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Executive Summary

This sociological analysis of the recent dramatic changes in Eastern Europe and the USSR challenges both the prevailing economist view that the collapse of the old order presents a clear field for the creation of capitalism by design, and the political scientist view that the collapse of the party-state leaves the societies without institutions and without a system—a vacuum leading to paralysis or even chaos. The question is not whether the way is cleared for designer capitalism, or the floodgates of disorder opened. The author posits a multiplicity of pre-existing social and economic relations in those societies that did not conform to prescribed patterns; a widespread network of reciprocities and transactions, of parallel structures, routines, practices, organizational forms, and social ties which, however contradictory and fragmentary and in weak societies, can become the resources and the basis for credible commitments and coordinated actions. We are watching neither the "institutional vacuum" of the political scientist, nor the "transition" to hypothesized end states of democracy and market economy, but a transformation of pre-existing links—the metamorphosis of subrosa organizational forms and networks of affiliation.

Just as the pre-conditions differed from country to country, so too the transformations now differ in form and in timing. The introduction of new elements typically combines with adaptations, rearrangements, permutations and reconfigurations of existing organizational forms. By the 1980’s those societies were decidedly not systems organized around a single logic; nor are they likely to become, any more or less than our own, societies with a single "system identity." We should expect to see actors, already accustomed to negotiating the ambiguity of contradictory social forms, face new uncertainties by improvising on practiced routines. The new does not come from the new—or from nothing—but from reshaping the existing, including organizational forms

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and habituated practices. It is thus a mistake to assume that western capitalist institutions and practices can be replicated according to conscious and rational design. The origins of capitalism in the West were not by blueprint, its development was not by conscious design, and its processes for selecting technologies and organizational forms are governed more by routine than by rational choice. If we assume that it is in the "ruins" that materials will be found for reconstruction, we should expect that innovations are more likely to entail reconfigurations of old elements rather than their immediate replacement. Rather than assuming the unit of entrepreneurship is the individual, it is more likely to be produced and reproduced from networks of affiliation.

It is too soon to tell whether this metamorphosis will result in democratic market economies. But functioning markets are more likely to come from trials and errors that can be corrected, and new opportunities are more likely to be perceived and exploited, when transformative processes are decentralized than by grand experiments that are centrally imposed on societies. The more important question is whether far-reaching marketization of economic life should be the policy goal for these societies. As recent studies indicate, there are economic sectors in which the most competitive forms are neither market nor statist, and a policy of marketization across all sectors may hinder international competitiveness. Real victories have gone to industrial reorganizations in Germany and Japan that were neither market nor hierarchical. The Eastern European transformations of our era offer not only a laboratory to test existing theories but also an opportunity to develop new theories of complexity to understand and explain societal change.

The author does not make the point explicitly, but his argument is for flexibility and tolerance for a wide diversity of form and function, including component elements that are familiar and "discredited" as well as unfamiliar and peculiar, in the transformations.
From System Identity to Organizational Diversity: Analyzing Social Change in Eastern Europe

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Across the ruins of communism, a clear breeze blows from the West. Like the "fresh winds" that had been hailed from the East across the ruins of war more than four decades earlier, it promises prosperity through sacrifice. And, like the old vision with its road maps to the promised land, this new vision comes with packaged formulas for applying economic science to the grand project of institutional reconstruction. In 1992, no less than in 1948, devastation is seen as mandating boldness of action: the collapse of the old order issues the imperative for ambitious experiments while offering the occasion to build anew, this time, with a fresh start to create capitalism by design. Free to choose, the societies of Russia and Eastern Europe are free at last to be guided by the science of choice. To fill the perceived institutional vacuum created by the collapse of communism, Western economists and international advisory commissions fly into the region and leave behind "blueprints," "recipes," "formulas," "therapies," and "marching orders" for creating capitalism in six steps or sixty (e.g., Sachs 1989; Blanchard et al 1991; Peck and Richardson 1992).

For political science the metaphor of collapse is similarly all-pervasive. Whether the edifice crumbled from structural fatigue, was toppled from within, or was battered from without,
there is widespread agreement that the central problem is how to build a new economy and a new polity on a society in ruins. But whereas mainstream economists see collapse as the setting for the bold initiatives of designer capitalism, many political scientists perceive institutional vaccuum as leading to paralysis or even chaos. For the latter, the collapse of the party-state leaves these societies "without institutions and without a system... What we find in Eastern Europe today is an institutional vaccuum. The logic of state socialism was to render the party the central nervous system. It was the institution, giving life, logic and functions to all other subsidiary institutions. When communist party hegemony died, institutions died and, with that, roles and rules" (Bunce and Csanadi 1992:14). To be sure, fragments of the old socialist order survive -- alongside new elements obeying another logic. But because the elements taken from two stable systems are mutually contradictory, post-communism is a "non-system." In an irrational environment "without patterns" the category of interests becomes meaningless.

