of post-
communist countries**

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GOVERNANCE OF SOCIAL CHANGE – LESSONS LEARNED FROM THE TRANSFORMATION OF POST-COMMUNIST COUNTRIES

Abstract: The article deals with the governance problems of transformation processes and explains which mechanisms and constellations have facilitated system change in post-communist countries from today's point of view. In this context, it is made clear on the one hand that the originally voiced theoretical scepticism about the possibility to control and govern fundamental change was partly based on false initial assumptions. On the other hand, it is demonstrated that transformational success often has a paradoxical character, as – though based on reforms – it cannot be considered without restriction as the result of targeted policies.

Keywords: governance, social change, paradoxical reforms, transformation processes, Post-communism

INTRODUCTION

The term 'governance' is becoming increasingly popular in political science, sociology and economics and, in addition, has developed into the key term of an independent theoretical approach over the past years (Benz & Dose 2010, Bevir 2011, Kjaer 2004, Levi-Four 2012 forthcoming). Basically, this approach is focused primarily on the way, in which collective action is coordinated in the world of politics, society or business and how effective different forms of institutional arrangements are in this respect (Lütz 2006, 13). The following contribution will deal with the specific governance problems of post-communist transformation and aims to explain which mechanisms have facilitated system change from today's point of view, i.e. more than twenty years after the start of the transformation processes. To begin with, the article deals with the expected problems of controlling transformation processes and explains why the initial scepticism was predominantly without reason (part 1). Then it proceeds by inquiring the role of a strong executive branch (part 2). Subsequently, the article analyses the paradoxical success of reform policies (part 3) before eventually making a summarising assessment regarding the governance of transformation processes (part 4).

UNFOUNDED SCEPTICISM

The collapse of the communist regimes did not only surprise actors and observers alike, but also confronted political actors with governance problems of a hitherto unknown extent. According to the state of research in the social sciences, any comprehensive reform of the social institutions could only be considered as highly improbable at the time of the communist regimes' collapse (Wiesenthal 2002). In this context, the most prominent objection to any reformability of the

former communist societies was the so-called 'dilemma of simultaneousness' (Elster 1990, Offe 1991, Slantchev 2005). It describes the problems of simultaneous interconnection between the measures of democratisation and the measures required for the establishment of a free market economy. The argument is that rational reform policies are doomed to fail because of their economic side effects – which produce losers of the transformation process – and the democratic procedure of collective decision-making that grants these losers influence on the formulation of policies.

At the same time, this is associated with the problem of transitional costs. Usually, reform gains can only be realised after a certain transitional period. First, a more or less deep 'valley' needs to be crossed, and the benefit materialises only afterwards. Reforms are hence encumbered with the problem of time inconsistency. Based on their hopes for future improvement, voters have to be ready to accept losses. If the respective government does not succeed in convincing voters that the reforms will eventually produce success or if a majority of voters get the impression that not they, but other social groups will benefit from the success of the reforms, the government runs the risk of being voted out of office or forced to abandon the reform process.

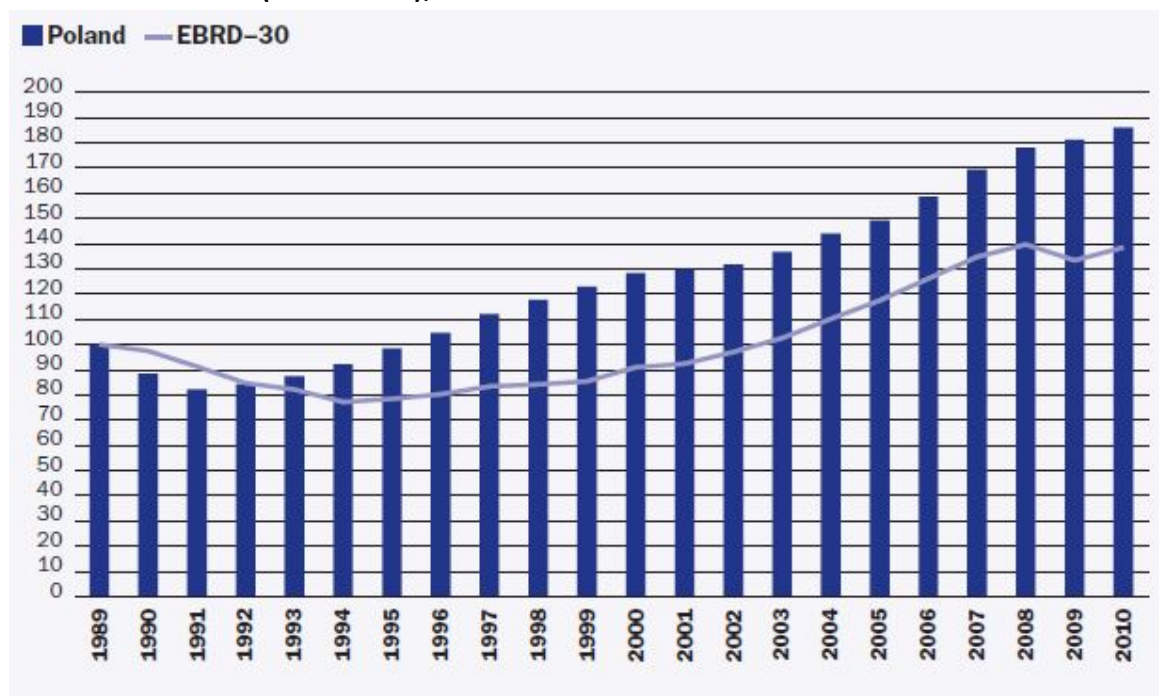
In addition to time inconsistency, the losers of reform processes also turn into a problem. It can be assumed that wide sections of the population will benefit from the reform gains, as lower rates of inflation, greater availability of goods and services and a stable currency are for the benefit of society as a whole. By contrast, losses tend to be concentrated on smaller groups. In particular, they affect groups of persons who benefited particularly from the old system (Haggard & Kaufman 1995). Where gains are broadly spread and losses concentrated, the losers are far more capable of organisation than the winners. Therefore, opposition to reforms can be successful even if benefits are larger than losses in the entire society's overall balance sheet. The situation gets even more complex because of the fact that costs can be distributed in different ways depending on how the economic reforms are designed, and that this usually provokes severe distributive conflicts (Alesina & Drazen 1991).

