# Capitalism without Compromise: Strong Business and Weak Labor in Eastern Europe's New Transnational Industries*

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This paper contributes to the debate on the social impact of globalization. It focuses on the mediating role of the sectoral pattern of transnational production relocation to the postcommunist economies of Eastern Europe. We argue that the collapse of the socialist heavy industries and the eastward relocation of traditional light industries initially forced the social conditions of the East European countries to converge at the bottom and deepened the gap between the West and the East. Later, the eastward migration of high-skilled labor and capital-intensive industries and jobs led to decreasing social disparity between the West and some of the former socialist countries. However, convergence appears uncertain, costly, and uneven, and coincides with increasing social disparity within the group of East European new members and candidates of the European Union.

## Introduction

Scholars proposed three competing hypotheses on the impact of global neoliberal restructuring on industrial workers in advanced and less-advanced countries. Backers of globalization are optimistic across the board. They assert that outsourcing production helps labor by creating more employment and faster growth in the less advanced parts of the world, while it frees resources for new activities and improves the standards of work and living in the advanced economies. Their opponents are pessimistic on both accounts. In their view, global competition brings about a "race to the bottom" of wages, work conditions, and labor relations both in the West and the rest. Beverly Silver (2003) has proposed a third idea, namely that foreign direct investment and transnational production relocation weakens labor in advanced countries but creates powerful working classes in less-advanced economies.

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*Studies in Comparative International Development*, Spring 2006, Vol. 41, No. 1, pp. 3-25.

Our article contributes to this debate with an analysis of the experience of Eastern European labor after the fall of state socialism. We highlight the importance of an intervening variable, the leading *sectoral pattern* of neoliberal restructuring, which mediates its social impact. Drawing on Shafer (1994) and adapting his sectoral framework to the novel context of transnational production, we define leading sectors as industry groups that share factor intensity and product character, and significantly contribute to exports. We propose that the losses or gains of Eastern European workers crucially depend on the type of major industries, which in particular *periods* and various *countries* transmit the impulses of liberalization, privatization, and transnational capital flows. This is so because industries differ in their propensity to host a *compromise between capital and labor*, which we consider as indispensable for labor-inclusive politics in a capitalist society (Gourevitch, 1986: 222–223). Specifically, we propose that employers in industries that intensively rely on complex capital and labor skills are usually more willing to accommodate labor demands than businesses in other industries, which employ large masses of unskilled workers. Yet we argue that capital's preferences are shaped by *location-specific* factors too. Businesses within the *same* transnational industry whose production is spread over high—and low-wage areas tend to develop varied attitudes toward local labor, and can play very different social roles in their home and host economies in the West and the East.

In the second section, we present evidence on the current gap in Europe's social conditions. We criticize those East Europeanist scholars who hold labor weakness responsible for Eastern Europe's meager social performance but neglect the impact of the driving force of neoliberal restructuring transnational business. In the third section, we build our own conceptual framework that links business and labor preferences and capabilities for a compromise to industry attributes. Applying our framework to the context of the European economy after the cold war in Section four, we shall demonstrate how *the sectoral logic can account for inter-temporal and cross-country variation in the social dimension of neoliberal restructuring.* In the remaining part, we show in more detail how particular features of two major industries mediate the general pattern of the European division of labor and its societal impact. Section 5 focuses on the electronics industry and Section 6 on automobile manufacturing, the main export sectors of the Hungarian and Slovak economies. We conclude in Section 7.

## Social Divide in the Enlarging EU and Its Interpretations

### *The European Social Divide*

Eastern European workers expected that their countries' "return to Europe" would help bring their work and living standards closer to EU level. But these hopes have hardly come true. Data from nine continental Western European countries and ten Eastern European new EU member or candidate states reveal a persistent social divide.[1] According to five indicators of workers' social situation and collective power, the East has performed *consistently worse* than the West both during the years of recession in the first half of the 1990s and the recovery since the mid–1990s (Table 1).

**Table 1**
**Workers' Social Situation and Collective Power in Western and Eastern Europe**

| **Rate of Unemployment (%)** | **1993–1995** | **1996–2002** |
|---|---|---|
| **West** [1] | **9.2** | **7.5** |
| **East** [2] | **10.2** | **11.6** |
| Visegrád and Slovenia | 10.3 | 11.6 |
| Baltic and Southeast Europe | 10.2 | 12.7 |
| Average real wages (1990=100) | 1991–1995 | 1996–2000 |
| **West** [3] | **105** | **111** |
| **East** [4] | **71** | **79** |
| Visegrád and Slovenia | 88 | 104 |
| Baltic and Southeast Europe | 55 | 54 |
| Social expenditure (% of GDP) [5] | | |
| **West (1994, 2000)** | **27.2** | **26.3** |
| **East (1994, 1998)** | **20.2** | **20.3** |
| Visegrád and Slovenia | 22.0 | 21.0 |
| Baltic (1998 only Estonia) | 18.0 | 15.0 |
| Trade union density (%) [6] | 1990–1995 | 1997–2002 |
| **West** | **48** | **46** |
| **East** | **58** | **25** |
| Visegrád and Slovenia | 57 | 30 |
| Baltic and Southeast Europe | 61 | 18 |
| Workers on strike (per 1000 labor force)[7] | 1993–1995 | 1996–2002 |
| **West** | **75** | **113** |
| **East** | **22** | **13** |
| Visegrád and Slovenia | 30 | 6 |
| Baltic and Southeast Europe | 7 | 28 |

*Sources*: authors' own calculations based on [1] Eurostat; [2] EBRD Transition Report various volumes; [3] Schulten and Stückler 2000: 8; [4] Transmonee database; [5] OECD Social Expenditure Database for OECD members, <http://www.oecd.org/dataoecd/56/37/31613113.xls>, for the rest Vaughan-Whitehead 2003: 117; [6] Visser 2004: Table 1.3; [7] ILO Labor Statistics Database, <http://laborsta.ilo.org/cgi-bin/brokerv8.exe>.

There is a clear variation *within* the east too: as seen above, Slovenia and the Visegrád states do better than the Baltic and Southeastern European states. During the period, the differences within the East seem to increase, which might be a sign of the modest starts of catching up at least in some of the Visegrád states and of its absence in the second group.

Other indicators also signal the existence of a social gap between the West and the East. Eastern European workers have to work longer for much lower wages, and are less covered by collective bargaining agreements. There is also divergence in the dominant organizational levels at which labor bargains for wages: in the West the sectoral level is dominant, while in certain countries the intersectoral level is dominant, whereas bargaining in the East mainly occurs at the company level (EIROnline, 2002). In a qualitative evaluation of welfare state reforms in the east, Daniel Vaughan-Whitehead (2003) concludes that most countries follow a liberal path on which they advanced further than the West. Taken together, the above evidence allows us to propose that despite their widely discussed erosion, many of the social aspects of Western European capitalism—commonly called "the European social model"—are still alive and remain attractive, especially from the perspective of the East European newcomers to the European Union.