Similarly, Ken Jowitt, another political scientist who has been a long-time observer of the Soviet Union and Eastern Europe, foresees in the aftermath of the collapse of Leninism a "new world disorder" (Jowitt 1991).\(^1\) Although they are not exactly "without

\(^1\) Jowitt avoids the phrase "institutional vaccuum," but the concept is clear -- if expressed in language less prosaic: "the Leninist extinction of 1989 has hurled the entire world into a situation not altogether unlike the one described in the Book of Genesis."
form, and void," Jowitt labels the geopolitical setting and the post-Leninist societies as "Genesis environments," whose characteristics are dislocation, trauma, and uncertainty; old rigid boundaries give way and new political vocabularies "name" new entities and delineate "new ways of life" (Jowitt 1991). "In this new world," writes Jowitt, "leaders will matter more than institutions, charisma more than political economy." Liberal outcomes are not excluded and apocalypse is not inevitable, but we should be alert to the obstacles to democratic consolidations and the likelihood of wars and "movements of rage." For Jowitt, the exodus from Leninism leads not to the promised land but to much wandering in the wilderness.

From Transition to Transformation

The political scientists' alarms are a strong antidote to the economists' utopian projects. But from a third, more sociological perspective, the question is not whether the way is cleared for designer capitalism or the floodgates of disorder are opened but whether the metaphor of collapse and the concept of institutional vacuum accurately depict the contemporary societies of Eastern Europe. To be clear, challenging these assumptions

2 By Eastern Europe I refer here to the formerly state socialist societies of Central Europe, Eastern Europe, and Far Eastern Europe (Russia and the other European societies of the former Soviet Union).
does not question the actual demise of communism, nor is it motivated by a nostalgia for state socialism or by the promise of a still-to-be-realized socialism. It arises, instead, from an alternative view of state-society relations in the old order and an attention to changes taking place in society well before the dramatic events of 1989 in Eastern Europe (Nee and Stark 1989).

Western political scientists are preoccupied with collapse and vacuum in part because an image of an all-powerful state loomed so large in their portrayal of state socialism.\(^3\) It is not surprising that in its absence the transitional period is viewed as without institutional form and void of social organization. The economists' view is no less state-centered: because a strong state that suppressed markets was definitive of the old order, its demise clears the field for markets that can "start from scratch."

The alternative account breaks with these state-centered views and challenges the dominant conception of state socialism as characterized by a strong state and an atomized society. Through ethnographic studies and survey research sociologists have identified a multiplicity of social relations that did not conform to officially prescribed hierarchical patterns (see Stark and Nee 1989). These relations of reciprocity and market-like transactions were widespread inside the socialist sector as well as in the

\[^{3}\text{Bunce and Csanadi (1992) are representative of this view. They posit, for example, that the party was virtually "the only institution within the system in that all other institutions were in effect derivatives of the party."}\]
"second economy" and stemmed from the contradictions of attempting to "scientifically manage" an entire national economy. At the shop-floor level, shortages and supply bottlenecks led to bargaining between supervisors and informal groups; at the managerial level, the task of meeting plan targets required a dense network of informal ties that cut across enterprises and local organizations; and the allocative distortions of central planning reproduced the conditions for the predominantly part-time entrepreneurship of the second economies that differed in scope, density of network connections, and conditions of legality across the region.

Attention to these informal and interfirm networks does not imply that sociologists are replacing the myth of the strong state with the myth of a strong society. On the contrary, the cases of regime change in Eastern Europe in 1989 and the Soviet Union in 1991 were moments when weak states faced weak societies. Cumbersome and ineffective bureaucracies, unable to achieve economic growth and system integration, confronted extraordinarily weak civil societies without political organizations strongly rooted in the citizenry (Bruszt and Stark 1991). But the existence of parallel structures (however contradictory and fragmentary) in the informal and interfirm networks means that instead of an institutional vacuum we find routines and practices, organizational forms and social ties, that can become assets, resources, and the basis for credible commitments and coordinated
actions. That the diversity of these organizational forms varies across the societies of the region or that these network ties might differ in their directionality (i.e., not always and everywhere toward democratization and/or marketization) does not mean that they should be ignored.\(^4\) In short, in place of the disorientation that the political scientists find so alarming or the tabula rasa that the economists find so attractive, we find the metamorphosis of subrosa organizational forms and the activation of pre-existing networks of affiliation.