The specific initial social situation after the collapse of the communist regimes seemed to further aggravate the aforementioned general reform problems. Among the most frequently cited objections to the consolidation of democracy and a free market economy was the idea that values and orientations hardly compatible with democracy and a free market economy were deeply rooted in the population (Jowitt 1992, Karstedt 2003, Melich 1997, Sztompka 1993).

However, such pessimistic forecasts have been disproved by the real development. Contrary to such concerns, a large part of the reforms launched from late 1989 onwards have not been prematurely abandoned or revised. The 'counter-revolutions' of the reform losers have not taken place (Greskovits 1998). Without doubt, all post-communist societies continue to be afflicted with plenty of expected and unexpected problems and in several transition economies there were economic and political setbacks (e.g. Hungary). However, the project of transformation in some

countries has been realised in a way that permits to recognise the objectives in the outcomes. In all post-communist countries, except Belarus, Tajikistan, Turkmenistan and Uzbekistan, the private sector share of GDP is now larger than 60 per cent (EBRD 2010: 4) and actually sixteen Central-European states are classified as 'full' or at least 'flawed democracy' by the Economist Intelligence Unit (2011).

FIGURE 1: REAL GDP (1989 = 100), POLAND AND EBRD-30 AVERAGE



Source: EBRD Transition Report 2010

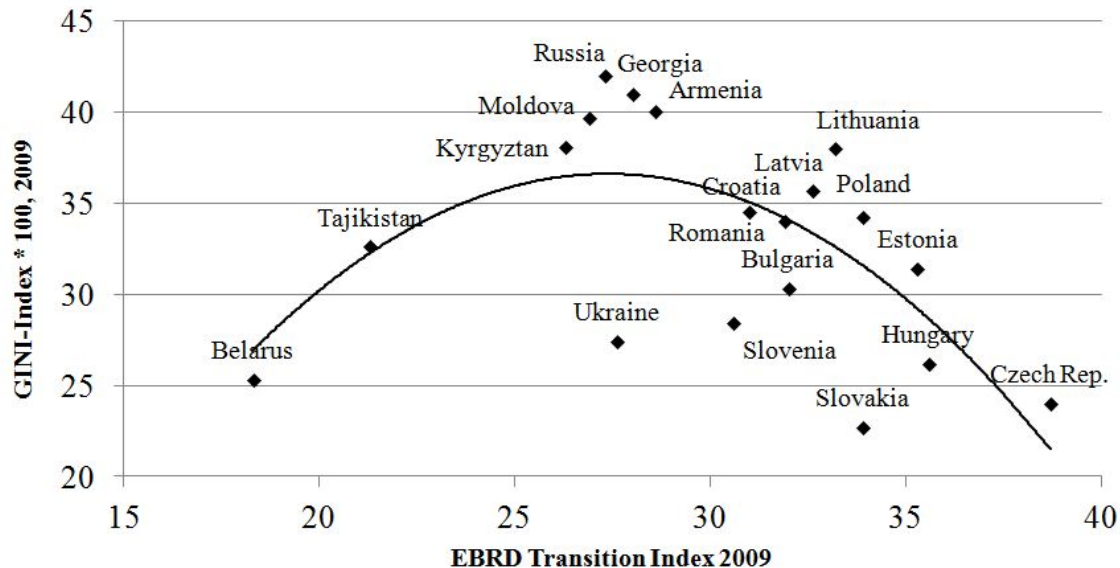
Why did the aforementioned governance problems not bring themselves to bear in the expected way in many of the transformation societies? At first, it needs to be said that the post-communist economic reforms were indeed associated with social costs. The GDP initially declined everywhere, with varying degrees of severity. Poland recovered most successfully: following a sharp decline, the country showed consistently positive rates of economic growth from 1992 onward (see Figure 1). On average, the post-communist transition countries collectively bottomed out in 1995, but some countries still have not reached the original levels from 1989 (e.g. Latvia, Ukraine, Georgia). Social costs also can be exemplified by looking at social inequality (Bandelj 2010). In almost all transformation societies except for Croatia and Uzbekistan, significantly higher unequal distribution of household incomes resulted in the decade after 1989 (see Table 1).