*The European Social Model*

In its best period (from the mid–1950s to the mid–1970s) the European social model exhibited "broad democratic political participation, collective negotiations between large social forces, protection against risks of illness, accident, aging and the capriciousness of markets, and a commitment to provide employment for all" (Martin and Ross, 1999: 1). Several international and domestic factors are held responsible for its emergence. Internationally, the European social model had been linked inextricably to hegemony of the United States in the post-World War II world and the division of Europe during the cold war. The model had been enhanced by the post-World War II international regime of "embedded liberalism," which rested upon the premise that economic openness was desirable but only if it did not impede domestic welfare (Ruggie, 1982). While the United States guaranteed the institutional and financial conditions for expanding free trade, it also propagated the idea that "[c]ooperation among classes would ensure rising real wages and increasing opportunities as well as extensive social welfare benefits, to the mass of the population" (Keohane, 1984: 19). Especially in small Western European states, openness to the world market fostered dense cooperation among forces of business, labor, and the state, which led to policies compensating the losers of free trade (Cameron, 1978; Katzenstein, 1985). At the same time, fresh historical experience from the disasters of the interwar period and the war made an accommodation among the major forces of Western European societies more desirable and feasible than ever before (Katzenstein, 1985: 30; Gourevitch, 1986: 168). In the domestic context, some scholars have stressed the role of *strong unions and left parties* in forcing capital to accept centralized industrial relations and encompassing welfare states (Korpi, 1983; Esping-Andersen, 1990; Cameron, 1978).

*Inherited and New Factors of Labor Weakness in Eastern Europe*

Conversely, some analysts of postcommunist societies tend to identify *labor weakness* as the main reason for the atomized industrial relations, inferior work conditions, and poor welfare standards of the Eastern European countries. The editors of an encompassing and valuable volume on "workers after workers' states" point out that the weakness of Eastern European labor manifested in "low capacity to shape public policy or to win material benefits . . . to organize the newly important private sphere, and a general decline of labor's social and cultural standing" (Crowley and Ost, 2001: 219). They identify the ideological legacy of communism and the resulting problems in labor's identity as a common feature that explains labor weakness region-wide.

But how convincing is it to single out the past system's legacy as the root cause of labor's misfortunes 15 years after its collapse? Together with other authors, we predicted long ago the sweeping social consequences of the neoliberal transformation strategy for Eastern European labor. "Specifically, the structural changes induced by the chosen transformation path further contribute to the deterioration of the collective action capacities of its losers and opponents—mainly labor, labor unions, leftist parties, and the 'marginalized millions' in general" (Greskovits, 1997: 206; 1998; Kubicek, 1999). Furthermore, it is precisely the changing nature of capitalism and its strategies during the last decades that have led many students of Western Europe to question the viability of the European social model. According to these views, international capital mobility, which has increased dramatically since the mid–1970s, significantly enhances the power of business over labor and over governments that seek to pursue generous welfare policies. European integration itself, with its single-market agenda, its stability culture prescribed by the European Monetary Union (EMU), and its overarching aim of restoring competitiveness in the global economy, has provided transnational capital larger space for maneuver at the expense of labor and states (Martin and Ross, 2004; van Apeldoorn, 2002).

To be fair, Crowley and Ost are not entirely silent about the impact of Europe's transnational capitalists. Still, they find the surrender of Eastern European labor puzzling, especially in contrast to Western Europe, where unions seem to have found some ways of combating the challenge. They concluded that unlike Western labor, which developed organizational and ideological strength and could preserve it over time, labor in Eastern Europe has "been created as a weak actor. . . . Thus, unions in Eastern Europe confront the new global economy not from an initial position of strength but of weakness" (228).

We agree that the institutional and ideological legacies are a serious impediment to the formation of a strong labor movement in Eastern Europe, and a source of persistent strength of labor in the West. However, we believe it is time East Europeanists brought "capital back in" (Swenson, 1991) the study of their field. We doubt—and this is our main critical point—that we can understand the forces of labor and their limits by focusing solely on labor itself. We argue that the East European industrial relations and welfare systems have been undermined by labor weakness *in relation to* transnational capital, which has different preferences and can act more powerfully in the East European economic and political contexts than at home. To spell out this argument, we draw on an alternative tradition of thought that traced labor-inclusive politics in Europe and elsewhere in the world to various forms of a compromise between capital and labor.

## Industry Structure and the Capital-Labor Compromise

Our explanatory framework builds on Offe and Wiesenthal's idea that "we must keep in mind that unions are associations of members who, before they can become members of unions, are already members of other organizations, namely employees of capitalist enterprises. Thus, unions are secondary organizers, and capital itself functions as a primary organizer" (1980: 72). Under which conditions is the primary organizer capital willing to accept labor as a social force and accommodate its demands? Many of the factors shaping businesses' preferences can be traced to their socioeconomic situation (Gourevitch, 1986: 55). Drawing on authors who trace various historical manifestations of the capital-labor compromise to business preferences, we first identify two industry features that help us better understand businesses' propensity to deal with workers. Second, we ask how workers' capacity for "secondary organization" and collective action is affected by how capitalists primarily organize them in the production process.

### *Factors of Business Preferences*

The first factor of businesses' willingness to accommodate workers' demands is the importance of labor as a *factor of production* for a particular industry. In his seminal article on the social bases of the second New Deal, Thomas Ferguson contrasts industries that "rely on masses of un—or semiskilled labor" with the opposite type, where more robots than workers are employed. He suggests that unlike the highly automated businesses, the former type of industries "could not afford higher social insurance, could not pay higher wages, could not accept a union. Where the workforce was already organized, they could not resist the pressure to attempt to undermine it. And a legislated minimum wage would usually constitute a direct threat to them" (1984: 49). Ferguson thus suggests that "labor-sensitivity" undercuts capitalists' willingness to accommodate the demands of labor. Labor-intensive businesses that are more dependent on labor cost for efficiency are likelier to resist workers' pressure for higher wages and better working conditions than capital-intensive producers.

The second factor of business preferences is the importance of the *skills of the workforce* they employ. Isabella Mares has forcefully argued that "the benefits provided by social policies to employers can outweigh the costs imposed by social policies on firms, if the firm wants workers to invest in skills" (2003: 237). In a comparative historical study of the emergence of accident and unemployment insurance in France and Germany, she shows how different degrees of risk exposure and skill-intensity have led to different social policy preferences across firms. Thus, large firms in skill-intensive industries typically have supported those types of social insurance schemes, which gave them significant control over the administration of the insurance. In contrast, small firms employing low-skill labor were much less supportive to social insurance. Similarly, Margarita Estevez-Abe, Torben Iversen, and David Soskice (2002) find a strong link between social protection, the degree of centralization of wage bargaining, and the level and composition of skills in a national economy.[2]

### *Factors of Labor Strength*

Factor intensity and skill-profile of different industries also constrain labor's strength. First, workers' capacity to organize for collective action depends on their *location in the production process*. As Michael Shafer observes, collective action is easier in capital-intensive industries where a few large firms employ concentrated labor forces with specific skills. "Although distributional issues divide them, labor and management have grounds to cooperate." In contrast, "[c]ollective action by firms and workers is unlikely" in labor-intensive industries typically characterized by many small or medium size firms, which "draw unskilled workers from mixed communities and employ them in tiny, dispersed sweatshops under the supervision of owners adamantly opposed to labor organization" (1994: 14). Labor strength is inversely related to the labor-intensity and covaries with the capital—and skill-intensity of production in particular industries.