From this perspective we become circumspect about the notion of "transition" itself -- alert to the possibility that behind such a seemingly descriptive term are teleological concepts driven by hypothesized end states. Presentist history finds its counterpart here in futurist transitology that replicates the errors of modernization theory in assuming preordained destinations. Thus, in place of transition we analyze transformations, in which the

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\(^4\) One starting point for comparative research is the extraordinary differences across the cases in the homogeneity or diversity of organizational forms in the pre-1989 period. Hungary is advantaged today less because it had introduced some market elements into the socialist sector than because it had much greater organizational diversity. I first raised these issues at a conference in 1986: "Perhaps the distinctive contribution of the Hungarian experiment will be to demonstrate that the path to reforming a socialist economy lies less in promoting competition among firms than in fostering competition among organizational forms. Not simply decentralization of economic decision making but diversification of property forms might be the Hungarian lesson for reconstructing the centrally planned economies." David Stark, "Coexisting Organizational Forms in Hungary's Emerging Mixed Economy" in Nee and Stark 1989 p. 168. On organizational diversity see Hannan and Freeman 1989 p. 3.
introduction of new elements most typically combines with adaptations, rearrangements, permutations, and reconfigurations of existing organizational forms.

A reassessment of our assumptions about social and economic change in Eastern Europe and the former Soviet Union must, therefore, begin by questioning the notion of "the transition to democracy." Such an idea, and its attendant limitations, arises from "1989" and the drama that brought so much attention to the region. The near simultaneity of regime changes across the region (with only slight delay in the Soviet Union) contributes to the mistaken conception that there is some essential East European transition, a unitary phenomenon in which countries differ only in degree, whether in sequencing, rapidity, or strength of popular democratic impulses. Contrary to such views, we should instead regard the region as undergoing a plurality of transitions in a dual sense: across the countries we are seeing a multiplicity of distinctive paths that differ in kind and not simply in degree; within any given country, we find not one transition, but many occurring in different domains -- political, economic, and social -- and the temporality of these processes are often asynchronous and their articulation seldom harmonious.

With this conception of multiple temporalities we are alerted to the possibility that changing social institutions might occur much more slowly than constructing new political institutions -- but also that social change might well have been taking place
much before the more easily observable political developments. Once we have broken with the misconception of 1989 as some universal culmination or beginning we observe that ordinary citizens were already experiencing, for perhaps a decade or more, a world in which various domains were not integrated in some elementary and simple coherence.\(^5\) By the 1980s the societies of Eastern Europe were decidedly not systems organized around a single logic; nor are they likely to become, any more or less than our own, societies with a single "system identity."\(^6\)

Today, institutionalization is undoubtedly low and uncertainty extraordinarily high. But it does not follow that paralysis and disorientation are the consequence. Instead, we should expect to

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\(^6\) "Intrapreneurial units and other mixed property forms will provoke ambivalence, and even paralysis, so long as an economy is justified on the basis of a single universalistic principle, be it market-defined 'self-interest' or bureaucratically defined 'societal interest.' An alternative is to step unambiguously on the road to a mixed economy and to raise the plurality of property forms from the status of the contingent and ambiguous to one in which diversity is itself a principle of justification. Hungary might yet take such a step. As analysts, our next step is to accept the challenge of comparing mixed economies not only the basis of relative weights of "capitalist" and "socialist" elements but on the basis of the complex configurations of diverse and internally heterogeneous organizational forms." (Stark, 1989, p. 168.)
see actors, already accustomed to negotiating the ambiguity of contradictory social forms, face new uncertainties by improvising on practiced routines. In a theory of change based on an analysis of transformative practices, the new does not come from the new -- or from nothing -- but from reshaping existing resources. These resources include organizational forms (that are likely to migrate across domains), habituated practices, and social ties, whether official or informal. Thus, transformation will resemble innovative adaptations that combine seemingly discrepant elements -- bricolage -- more than architectural design.

In this light we see that comprehensive blueprints for all-encompassing institutional change suffer from an inadequate comparison of socialist and capitalist economic systems. Misled by the obviously superior efficiency and performance of capitalist institutions, observers mistakenly draw the conclusion that these institutions can be replicated according to instructions, whereas the deeper and more pertinent comparative lesson is that the failure of socialism rested precisely in the attempt to organize all economic processes according to a grand design (Stark, 1989; Murrell, 1992). The notion that more rational institutions can be implemented by conscious design thus duplicates the rationalist fallacy evidenced during the introduction of socialism, for example, the Leninist notion that property relations could be changed overnight by administrative decree. The origins of capitalism in the West, by contrast, were not by blueprint, its
development has not been directed by conscious design, and, as recent research in evolutionary economics and organizational ecology has demonstrated (Hannan and Freeman, 1989; Arthur, 1989), its processes for selecting technologies and organizational forms are governed more by routine than by rational choice.