TABLE 1: INCOME INEQUALITY OF HOUSEHOLDS, GINI-INDEX, 1989, 1999 AND 2009

Country	1989	1999	2009
Armenia	0.251	0.563 ^d	0.400
Belarus	0.229	0.235	0.253 ⁱ
Bulgaria	0.233	0.326	0.303
Croatia	0.360	0.350 ^e	0.340 ^k
Czech Republic	0.198	0.232	0.240
Estonia	0.280	0.361	0.314 ^l
Georgia	0.280	0.503 ^e	0.410 ^k
Hungary	0.225	0.253	0.262 ^j
Kyrgyzstan	0.270	0.399	0.381
Latvia	0.260	0.330	0.357 ^l
Lithuania	0.263	0.343	0.380 ^k
Moldova	0.251	0.437 ^f	0.397
Poland	0.275	0.334	0.342
Romania	0.237	0.299	0.345
Russia	0.238 ^a	0.446 ^e	0.420 ^k
Slovakia	0.183 ^b	0.249	0.227 ⁱ
Slovenia	0.265 ^c	0.248	0.284 ^k
Tajikistan	0.281	0.470	0.326 ^m
TFYR Macedonia	-	0.308	0.364
Turkmenistan	0.279	0.421 ^g	-
Ukraine	0.228	0.320	0.274
Uzbekistan	0.280	0.268 ^h	-

Source: Data from UNU-WIDER World Income Inequality Database (WIID2C), otherwise noted: ^a1988, from: Milanovic 1998; ^bFrom: Cornia 1994; ^c1991; ^d1998, from: Deininger/Squire 2004; ^e1998; ^f2000; ^gFrom: World Bank 2000; ^hFrom: World Bank 2005; ⁱ2008; ^j2007; ^kFrom: World Bank 2011, ^lFrom: The World Factbook 2011, ^m2006

Figure 2 shows that the correlation between the radicalness of reform policies and the social costs of transition has turned out to be different than was originally assumed. Taking the transition index of the “European Bank for Reconstruction and Development” as an indicator for the scope of economic reform, it turns out that the highest increase in unequal distribution of household incomes is not found in the particularly reform-oriented countries, but rather in the countries with limited reform intensity. Based on developments in the post-communist societies, one can furthermore assume that additional false assumptions were contained in the sceptical forecasts. For instance, (1) the social tolerance of transitional costs was underestimated, (2) the capacity for organisation of the losers was systematically overestimated, (3) the effect of cultural legacies was assessed in a too sceptical way and (4) the relieving effect of imitation was not sufficiently taken into consideration.

FIGURE 2: INTENSITY OF REFORMS AND INCOME INEQUALITY OF HOUSEHOLDS, 2009

Source: EBRD Transition Report 2009, UNU-WIDER World Income Inequality Database (WIID2C), World Bank 2011, The World Factbook 2011, own calculations.

(1) The degree of acceptance of reforms is influenced by the amount of transitional costs. Insofar, the fear that fundamental reform might be blocked was thoroughly reasonable. The occurrence of social costs does not necessarily have to lead to the abandonment of support for reforms, since these social costs can be interpreted in highly different ways: as unavoidable accessory phenomena of the desired change, as inherited legacy ascribable to the old regime or as political mismanagement of the reformers. Therefore, the political consequences resulting from a slump in production, rising unemployment or growing social inequality strongly depend on the respective predominant interpretation.

Where economic reforms are implemented immediately after a change of government, the new government can usually hope that, for a certain period of time, the cost of these reforms will be attributed at least partly to the predecessor government. This tends to be even more the case the longer the previous government was in power and the more critical the economic situation was before the reforms were implemented. For that reason, governments in many transformation countries were able to benefit from strong 'honeymoon effects'. After forty years of communism, the old regime was effectively discredited in many places (Rose 1992, Fish 1998). Moreover, the honeymoon effects in the new democracies were further strengthened through initial offsetting of the costs against the newly gained political freedoms. As a result, the simultaneousness of economic and political reform was a clear advantage in a number of respects.