Finally, scholars agree that a second crucial factor of labor's strength "results directly from tight labor markets" (Wright, 2000: 962). Generally low unemployment or the scarcity of specific (e.g., highly skilled) labor enhances workers' market position and "marketplace bargaining power" (Silver, 2003: 13). Overall, industries that intensively use skilled labor are likelier to face tight labor markets and workers' enhanced bargaining power than industries relying on unskilled labor.

### *Industries For and Against a Capital-Labor Compromise*

These factors offer a good starting point to analyze the prospects for a capital-labor compromise, especially since they are not randomly distributed across the economy. They seem to be linked in a patterned way to particular industries, which Albert Hirschman (1981: 93) says becomes "a multidimensional conspiracy in favor or against" a deal between capitalists and workers. Industries *intensively relying on both capital and skills* (e.g., auto manufacturing) bring together accommodating businesses with capable labor. Therefore, it is in these industries that compromises are most probable, and the strongest support for (or the least opposition to) labor-inclusive institutions and policies can be expected. On the opposite extreme, industries using *little capital but fragmented and low-skill labor forces* (e.g., the garment industry) typically combine hostile businesses with weak labor. Consequently, their "primary" industrial organization conspires with their "secondary" labor organization against compromises and labor-inclusive institutions.

These factors allow for a straightforward distinction between the polar cases. Our expectations are less unambiguous concerning the two "mixed" types: industries, which *rely less on capital but are intensive in skilled labor*, (e.g., the electronics industry) and those, which are *capital-intensive, but employ mostly unskilled labor forces* (e.g., iron and steel). Based on two contextual factors, we expect skilled labor-intensive industries to behave relatively more labor-friendly than the industries relying both on capital and unskilled labor. One factor is the crucial significance of skills for the "sunrise" industries of global neoliberal restructuring. Whereas masses of unskilled workers are available anywhere in the world, skilled labor is relatively scarce. This tends to mitigate capital mobility, which is the most important weapon of businesses against immobile workers in the world of global finance and transnational production (Frieden, 1991). The second factor is more specifically related to the postsocialist transformation context. The iron and steel, mining, and basic chemical branches, which formed the industrial core of a typical socialist economy, suffered earliest and most profoundly from the recession after the collapse of state socialism. Their managers sometimes tried but could do little to protect workers from mass social dislocation. In sum, we consider both of the skill-intensive sectors (both the capital—and the labor-intensive types) as overall more labor-friendly than the two remaining sectors, which employ unskilled workers.

## Transnational Leading Sectors and the Neoliberal Restructuring of the European Economy in the 1990s

Ever since the mid–1980s, European integration has followed a neoliberal path, with the major aim of restoring competitiveness in the global arena. Negative integration, i.e., the elimination of national constraints on trade and competition, transnationalization of production, and cross-border centralization and concentration of economic power has led to an increasingly transnationally integrated European economic space (Ziltener, 2004: 962–964). After the single market project and the Monetary Union, the eastward enlargement of the EU has become another building block of neoliberal restructuring on the European continent, supported by European transnational business that sought to restructure its value chains and thus increase its global competitiveness (Bohle, 2006).

Combining capitalist transformation with European integration the former socialist economies underwent rapid and thorough neoliberal restructuring. This process has been driven by radical and comprehensive state policies to liberalize domestic prices and foreign trade, to privatize, to build market institutions and a supportive legal framework, and to attract foreign direct investment (EBRD Transition Report, 2000). As a result, by the beginning of the new millennium, these countries became similar to the Western economies in their institutional setup and in the extent of internationalization. Their average yearly growth of exports has been as fast, or even faster, than that of the Western European countries. Measured by the share of trade in GDP the small Eastern European economies became at least as open as the Western small states. Especially after the mid–1990s, the region started to register massive foreign direct investment (FDI) inflows. By the early 2000s, foreign, and mostly European, capital took over most of the strategic sectors. For example, in 2000, half of the region's banks were in foreign hands: this degree of foreign penetration is almost unprecedented in the west.

Essential to these transformation and internationalization processes has been incorporating the Eastern European industries into western transnational production systems. In capital-intensive industries, incorporation and restructuring proceeded mainly through FDI and implied foreign equity control. In labor-intensive industries, incorporation occurred mainly through various forms of production subcontracting, and led to non-equity based forms of control, such as control of market access and of input channels. We elaborate below on the uneven sectoral pattern and social consequences of the Eastern European economy's transnational reintegration. More specifically, we demonstrate that both the pattern and its impact differed in the periods of recession and recovery, as well as across cases within Eastern Europe.

### *Recession (1990–1995)*

The socialist heavy industry core—mining, energy, steel and iron, heavy machinery, and military equipment—had the most profound impact on Eastern Europe's restructuring during the recession. Industrial output and exports collapsed, and labor was crushed. Real wages dropped from two-thirds to half their level in 1989, firm-based social benefits disappeared, union density halved. The masses became unemployed, were forced into early retirement, or sent back to the household. Fast reemployment at comparable terms had hardly been an option since foreign capital had not been in hurry to overtake the giant steel mills, coal mines, fertilizer combines, and cement factories. Thus, the initial and largest shock that stripped postsocialist labor of its power occurred without the significant involvement of transnational capital.

Yet, Slovenia and the Visegrád state front-runners in market reforms did attract foreign involvement in their light industries early on. Low cost, union-free, and docile labor provided the main incentive for the Western textile, garment, footwear, and furniture industries to set up export-oriented subsidiaries and subcontracting operations. Furthermore, even the complex capital—and skill-intensive industries started to export some relatively low-skill and/or more labor-intensive production segments to Eastern European locations. The modest FDI inflows into Slovenia and the Visegrád countries' machinery, automotive, electrical and electronics industries provided the first signs of technology upgrading during the crisis.

New employment in the emerging transnational industries and industry fragments usually offered unsecure, low-wage, sweatshop jobs. These opportunities might have temporarily eased the joblessness problem in the Visegrád states, but they also contributed to weakening labor as well as to skill loss over the medium term (Graziani, 1998: 13). For Eastern European labor, the collapse of the inherited heavy industry and the emerging transnational division of labor in the light industries produced an extremely hostile environment. These circumstances also undercut labor's macropolitical capacities. Whether or not parties of the left or right were in power, labor-friendly policies had been uniformly constrained by the negative *macroeconomic consequences* of recession, as well as by these political actors' adherence to the *conditionality of international financial institutions*, which led and closely monitored the first phase of neoliberal restructuring (Greskovits, 1998: 53–67).