(2) Another favouring factor was the structure of interest representation that was in place at the beginning of the transformation process (Nelson 1993, 450-454), as it had a significant influence

on the organizational capacity of the 'losers'. After the collapse of the old system in the Eastern European reform states, there was a lack of collective actors who might have been in a position to effectively resist economic reforms. The consequence of these initial conditions was a relatively strong autonomy of the political actors, who became a kind of 'decision-making elite' – even in difficult questions of economic transformation (Comisso 1997). The social 'sub-organisation' favoured the enforcement of fundamental reforms, as possibilities to exercise criticism and mobilise resistance from outside the parties were few. Political elites willing to implement reforms were able to make use of this high level of autonomy.

(3) Contrary to expectations, cultural legacies could also be turned into a 'resource' for the reform policy (Stark 1996). For instance, the strong mistrust of bureaucracy being prevalent in Eastern Europe in reaction to a corrupt state apparatus played an important role in the formation of a pro-privatisation consensus (Wielgohs 2001), and the inclination to informal organisation, which is often ascribed to people in Eastern Europe, also had a positive impact on the flexibility and cooperation potential and thus proved to be conducive to the process of economic restructuring. The initially underestimated changeability of political and cultural convictions also exerted influence on the success of many transformation processes. To a high extent, the political and economic attitudes of the population were governed by the current experience with transformation (Lazic & Cvejic 2010). The success of economic reforms in a number of countries favoured the acceptance of free-market orientations, as attitudes were shaped more strongly than had been expected by the specific situation.

(4) In retrospect, the difference between 'utopian' and 'imitative' reform holism can also be considered as a significantly underestimated aspect. A greater degree of scepticism seems appropriate for the 'utopian' holism, where the reform project was merely in the minds of reformers and the realization of the desired state was uncertain, than for the 'imitative' holism, where there was an attempt to reconstruct conditions that existed elsewhere (Ellman 1997: 26). Admittedly, it is also possible that the legitimacy of imitative processes induces countries to processes of adaptation, which – owing for instance to the non-observance of institutional complementarities – finally have a negative impact. Despite this valid objection, the successful instances of transition at least show that the example of the Western democracies could guide the conceptualization of functional societal models. In addition, it was possible to draw on the support from Western experts (Meaney 1995), which provided the reformers with relief and placed them under an obligation to further pursue the path of reform (e.g. to meet the criteria for accession to the European Union).

All in all, one can conclude that the theoretically substantiated forecasts predicting general failure of the post-communist transformation processes have not come true. Neither the 'dilemma of simultaneousness' nor the problem of cultural 'legacies' have proved to be insurmountable. However, the favouring factors did not take effect everywhere. Naturally, for instance, the honeymoon effects were extraordinarily strong only in those transformation societies, in which

the former communist parties were factually marginalised or forced to undergo rapid reform because of the high adaptation pressure. Likewise, social 'sub-organisation' had the effect only in some countries that organisational gaps were closed over the course of time by Western organisational patterns, whereas in other countries traditional structures of interest assertion have been revitalised and corruption has gained the upper hand (Hellman et al. 2003, Roth & Kostova 2003).