*Recovery (1996–2002)*

After the mid–1990s—earlier in Slovenia and the Visegrád than in the Baltic and Southeastern European states—the decline of socialist heavy industries bottomed out and transnational capital took over in restructuring. Western FDI began to pour into the skill-intensive automobile, electrical, electronics, machinery, and pharmaceutical industries of the Visegrád states, transforming them into major exporters of capital—and skill-intensive consumer durable and capital goods: the kind of products, which the West usually exports to the rest of the world. Especially after 2000, we observe signs of further upgrading within these "core-like" industries (see the details in our case studies). Still, these processes that signal fair prospects for economic and social progress are unevenly distributed across Eastern Europe (Table 2).

First, the collapse of socialist core industries plagued the Baltic and Southeastern European economies longer than Slovenia and the Visegrád states. Second, while no significant skill-intensive FDI had poured into the former countries so far, the accelerating eastward migration of transnational light industries from Western European (and now even Visegrád) locations transformed some of the Baltic states, Romania, and Bulgaria into the textile and garment sweatshops of the European Union. In the early 2000s, the latter group's primary exports exhibit the usual profile of many less developed economies elsewhere in the world. Consequently, while Slovenia and the Visegrád states compete with Ireland, Spain, Portugal, or even Germany or Austria for skill-intensive FDI, the current main rivals of the Baltic and Southeast European states are the economies that dispose of large unskilled labor reserves such as Tunisia, Morocco, Turkey, and especially China.

**Table 2**
**Exports of High-skilled, Capital—and Labor-Intensive Goods in Eastern Europe (% of Total Exports)**

| Country | 1991–1995 | 1996–2002 |
|---|---|---|
| Czech Republic | 36 | 52 |
| Hungary | 38 | 61 |
| Poland | 28 | 38 |
| Slovak Republic | 32 | 45 |
| Slovenia | 40 | 47 |
| **Visegrád and Slovenian average** | **35** | **49** |
| Estonia | - | 35 |
| Latvia | 25 | 15 |
| Lithuania | 29 | 30 |
| Bulgaria | 32 | 25 |
| Romania | 29 | 25 |
| **Baltic and Southeast European average** | **29** | **26** |

High-skill, capital—and labor-intensive goods: chemicals, machines, and transport equipment (SITC category 5, 7).
*Sources*: authors' own calculations based on COMTRADE database of the UN Statistics Division, <http://intracen.org/tradestat/sitc3–3d>.

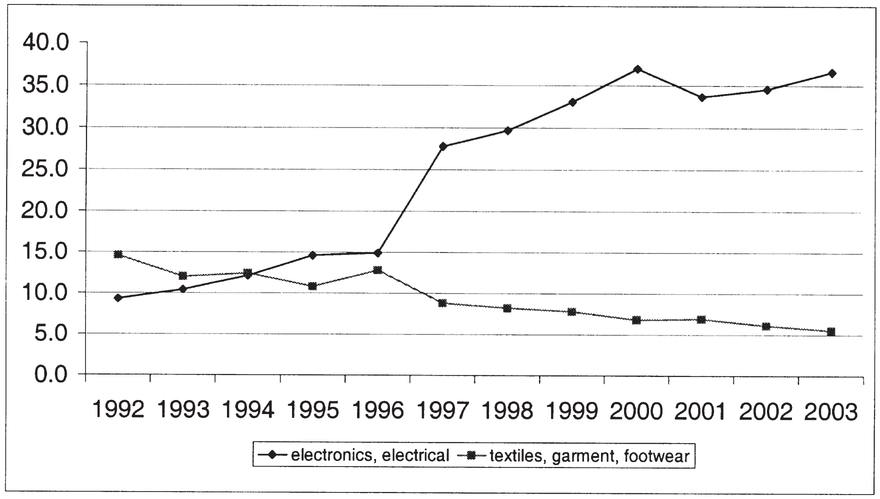
This variation has had social consequences. We can detect its main impact in the superior performance of Slovenia and the Visegrád economies in terms of real wages, unemployment, and work conditions. However, the recovery phase of neoliberal restructuring has *not* yet led to the recovery of unions and negotiated industrial relations, Slovenia being the only exception. Such advances are also impeded because even the major skill-intensive investors seem to prefer individual case-by-case deals with their workers and public administrations to mediation of nationally or sectorally organized interests. Despite the economic improvement, labor's macropolitical capacities also could not recover. During the recovery, the turn to social democratic policies have been increasingly constrained by the *conditionality of the EU*, which took over as the main driving force of neoliberal restructuring from the International Monetary Fund and the World Bank. Another no less significant new constraint on left policies has been the intensifying *competition for FDI* uniformly pursued by the national governments, regardless of the political color of their coalitions (Bohle, 2006).

Compared with their plight during the recession, workers in some Eastern European countries seem to be on the winning side. But in the case studies of the electronics industry in Hungary and automobile industry in Slovakia, we demonstrate that while industrial restructuring in these states allowed for social improvement, this progress is too uneven and too limited to serve as a solid foundation for future full convergence with the West.

## Mobile Capital and Flexible Labor in the Hungarian Electronics Industry

Hungary is Eastern Europe's top producer and exporter in the electrical and electronics industries. The remarkable increase in the export share of this skilled labor-

**Figure 1**
**High- and Low-skill, Labor-intensive Exports of Hungary (% of Total)**




*Source*: Authors' own calculations based on COMTRADE database of the UN Statistics Division.

intensive sector and the parallel decline of low-skilled, labor-intensive activities suggests that the forces of industry upgrading are at work in the Hungarian economy (Figure 1).

*Transnational Business Networks*

In this "General Electric country," the leading sector firms' concerns with their own competitive positions thoroughly shape the general perception of Hungary's economic health. Their influence is further enhanced by their geographical concentration in Hungary's most developed western part and by their transnational networks. During the 1990s, some large transnational corporations (TNCs), such as Mannesmann, Philips, IBM, Kenwood, Samsung, Siemens, Flextronics, and countless smaller suppliers, set up export-oriented operations in that part of the country—especially the Székesfehérvár area—which they developed into a regional hub. Hungarian governments continued to offer generous incentives to these major transnational employers, including tax relief, cheap real estate, local subsidies for employee training, and custom-free zone benefits.