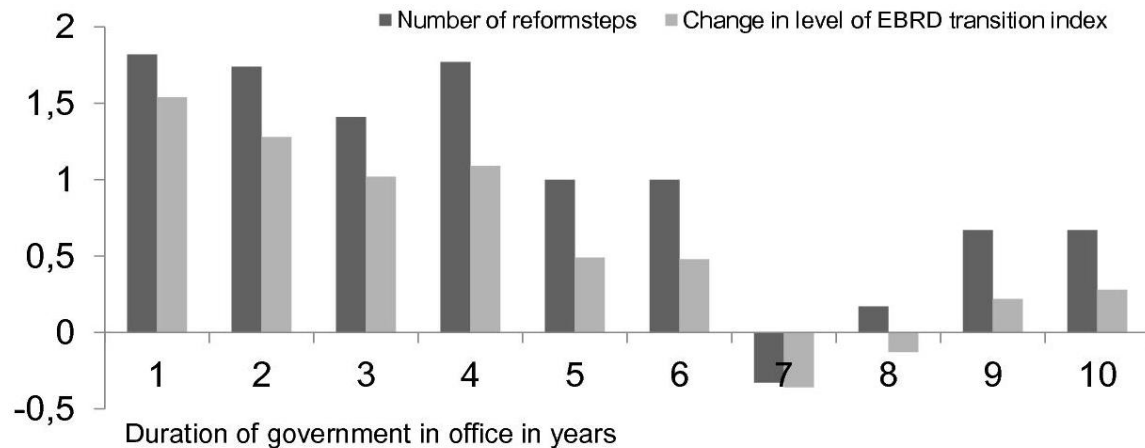
DISADVANTAGEOUS STRENGTH OF GOVERNMENT

Is a strong executive branch one of the preconditions of transformation success or does it impede such success? This question did not seem to be of any relevance at the beginning of the transformation processes. Reform programmes of such comprehensive scope as they were required at that time in the countries of Eastern Europe did not seem to be realisable without a strong position of the executive branch. At best, it was a subject of debate, which variants of the governmental and electoral system would contribute to an increase in stability and capacity to act (Lijphart 1993, Linz 1990, Merkel 1996). Considering the 'simultaneousness dilemma', political systems seemed to have an advantage in the transformation process, the susceptibility of which to political pressure was low. Contrary to prejudice, this is not only a question of democracy or dictatorship. Instead, democratic systems also differ in the number of their 'veto points' (Tsebelis 2002) and in respect of the 'filtering' of political dissatisfaction (Haggard & Kaufmann 1995). Nevertheless, the blockading of economic reforms by the losers seemed least likely precisely in those countries where the introduction of democratic institutions could be 'suspended', i.e. in autocratically governed countries. At the end of the day, liberal and democratic government systems have indeed not come into existence in several transformation countries, but rather hybrid intermediate forms between democracy and autocracy, which are referred to in the political sciences as 'competitive authoritarianism' (Levitsky & Way 2002) or 'defective democracy' (Merkel 2004).

In this context, one might assume that the restricted responsiveness in these countries had a favourable impact on the implementation of comprehensive economic reform measures. Empirically, however, the exact opposite has been confirmed. Economic reform efforts were not particularly intensive in the countries with limited democratic liberties, but rather in the newly established liberal democracies. As the expectation proved wrong that losers of the reform measures would enforce a quick change of policy, the assessment was not true either that an institutionally little restricted executive branch would accelerate the economic reform process. This can be demonstrated based on the type of government system, the dependence of governments on coalitions and the stability of governments (Hellman 1997, 1998). The fact that the intensity of reforms declines in the transition period from 1990 to 2003 the longer a government is in office is shown in Figure 2. After a four-year term of in office, a government's reform activity declined significantly as measured by the EBRD reform standards and the resulting

change of the transformation index. For the seventh year of a government's term in office, even an annulment of reforms can be observed on average.

FIGURE 3: DURATION OF GOVERNMENT IN OFFICE AND REFORM INTENSITY, 1991-2003



Source: Beyer (2008: 88)

As a result, it was also possible to launch and see through comprehensive economic reform in democratic conditions, since the success of these reforms did not depend on whether the driving forces of reform, which were at first voted into office, also remained in office. Quite frequently, democratic changes of government contributed to ensure that the processes of reform were not abandoned or slowed down (Slantchev 2005).

But why did strength of the government prove to be a disadvantage in the context of transformation? Beside the possibility that transformation projects are endangered by the losers, there is also the risk of reforms being blocked by the former winners (Hellman 1998). The process of transformation may get stuck in a – from the entire society's point of view – suboptimal stage because the reform winners do not wish to lose their access to extraordinary yield and profit opportunities, which they have gained in the meantime. The winners best succeed in exerting influence and establishing a power of veto against comprehensive reform where governments remain in office in the long term and are able to pursue their policy largely independently of democratic elections. As a result, concentrated gains rather than concentrated losses exerted major adverse influence on the reform process in the transformation countries.

PARADOXICAL REFORM SUCCESS

In the past text sections, it was demonstrated on the one hand that too sceptical forecasts such as the “simultaneousness dilemma” did not prove to be true, as many governments had a particularly large room to manoeuvre for the enforcement of comprehensive reforms. On the other hand, it was shown that the replacement of political forces, which had at first been voted into positions of

power, did not have a disadvantageous effect on the reform process. Taken together, these two aspects raise the question of how the process of controlling political reform took place in the more successful transformation societies. In this context, the term control denotes 'targeted acting', which aims at moving the 'autonomous dynamic or development' of social systems 'into a certain direction' (Mayntz 1987, 93-94).

Did some actors factually have the necessary control knowledge to systematically realise the effects they aspired by means of their reform measures, which aimed at the implementation of social change? Did the success of reform policies hence depend on these prudent reform forces taking over responsible positions and being replaced by actors with similar control knowledge in the event that they were voted out of office? When looking only at parts of the literature on post-communist transformation, one will soon have doubts about this possible interpretation. Large parts of the political analyses describe deficient, failed or otherwise unfavourably assessed transformation results. In this context, it hardly makes a difference whether the analyses relate to Poland, Czech Republic, Russia, the Ukraine or Belarus. The diagnosis of calamities is an integral part of the debate and affects almost any specific reform project (Kolodko 2010). A common conclusion therefore is that the transformation processes could not be controlled systematically. 'Not by design' (Stark 1995) became a much-quoted catchphrase of this conviction.