Not all of the industry's powerful actors are foreign. Central to the emerging electronics production networks has been the large Hungarian firm VIDEOTON, and its CEO and president Gábor Széles. Once the flagship firm of Hungarian electronics that produced a wide range of branded goods for other socialist countries, VIDEOTON had suffered from the collapse of these markets in 1991–1992, and had to fire 6,000 workers. A managerial team led by Széles acquired a majority stake in 1996. Vice President Ottó Sinkó characterized their new strategy as follows: "Downsize radically, stop developing new products, and focus on labor-intensive manufacturing to serve a hungry crop of multinational investors" (Radosevic and Yoruk, 2000: 7). Accordingly, the company became a network of about 30 larger and smaller "projects" and served TNCs as a subcontractor or as a *labor contractor*. In the latter capacity, VIDEOTON leases workers or production facilities equipped with basic or specialized infrastructure *and* with workers to TNCs, while remaining the owner of the space and employer of the labor force. Such services facilitate what TNCs and their foreign suppliers consider crucial to operate efficiently in Hungary: flexibility. Such arrangements can produce at minor fixed costs and flexibly react to market changes. Like other Hungarian subcontractors stripped of their own brands and research and development (R&D) activities, VIDEOTON is forced to be flexible when competing for contracts.

Workers ultimately must bear the costs of flexibility primarily in terms of *precarious forms of employment*, which closely reflect the rapidly changing market opportunities and the related coming and going of firms and short-term job opportunities across regional borders within the national borders of Hungary. To enhance flexibility, even large TNCs such as IBM and Philips have preferred leasing their workers or importing foreign workers mainly from the depressed region of southwestern Slovakia on limited term contracts. Another widespread method, reportedly practiced, e.g., in SHINWA, Elcoteq (a large subcontractor to Ericsson) and Philips, has been hiring workers for "probationary periods" or "apprenticeships." They are fired whenever a production contract expires, and hired again when new contracts are in sight (NOL, 7 July 2001; 14 July 2001). To minimize costs, firms introduced continuous flow production. Although large electronics TNCs pay above the minimum wage and sometimes offer their employees bonuses and benefits, competition forces their Hungarian subcontractors to push down wages and related expenses. Particular sectoral attributes thus seem to conspire, in Gourevitch's terms, for a "conservative" rather than a labor-friendly alliance among foreign and domestic businesses (1986: 222). How can business representatives of these coalitions influence policymaking?

VIDEOTON president's power resources gave weight to his repeated claims that everything that harms his firm also harms the national bourgeoisie and the Hungarian economy. These resources are both political and associational. With its 15,000–16,000 workers, VIDEOTON is one of Hungary's largest employers. Personifying many features that Szelényi and his co-authors termed "managerial capitalism," Széles, who had been a member of the socialist managerial elite, inherited a rich array of skills and network properties (Eyal, Szelényi, and Townsley, 1998). He also combined these resources with new ones: in the early 1990s, he was Member of Parliament of the conservative Hungarian Democratic Forum, and chaired Hungary's largest business association, the National Alliance of Hungarian Industrialists (MGYOSZ). To indicate how such business leaders may shape politics and policy, our case study observes them "in action" in the critical context of 2001–2003, when many electronics TNCs started to move out from Hungary.

### *Outward and Inward Capital Movements and Their Consequences for Labor and Development*

Reacting to stagnant world markets in 2000–2001, Mannesmann, General Electric, Elcoteq, and Flextronics began to close plants, release workers, and relocate production from Hungary. Losing automobile manufacturers' contracts to lower-wage Romanian competitors, VIDEOTON had been the first Hungarian firm that blamed the high minimum wage for having to lay off hundreds of workers from three cable-producing plants (NOL, 23 November 2001). But the real shock to west-Hungarian electronics came in the second half of 2002, when IBM closed first its slider production in Veszprém, and then its hard disc drive unit in Székesfehérvár. In both cases, the IBM plants operated in VIDEOTON facilities and leased large labor forces from the holding company. Combined, the two plant closings laid off 4,700 workers, out of which 2,400 were returned to their "real" employer, VIDEOTON. The aftermath of these decisions revealed important features of Hungary's leading sector and its policy context.

First, notwithstanding the widely shared view of electronics as a skill-intensive industry, and of Hungary's smart strategy of attracting TNCs by its highly skilled labor force, the shock demonstrated that the electronics boom, at least in its first phase, significantly relied on low—or semi-skilled, mostly female workers. Nor does the evidence unambiguously support the idea that transnational high-tech electronics firms necessarily improve their workers' skills. On the contrary, the Székesfehérvár crisis revealed that the practices of short-term hiring and extended "apprenticeship" actually undermined workers' psychological and work capacities. Second, the tasks and responsibilities of damage control were passed from one social actor to the other until they mostly ended up at local and central state offices. Reluctant to organize collective protest amid the employment crisis, the Federation of VIDEOTON Trade Unions decided to back management. Sectoral unions tried to help local labor offices find new employment for the affected workers and negotiate—ultimately successfully—with IBM a settlement that entailed relatively generous compensation (NOL, 23 November 2001; 17 January 2003; 5 November 2002).

Similar to IBM's transferring back the burden of reemploying its fired workers to their "real" employer VIDEOTON, the Hungarian holding company relied heavily on the damage control measures of the state. This is ironic since VIDEOTON apparently could not employ its "regained" workers, at the same time signaled its intention to follow its TNC partners to remain their major subcontractor in newly acquired plants and facilities in lower-wage Romania and Bulgaria (NOL, 26 August 2002). Despite the local and central administration's efforts to back, as "employer of the last resort," the flexibility and comfort of transnational business networks, unemployment in the Székesfehérvár region temporarily returned to the high levels of the early 1990s.

TNCs and their influential domestic partners advocated different longer-term solutions. On the one hand, MGYOSZ and other domestic business associations passionately criticized the high minimum wages, interest rates, and the appreciated exchange rate. They demanded radical measures such as corporate tax cuts, currency depreciation, and public sector reforms, which would allow them lower social security contributions to restore business trust in Hungary. On the other hand, the relocating TNCs hardly mentioned the rising minimum wages or the strong local currency as important motives behind their decisions. Most other big firms affirmed their loyalty to and expressed satisfaction with the conditions offered by Hungary, and revealed concrete plans for further grand investment projects. As a reward, the left-liberal government, further blurring the boundaries between national and corporate interests, made public efforts to court TNCs into lobbying jointly with Hungary's negotiators in Brussels for regulations that could preserve many aspects of their privileged status even after the EU accession (Bohle and Husz, 2005).

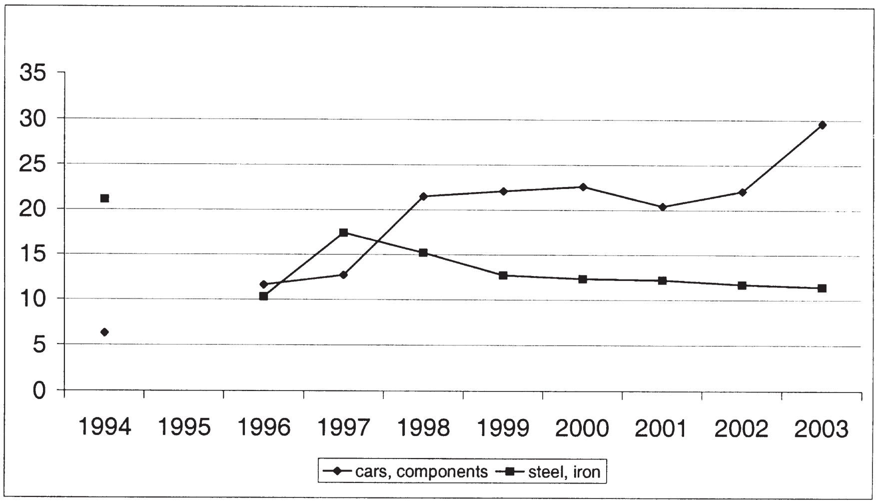
Overall, neither the export performance nor the employment contribution of the Hungarian leading sector suffered a fatal blow in the early 2000s. Rather, it became clear that this sector reached a crossroads. While the earlier export path based mainly on the extensive expansion of the electrical and electronics industries seems to be exhausted, the new path requires upgrading *within* these industries. Four developments indicate the processes of change. The first is the continuing out-migration of the lowest-wage production segments. The second new development is the intensifying outward investment of Hungarian firms that might be associated with the more lucrative managerial roles and tasks of organizing transnational value chains on behalf of the TNCs in the neighboring countries. Third, foreign TNCs increasingly tend to replace the out-migrating, low-skill activities with new operations that require higher quality production, R&D, marketing, and logistics skills. Finally, precarious employment continues and affects more migrant foreign workers. In early 2005, the Hungarian premier mentioned some 30,000 mostly ethnic Hungarian commuters from Slovakia. In part, this labor force is leased to the TNCs of northwestern Hungary's skill-intensive industries through a network of Slovak and Hungarian labor contractors, while the "real" employer pays the lower Slovak minimum wage (NOL, 18 March 2005). Given these complex and contradictory developments, it is difficult to reach firm conclusions about the overall social impact of Hungary's current phase of industry restructuring.

## Privileged Work at the Expense of General Welfare: The Example of the Slovak Auto Industry

In our second case study, we investigate the possibilities of a capital-labor compromise and its broader societal impact in the East European automobile industry. Since the early 1990s, this sector has attracted increasing amount of FDI from major western auto manufacturers and their central suppliers (for a general overview, see Werner, 2003; Havas, 2000; van Tulder and Ruigrok, 1998). Western investors quickly took over the production facilities in Slovenia, Poland, the Czech Republic, Slovakia, and Hungary at the beginning of the 1990s, and gradually started building new plants. Within a short time, their suppliers followed. Investments in the auto industry typically have been among the largest and most important investments in the region. The rush toward Eastern Europe has occurred against the background of saturated western markets, and increasing competition between the major carmakers. In this context, the "emerging markets" on Europe's periphery have offered many advantages. Most important, they provided opportunities for West European carmakers to reduce their production costs and increase their competitiveness in the EU and global markets.

What is the impact of transnational integration on the pattern of capital-labor relations, and on overall social development in these societies? These questions can best be answered by an analysis of the Slovak case. More than in any other new EU member state, Slovakia's development has become associated with the auto indus-

**Figure 2**
**High- and Low-skill, Capital-intensive Exports of Slovakia (% of Total)**




*Source*: Authors' own calculations based on COMTRADE database of the UN Statistics Division.

try, its leading manufacturing and export sector, which also allowed an expansion of high-skill employment on this country's capital-intensive development path (Figure 2).

*Investment, Markets, and Exports in the Slovak Auto Industry*

Slovakia's first and so far largest investor in the auto industry is Volkswagen (VW), which, as a byproduct of the Czech Republic's Skoda privatization, also acquired the majority in the state-owned auto parts manufacturer Bratislavske Automobilove Zavody (BAZ). Production increased dramatically only after 1997. In 1999, VW acquired an additional production facility in Martin, Central Slovakia. With an overall investment of €1,25 billion, VW employs more than 9,000 employees. VW's main suppliers soon followed. Until 2004, they invested almost €1 billion, and currently employ about 9,000 workers (Uhrík, 2005). Overall, the share of automotive production in the total industry rose from 6.25 percent in 1989 to almost 20 percent in 2002 (Vagac, 2000; Borgula and Cziria, 2002).

According to the former CEO of Volkswagen, Jozef Uhrík, the existing supplier network has been a major attraction for other auto manufacturers to invest in Slovakia.[3] In January 2003, Peugeot SA (PSA) announced its plan to invest €700 million in Trnava. The plant is expected to have some 3,500 employees in 2006. Honda is planning a €425 million investment for assembly, and the Korean carmaker Kia Motors has decided on a major (€700 million) greenfield investment in Zilina. This plant is expected to have an annual production of 200,000 cars and employ 2,400 people by 2007.[4]

What motivated the investment decisions of VW, and subsequently those of other auto manufacturers? Clearly, Slovakia's domestic market potential could not have played more than a marginal role. Slovakia might have become "tiger of the Tatra-mountains" in auto production, but it is lagging far behind in auto ownership. The ratio of autos per inhabitants was 1 to 5 in 1995, and 1 to 4 in 2002 (ZAPSR, 2003). The comparable figure for Germany is 1 to 2. In contrast to their fellow western workers, VW workers in Slovakia cannot afford to buy their own products. Instead of targeting the domestic market, VW Slovakia specializes in the labor-intensive final assembly of high-end, low-volume models, such as its Golf Syncro and Bora, Porsche, and a new VW off-road model, which are almost exclusively reexported to the EU. Slovakia's auto export orientation will dramatically increase with the planned new investments.

Western investors are mainly interested in utilizing the location advantages Slovakia has to offer for restructuring their production systems and increasing their competitiveness in western markets. It is Slovakia's comparatively cheap and skilled labor force, highly flexible labor market, geographical proximity to EU markets, and its government's willingness to offer generous incentives to foreign investors that have attracted the auto manufacturers. The Slovakian automobile sector differs substantially from its West European counterparts. Below, we spell out the consequences on work conditions, wages, labor relations, and social welfare in Slovakia.

*Privileged Wages and Work Conditions*

In general, we can observe a sharp contrast between the relatively privileged conditions at the plant level in the auto industry and a degrading situation in Slovakian society, which is not unrelated to the incentives the Slovak government offers to foreign investors. In contrast to what we have seen in Hungarian electronics, the auto industry does not make its own workers pay the price for Slovakia's transnational integration. Rather, the costs are socialized, and it is Slovakia's poorer social groups who have to bare disproportionate burdens.

In terms of wages and work conditions, the auto industry easily provides among the best standards in Slovakia. Since 1995, this sector has outpaced manufacturing as a whole in the level and growth of wages (Vagac, 2000). In 2004, in the core firm VW Slovakia, the average nominal salary was about €700 higher than the sectoral average and slightly less than double the average national salary (*Hospodarske Noviny*, 2 February 2005; EIROnline, 2005b). The sector's high productivity gains probably allow trade unions to demand relatively high wages and employers to pay them. What matters for Slovakia's location advantage is the gap between the local and the Western wages. This gap remains significant: in 2001, a Slovak VW worker's salary was only around one-fifth of that of a German VW employee (Mikulikova, 2002). When based on wage-adjusted labor productivity and unit labor cost, the East-West divide seems even stronger. Thus, in 1999, "Slovakian workers in the transport equipment manufacturing industry are more than six times as productive as their average EU counterparts on a wage adjusted basis" (Werner, 2003: 9).