To some extent, this perception relates to the fact that analyses voicing scepticism about the possibilities of control take the autonomous dynamic or development, which Renate Mayntz deliberately emphasised in her reflections on political control, only insufficiently into consideration and do not wish to content themselves either with the moving of 'processes into a certain direction'. For some part, however, the predominant impression of limited controllability is also attributable to the fact that, in the transformation context, a lot of 'paradoxical' reform success resulted because of the inevitably high level of uncertainty. As paradoxical reform success, a result of control is to be considered where the actors either took their bearings from incorrect assumptions or were unable to achieve their original objectives, but nevertheless caused an effect that can be regarded as relative improvement in comparison to the initial situation or to a possible restraint from action.

For purposes of illustration (1) the sequencing of reform steps and (2) the privatisation policy in Hungary and the Czech Republic shall be referred to in the following as examples:

(1) Since simultaneous transformation of the political and economic system was without historical precedent, no assured control knowledge existed regarding the sequence of reform steps, which were considered as necessary. Owing to this high level of uncertainty, the scientific debate as well as the perception of political actors (cf. Blejer & Coricelli 1995) quickly began to focus on the 'right' pace of reform. This led to an almost endless dispute on the effect of shock-therapeutic and gradualist reform programmes. Although the significance of the sequence of reforms was emphasised in both camps, the debate about either gradualism or a shock therapy triggered a

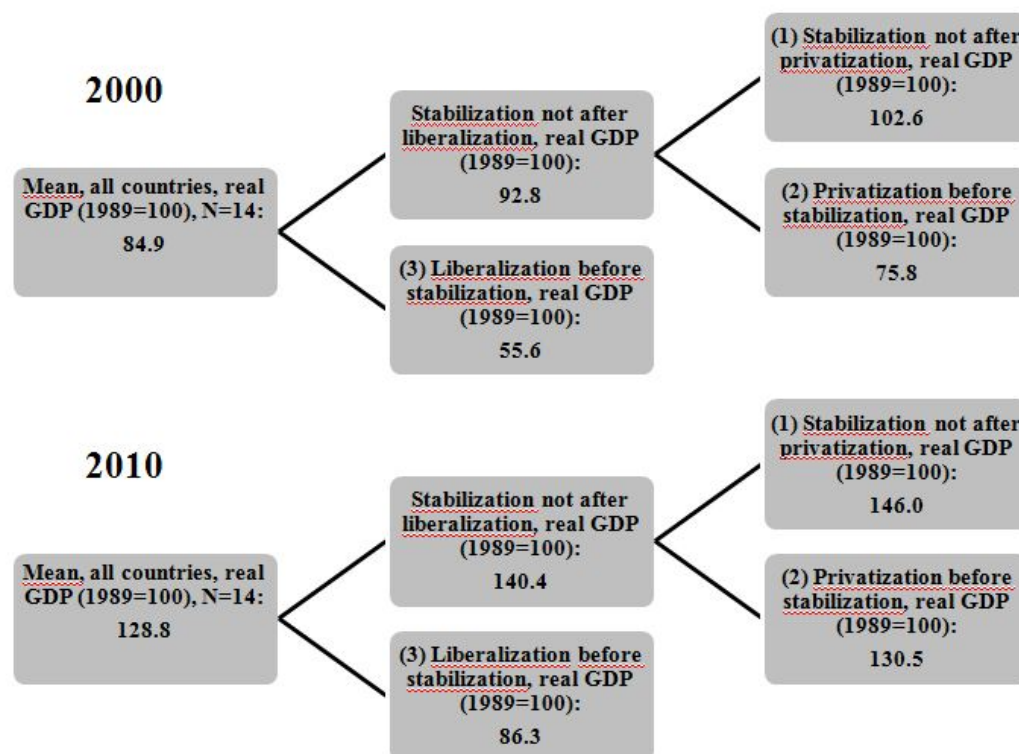
situation where less attention was paid to the sequence issue in the now dominant dispute on the right pace of reforms. In retrospect, it has emerged that this dispute missed the point as far as the actual control problems are concerned (cf. Beyer 2001, Popov 2007). The more successful examples of economic transition show both cases where gradualist reform strategies were pursued (Slovenia) and where shock therapy was applied (Poland). A similar picture is found with the less successful countries, which includes instances of failed attempts at both shock therapy (Russia) and gradualism (Ukraine). There was therefore no cause to emphasize the contradiction between shock therapy and gradualism.

Interestingly, even though the discussion's focus on the pace of reform trumped concerns about the sequence of the reform measures, the latter proved to be one of the most convincing explanatory factors. In a comparative study of the countries, it can be determined that certain reform sequences have systematically had a positive influence on economic development, while others clearly brought about negative effects. If one considers the reform measures that were stressed by neoliberal economic reformers – price liberalization, stabilization of the economy (inflation reduction) and privatization – as benchmarks, it turns out that the order in which the reform measures were carried out mattered a great deal (see Figure 4). An unfavourable course of transition corresponds to reform sequences in which privatization and, in particular, price liberalization were undertaken before economic stabilization. By contrast, in countries with a favourable reform sequence, the level of GDP attained in relation to the situation at the beginning of the transition process is significantly higher. The critical factor that emerged, therefore, was the sequential positioning of the stabilization initiative. The countries that had contained the inflation relatively early (not subsequent to price liberalization or privatization) were comparatively better off economically. On the other hand, those countries that had carried out price liberalization prior to stabilization were consistently beset by problems in their economic recovery (Russia, Ukraine, Latvia).