Work conditions and social benefits, at least in the core companies, also seem to be superior to other industries. VW again stands out with a 35.7-hour workweek. This figure is low compared to an average 42.2-hour workweek for employees in Slovakia, but high compared to the 28.8-hour workweek for core workers at VW Germany (Paoli and Parent-Thirion, 2003: 49). VW grants pays overtime work hours, relies on teamwork, and provides social services for its employees, including subsidized meals, transportation, housing, and a supplementary retirement insurance. These benefits are outstanding by Slovakian standards (Mikulikova, 2002, *Hospodarske Noviny*, 2 February 2005).

How far are the superior conditions of work and remuneration the result of a compromise between capital and labor at the core auto manufacturer? How closely is the compromise linked, in turn, to the skill—and capital-intensity of the industry? At this stage of our research, we can only offer informed guesses. Clearly, the VW workforce is relatively young and well educated: average age is 33 years, and more than 70 percent have attended either an apprenticeship or a secondary technical school (Mikulikova, 2002: 66). This skill profile reflects the Slovak average since unskilled labor is in general a minority group in the Slovak economy (EIROnline, 2005a). Yet VW found that more than 60 percent of its applicants lacked the type of training required in the jobs it offered, and has begun to invest strongly in its own training facilities (Perzel, 2005: 22.[5] In addition, VW will soon face strong competition from the new auto investors for its skilled labor force (*Hospodarske Noviny*, 2 February 2005). We can safely assume continued management interest in tying the workforce to the company by high wages and generous social packages.

At the same time, trade unions in the automotive industry and at VW Slovakia seem capable of defending employee interests. Unionization in the automotive industry is around 35 percent, and at VW Slovakia it is 65 percent (EIROnline, 2003; Borgula and Cziria, 2003). While these figures are at the lower end in a European comparison, they stand out positively when compared with other transnational leading sectors in Eastern Europe. VW Slovakia has established an efficient collective bargaining structure, whereas strikes have never occurred in the company. While it is true that wages and social conditions at VW Slovakia are a result of a bargaining compromise, labor has to make more concessions than is typical in western enterprises. Jozef Uhrík, former CEO of VW Slovakia describes the west east differences as follows: "Volkswagen Wolfsburg is a traditional factory. It obviously has extensive experience, but it also has old work habits. We started from scratch, and we have a tailor made workforce, that is flexible and adheres to new work organization principles."[6]

Flexibility is one area where the VW management is not ready for any compromise. Slovakia has one of the most liberal labor codes in Europe, which reflects the preferences of its foreign investors, including VW.[7] On the plant level, VW has introduced a four-shift system that entails continuous production seven days a week, which employees find stressful, so turnover is relatively high (Vagac, 2000: 19). VW also seeks flexibility in terms of its employment policies. According to Borgula and Cziria (2003), VW employees initially are hired by an agency for a probationary period before being offered a permanent contract or rejected. Management's flexibility requirements in 2005 have led to the most difficult bargaining round in the company's history so far and, for the first time, agreements were made under the threat of strikes.

The general climate of social partnership, which seems to prevail at VW, cannot be generally observed in the sector. Borgula and Cziria (2003) describe two approaches: the "German way," where trade unions are considered as partners, and the "American way," where trade unions are seen as a complicating factor. VW and some of its major suppliers, such as Delphi and Lear, represent the German approach with unionization rates of 35 and 30 percent. Other suppliers, like Johnson Control or Leoni, have no trade union representation at all. Slovakia, in contrast to most other countries of the region, has sectoral collective bargaining, although the automotive industry increasingly tends to decentralize wage bargaining (EIROnline, 2003; Borgula and Cziria, 2003). VW negotiates both at the company and sectoral levels, where it is a member of the Association of Employers in the Metalworking Industry. The outcomes of company negotiations seem to have some impact on the sectoral negotiations (Mikulikova, 2002: 72). All these features have to be viewed in the light of the fact that workers' bargaining power is generally limited by the very high unemployment in Slovakia, which was 18.5 percent in 2002. Even if auto industry employment steadily rose since 1995, it could not compensate for the losses occurring in the transport equipment sector (Vagac, 2000).

### *Socializing the Costs of a Capital-Intensive Leading Sector*

Slovak auto industry workers seem to enjoy the kind of advantages that we expect to find more frequently in capital—and skill-intensive sectors than in other industries: they have more bargaining power in the workplace and management is more open toward their demands. However, attracting investments in this industry is very costly to the Slovak society. As a rule, a government can no longer attract large sums of FDI without offering generous incentives. Only a few sectors can systematically play off one government against the other to obtain better incentives, and the auto industry is among them. Ironically, auto manufacturers receive similar or even better packages in the developing world than in the wealthy developed countries (Oman, 2000). While some of the incentives, such as the supply of infrastructure or workforce training, also contribute to domestic developmental potential, the main problem with the generous subsidy packages is that they can put poor state budgets under much strain. Resources that would be indispensable for sustaining social welfare standards are channeled into private hands and, as scholars long ago observed, their mobilization in low-income countries may even lead to "reverse" forms of income redistribution from the lower to middle and upper social strata (Kurth 1979).

Since 1999, supporting the development of the auto industry has become a policy priority in Slovakia. The program for its promotion includes government subsidies to purchase land by auto investors, coordination of, and subsidies for, the construction of new flats, infrastructure support, and financial support to programs for the development of the sector. As VW was the only important investor until very recently, it was mainly this company that enjoyed these benefits (Vagac, 2000). In addition to the program tailored to the specific needs of the auto industry, Slovakia has developed a set of policies that aim at attracting FDI in general. In 2000, a set of financial measures, including the reduction of the corporate tax rate from 40 to 29 percent and the introduction of a five years tax holiday for foreign investors, was implemented. In 2001, a law on industrial parks was passed, allowing the government to cover up to 70 percent of the start-up costs in designated areas (EC Commission 2001, 2002).

The boldest steps were taken in 2004. Slovakia introduced a flat-tax regime, i.e., a single corporate, income, and value added tax (VAT) rate of 19 percent. This move has led to widespread European discussions focused on the consequences for the continent-wide competition for FDI (FTD, 13 January 2004). In the case of the Kia investment, the strategy has already paid off. Slovakia won the competition because of its tax scheme and an investment package that could not be matched by any of its competitors (a thorough discussion of this package is in Perzel, 2005: 45–54). The draft contract between the Slovak cabinet and Kia defines government expenditures linked to the project at about €216 million (*The Slovak Spectator*, 5 March 2004).

The effects on FDI that Slovakia's flat tax rate and the investment package created much international attention. The downside of these measures, namely the strain they put on the budget, was less frequently discussed. Yet Slovak policymakers seemed to have an idea about at least some of the consequences. They estimated that in 2004 the flat tax would reduce the receipts of the budget considerably. To fill the gap, Slovakia increased the excise duty. Moreover, the introduction of the flat VAT rate resulted in a drastic hike in prices of energy, medicines, and basic food. At the same time, the government cut in half the monthly sum of unemployment benefits.

In October 2003, when asked about his prediction of social consequences, Slovak Minister of Finance Ivan Miklos, the architect of the package, admitted that "just as any tax reform, the Slovak one will produce losers too. In my view, in Slovakia it will be single tax-payers, child-less families, and the unemployed, who will be worse off in the coming year" (cited in NOL, 31 October 2003). But the Slovak government could not correctly predict all of political consequences of its bold policies. In February 2004, food riots erupted in east Slovakian villages and smaller towns populated mostly by Roma, a sizable and marginalized minority that was hardest hit by the social austerity chapter of the reform package. It took several days, in the largest domestic security operation since 1989, before authorities restored control over the region (*The Slovak Spectator*, 1 March; February 25, 24, 23).

## Conclusions

Focusing on Eastern Europe's emerging transnational capitalism, we sought in our article to contribute to the debate on the impact of neoliberal economic restructuring on industrial labor's work conditions, welfare, and general social standing. The debate is framed by three positions on the issue: the view of globalization optimists, of their pessimist critics, and the hypothesis of weakened western and strengthened eastern labor. The evidence on the post-cold war restructuring of the Eastern European economies does not lend unambiguous support to any of these views. No affluent or powerful working class has yet emerged in the East. We also found the "race to the bottom" expectation wanting because it paints a generally negative picture that sits uneasy with evidence of industrial and social upgrading in the East, social differentiation within the East, and a persistent social gap between East and West.

To come to terms with the complexity of inter-temporal and cross-country variation in the social dimension of neoliberal restructuring, we stressed the importance of sectoral attributes as intervening variable. We advanced two propositions. First, we argued that the variation in the capital—and skill-intensity of economic activities has a crucial impact on businesses' propensity to accommodate labor demands and on labor's collective action capacity. Thus, sectoral profile is an important factor of a capital-labor compromise, which we consider as indispensable for labor-inclusive politics in a capitalist society. Second, we argued that capital's preferences and labor's collective action capacities are also tightly linked to location-specific factors. The practice of transnational capital to slice up the value chain means that within the same sectors, different types of activities are distributed across regions according to their location-specific advantages. These propositions allowed us to trace the past decade of neoliberal restructuring of the continent's economy in more detail.

We found that in the first half of the 1990s, the crisis of the socialist heavy industry sector and the attractiveness of the region for traditional light industries led to a downward spiral of Eastern European working and social conditions. This process deepened the social divide within Europe, which has been partly reversed in the recovery phase.

Since the mid–1990s, we observed new trends of intra-East differentiation and East-West convergence. While the Visegrád countries and Slovenia have turned into major exporters of capital and skill-intensive products, the Baltic and South-eastern European countries seem to be trapped in a much more traditional division of labor with the West. In the Visegrád countries, relocation increasingly goes beyond production and implies the eastward migration of R&D facilities, logistic centers, and investment into workforce training and re-training. Thus, workers in the Visegrád states appear to be on the winning side when compared with the recession period.

The above pattern of gains and losses helped us to clarify our own position in the debate on the social impact of globalization. First, we found that neoliberal restructuring could bring about increasing as well as decreasing disparity between the East and the West. Second, we found both outcomes to be *conditional* upon the sectoral pattern of the transnational division of labor, as well as other factors such as differences in development levels, economic performance, and institutional setup. Persistent or increasing disparities are likelier to follow from the out-migration of traditional light industries, whereas the division of labor in the capital and skill-intensive sectors can lead to the relocation of high quality employment and declining disparities. So far, the former division of labor has been dominant, while the latter type has occurred only exceptionally and has been limited to a handful of countries both worldwide, and in post-cold war Europe. From this perspective, both extreme views of the social impact of globalization appear to us as either optimistic or pessimistic generalizations of the same exceptional cases.

Our findings on the limits of social convergence in an enlarged Europe also underline the importance of a measured approach. We found that the recovery phase of neoliberal restructuring has *not* led to the recovery of unions and negotiated industrial relations. Social improvements mostly occurred *without* labor empowerment even in the Visegrád cases. No strong labor organization—no need for employer organizations, negotiated industrial relations and *vice versa*—seems to be the rule of capital-labor interaction in the former socialist countries. Furthermore, left parties' capacity to implement social democratic policies has been permanently constrained by international and domestic factors. During the recession, these were the dire macroeconomic situation and the conditionality of international financial institutions. In the recovery years, EU conditionality and cutthroat competition for FDI have been the main constraints. For these facts and the persistent thinness of mediating institutions, we see the achieved progress primarily linked to the rational interests of skill-seeking investors, and only secondarily to labor-protecting union activity, party variation, or state policies. Finally, according to our case-studies, even the most promising development paths have been costly in social terms, either for leading sector workers as in Hungary, or for the least powerful groups of society as in Slovakia.

## Notes

* We are grateful for very insightful comments and criticisms of our three anonymous reviewers. We also profited enormously from the discussions of earlier versions of our manuscript at the Political Economy Research Colloquium of Cornell University, the Visiting Fellow Seminar of the Center for European Studies of Harvard University, and the Mellon-Sawyer Seminar Series on "Transnational and Transcultural Europe" at the Institute for European Studies of Cornell University. Our special thanks go to David Brown, Stephen Crowley, Christoph Dörrenbächer, Arthur Goldhammer, Ron Herring, Peter Katzenstein, Neva Makgetla, Andrew Martin, Mitchel Orenstein, David Ost, Dieter Plehwe, Jonas Pontusson, Jörg Rössel, Mary O'Sullivan, Sid Tarrow, and Christa van Wijnbergen.

1. The Western European countries are Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, and Sweden. The Eastern European countries are Slovenia, the Visegrád states: the Czech Republic, Hungary, Poland, the Slovak Republic; the Baltic states Estonia, Latvia, and Lithuania; and Bulgaria and Romania from Southeastern Europe.
2. Other authors derived business preferences from the features of the market in which they compete, e.g., whether it is international competitive or domestic sheltered (see Swenson, 1991). Since the radical opening and foreign penetration largely eliminated the protective barriers between the competing and sheltered sectors of the small former socialist economies, we consider the preferences of the leading transnational *export* sectors to be dominant and a good enough proxy of the preferences of the entire business class.
3. Goldcar, February 2005, p. 32
4. Reuters, 16 January 2004. <*www.reuters.com*>; Slovak Spectator, 2 March 2004. <www.slovakspectator.sk>.
5. Interview with Uhrík, 11 May 2005.
6. Interview with Uhrík, 11 May 2005.
7. Interview with Uhrík, 11 May 2005. Interview with Milan Novotny, vice chair of ZAP and CEO of Auto Martin, Bratislava, 11 May 2005.

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