From a macroeconomic perspective, the recognition that early economic stabilization had a lasting impact on continued reform success is now one of the few largely uncontroversial insights gained from the post-socialist transition processes: 'There is (...) strong consensus that financial stabilization, in particular inflation control, is a necessary first step before sustainable growth can occur.' (Havrylyshyn 2001, 79). The great importance of stabilization was not yet clearly understood at the beginning of the transition processes – or, at least, the consensus among economists and political actors was less than obvious. As a consequence, the aforementioned paradoxical reform success resulted in many of the countries. In countries where the reform process was influenced by the idea of a shock therapy, it was thoroughly probable that stabilisation was conducted at a very early stage. This already resulted from the fact that the fight against inflation could be commenced at an early stage for reasons of preparation expenditure. The guiding principle of 'maximum possible speed' (Balcerowicz 1993) therefore resulted in the reform step of 'stabilization' already being taken at the beginning of the reform measures. The uncertainty about what reform measure should be implemented first was great even in countries

that leaned toward a more gradualist programme. While inflation was brought under control with very different strategies in Slovenia and Hungary at the beginning of the reforms, each country had a comparatively favourable starting point for the further development of reform. The foremost concern was not with the early stage for undertaking stabilization measures (which ultimately had a favourable impact), but rather with a 'gradualist' stabilization strategy whose methods would be less drastic than the shock-therapy austerity programme. In other countries with the gradualist programmes, stabilization was postponed for other priorities, causing relatively unfavourable economic development.

FIGURE 4: SEQUENCES OF REFORM AND REAL GDP (1989=100), 2000 AND 2010



Annotation: Countries that undertook price liberalization before controlling inflation (stabilization) had in the year 2000 real GDP levels (1989=100) that were on average 29.3 percentage points (55.6 - 84.9) below the overall country average. Country groups: (1) Albania, Bulgaria, Czech Republic, Hungary, Poland, Slovakia, Slovenia, (2) Estonia, Lithuania, Romania, Belarus, (3) Latvia, Russia, Ukraine. Classification of countries in accordance with Beyer (2001, 27). Source of data: EBRD transition reports, own calculations.

(2) The issue of reform sequence is an example of how incorrect assumptions about the significance of the pace of reform indirectly brought about reform success. The situation is different in the privatization processes in the Czech Republic and Hungary, which will serve here as exemplary cases. In the Czech case, the planned privatization goal of a small share-holder, Anglo-

American-style capitalism was not reached and, in the Hungarian case, the reformers were apparently so unhappy with their measures that they constantly changed reform strategies (Beyer & Wielgohs 2001). In both countries, the process of privatisation – as measured by the degree of privatisation and the assurance of corporate governance – was essentially more successful than in the overwhelming majority of all other transformation countries although the subjective objectives were missed. Both privatization processes can therefore also be called paradoxical reform successes:

In the *Czech Republic*, the privatization of large companies was carried out by means of two rounds of privatization following the privatization act that came into force on 1 April 1991. The respective enterprises that were called on to privatize were obliged to submit a privatization plan by a fixed date. The possible range of privatization procedures ranged from direct sale to an investor through public tenders and auctions and the transfer of property to municipalities and public organizations to privatization by means of so-called 'vouchers' (Mejstrik & Burger 1994, 191). The vast majority of companies were privatized through the voucher process, which provided for the transfer of company shares to the public for a small fee. The property transfers were made by redeeming issued privatization coupons, which could be used for any enterprise or investment company. The available equivalent value in company shares then depended on the demand. In this way, a *market-consistent* determination of company value was possible (Kiss 1994, 140). In compliance with the adopted privatization recommendations, the remaining companies were privatized through sale or transfer processes or returned to former owners in accordance with the restitution act. With the predominant use of the voucher privatization method, there was the expectation that the awarding of company ownership to millions of small investors would lead to Anglo-American 'corporate governance' structures (Palda 1997, 92). Since the majority of vouchers were invested in a few investment funds, which, in turn, were tied up with the capital concerns of a few large banks (Kenway & Klvačová 1996), the expectations with regard to the small-shareholder control of companies via the stock market were not yet met. Instead, an ownership structure was created with concentrated ownership and mutually interdependent companies that was far removed from Anglo-American conditions.

Privatization in *Hungary*, by contrast, is characterized by several drastic changes in policy. The first phase between 1989 and 1990 is commonly described as a period of 'spontaneous' privatization. The reorganization act of May 1989 allowed state enterprises to independently change their legal form, which was also linked with tax advantages. The law, however, especially promoted the emergence of 'new' companies instead of changes to the legal form of those that were already established. Many managers were able to transfer valuable parts of state-owned parent companies into subsidiaries founded by them or foreign investors. The original enterprises remained as state-owned holding companies, which had only to manage the debt of the 'back-room', partially privatized subsidiaries and the operation's unprofitable units (Mihályi 1994). The negative experiences of the first phase of privatization led to the establishment of a government privatization agency. By law, the companies were re-nationalized, i.e. the companies' ability to

'self-manage', which had existed since the mid-1980s, was repealed and now privatization was administrated centrally.

Of companies advertised for bids in the following two rounds of privatization, however, only a small amount of capital shares were sold. One reason was due to the perception of outside observers that the privatization agency's price recommendations were excessive. In the next phase of privatization, which was initiated by changes in the privatization ministries, several privatization programmes were implemented from February 1991 onward. Depending on the programme, they differed from the previous practice with respect to the targeted owner, the starting point of the privatization initiative (now again mostly 'bottom-up') or the financing methods. The beginning was marked by the so-called 'investor-initiated privatization programme', followed by the 'enterprise-initiated privatization programme'. This was given a great deal of attention, because the state privatization agency did not implement it independently, but by means of several Western consulting firms. Other programmes made financing possible through leasing, the use of compensation notes and the purchase of company shares by the public with interest-free loans ('credit-voucher programme'). A limited 'employee's share ownership programme' finally made acquisitions through employees favourable. The constant creation of new programme initiatives came to an end in June 1995 with the adoption of a new privatization law. The privatization agency, which had in the meantime been divided into two parts, was re-constituted and assigned the task of overseeing a top-down direct sales law. At this point, however, the vast majority of companies had been privatized – despite the prevailing perception of targets constantly being missed.

From a narrow control theory perspective, paradoxical reform success appears as a failure to achieve original objectives or as an implementation deficit. To view paradoxical reform as an achievement of control activity requires either the acknowledgement of unconventional learning as a possible route to success or the attribution of success to the actors – regardless of their intentions – already where the reforms resulted in a general improvement of the respective country's position. Among other things, this is not completely beside the point as some actors, being fully aware of the controlling difficulties, may have had only a relative improvement of the initial position in mind already from the start. Another possibility is to reinterpret the reforms as an achievement of social self-control. Taking the entirety of all coexisting forms, in which the collective regulation of social matters can take place: from institutionalised civil society-based self-regulation to various forms of cooperation between public and private actors down to sovereign acts of government actors (Mayntz 2010) into consideration as a referential framework for 'governance', the reform success loses its smack of something paradoxical, as the action-guiding ideas and intentions of individual reform actors hence become insignificant.

CONCLUSION: GOVERNANCE OF POST-COMMUNIST TRANSFORMATION

In summary, it can be concluded that transformation research has produced several results, which can be of major significance for the 'governance' discussion. The following can be established: (1) The change of systems from state-socialism to democracy and a free-market economy was not inevitable. The large number of differences between the individual countries shows that, taken as a whole, the processes can hardly be described as a catch-up development. The change of systems was no autonomous process, but a genuine political project requiring regulatory influence (governing). (2) It was possible to introduce democratic and free-market institutions at the same time. The 'simultaneousness dilemma' did not arise in the postulated form. Within the group of transformation countries, the ones with liberal-democratic institutions even numbered among the economically more successful cases. (3) The processes of transformation were favoured by incomplete interest representation. The latter prevented blockades by those adversely affected by the reforms and opened a particularly large window of action for the reformers at the beginning of the system change. The fact that political actors had relatively comprehensive autonomy provided an opportunity for the initiation of far-reaching reform programmes. (4) However, comprehensive autonomy also posed the greatest risk to system transformation. For the paralysis or blockade of reforms as well as for corrupt state capture by large privatised corporations and oligarchs, responsibility lay with the early reform winners and not with the reform losers. In the course of transformation, political institutions therefore proved to be advantageous, which restricted the governments' range of power and made a change of government not only possible, but also probable. (5) The imitative transfer of institutions was able to provide relief to the processes of transformation and guide the conceptualisation of functional societal models. Although transfer attempts often led to something else and only seemingly similar, the reforms in countries, which did not take their bearings from Western societies as role models from the outset, have turned out to be less comprehensive. (6) The cultural and institutional legacies of the past neither made system changes impossible nor did they determine the post-communist societies' further development. (7) Owing to the lack of control knowledge, reform success was often achieved in a paradoxical manner.

Several of the aforementioned findings may also gain significance beyond the post-communist context, as they put previous basic scepticism about the possibility to control and govern fundamental change into perspective (cf. Wiesenthal 2002). In addition, they provide illustrative material for a reassessment of institutional imitation processes. Finally, the findings primarily on 'paradoxical reform success' force to reflect the interdependence of control attempts and the associated 'spontaneous' formation of social orders. The latter is a task which governance research will necessarily and generally have to face in the future.

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