A theory of transformative practices is not opposed to institutional design. In place of grand experiments, however, we should hope for more, not less "designs" -- partial solutions delimited in scope to solve particular problems of governance and coordination for specific sectors or localities rather than global solutions to the problems of the entire economy -- in which transformation becomes a process undertaken by a multiplicity of dispersed agents at many institutional sites.

Promising Lines of Research

Instead of seeing the "fall of communism" as some uniform process, a sociological analysis of transformation in Eastern Europe starts from the assumption that differences in how the pieces fell apart will have consequences for how political and economic institutions can be reconstructed. In short, paths of extrication from state socialism shape possibilities of transformation. Bruszt (1992), for example, demonstrates how distinctive institutional legacies in the patterns of state-society relations (presidential vs. parliamentary politics, variations in
institutions of interest mediation, etc.) shape differences in the timing and the types of macroeconomic policy in the region. Policymakers hope that marketization will reduce transaction costs and that privatization will reduce production costs, but their actions are shaped by the specific (and widely varying) channels in which they perceive the limits of society's tolerance of transition costs. Bruszt's study suggests that in place of the relationship between Democracy and the Market, we should be examining the relationship between types of democracies and types of marketization in the region.

Similarly, if we assume that it is in the "ruins" that institutional materials will be found for reconstructing the economy, we should expect that structural innovations in the economy are more likely to entail complex reconfigurations of institutional elements rather than their immediate replacement. Recent studies on privatization in East Central Europe indicate that decentralized reorganization is taking markedly different forms across the region, shaped by the different legacies of extrication. In East Germany, in the aftermath of reunification, recombinations are orchestrated by a bureaucratic agency (Kern and Sabel 1991). In Poland, the legacy of workers' organizations finds trade unions and workers councils often taking the lead in privatization through liquidation (Dabrowski, Federowicz, and Levitas 1991). And in Hungary, the legacy of semi-autonomous subcontracting units inside the firm (themselves an organizational
form that migrated from the agricultural cooperatives) now finds slightly larger variants of such units spun off outside the firm as semi-autonomous limited liability companies. The most prevalent form of property reorganization in Hungary today is not the foreign buyout but "a limited liability company owned by other limited liability companies owned by joint stock companies, banks, and large public enterprises owned by the state" (Stark 1992; and see Nee, forthcoming, for an analysis of similar hybrid property forms in China). In Russia as well the demise of central planning has not left an institutional void but finds enterprise directors engaging in barter trade along the lines of their old network connections (Burawoy and Krotov 1992) and whole ministries being converted into multidivisional firms with senior officials intervening in factory business decisions now from "corporate" headquarters instead of from branch ministries (Rutland 1992).

In addition to studying the legacies of organizational forms that emerged alongside the state socialist economy we should also investigate the informal networks that operated quite apart from officially sanctioned ties, whether in the interstices of the bureaucracy or outside it altogether. Will the informal networks that "got the job done" despite the roadblocks in the earlier system promote or will they inhibit entrepreneurship and marketization? I pose here two initial propositions to orient research. First, the networks of enterprise directors perpetuated in new patterns of nominally privatized, institutional cross-
ownership will be too clanlike to achieve thorough marketization. In place of disintegration we should examine the possibilities of re-integration of segments of the old elite (Stark 1990; Lengyel 1992). Forged under conditions of soft-budget constraints, these cohesive networks of trust and friendship will promote dynamism in the short-run, but when times get difficult, they will be used to defend perceptions of "interests" shaped by long-standing habits and routines inimicable to marketization. The proposition is not intended as a forecast, for the outcomes of transformative politics are always uncertain. Perhaps some combination of enough direct foreign investment and enough real private entrepreneurship will produce an environment in which the clan networks of institutional owners become the organizational vehicle for dynamic market competition.7 In the immediate future, our research should investigate the characteristics of these networks -- their density, the symmetry or asymmetry of ties, their similarity to old patterns, and their stability or relative fluidity.8

7 In that case, we might say that in place of the question of clans or markets institutional cross-ownership would have shown the possibilities of clans for markets. For a discussion, see Stark (1990).

8 We note here that we should expect to find interesting differences in the characteristics of networks of managers in the different country cases (and perhaps as well, significant differences across regions within a national economy). We need to know much more about differences among Czechoslovak, German, Polish, and Hungarian managers in the pre-1989 period in order to understand contemporary developments. That is, researchers should avoid the temptation of studying what has not yet happened (all too prevalent in the field) and do the archival work to reconstruct the past(s).
Networks among Eastern Europe's existing small-scale producers are equally worthy of study. The preliminary conclusion of István Gábor (1991), Hungary's leading expert on the second economy, is that these networks (of low density and extensiveness, lacking trust and cohesion) are almost the reverse of those among enterprise directors. Gábor's skepticism about the prospects for dynamic marketization in this sector originates in the premise, drawn from recent work on the "Third Italy," that flexible small-scale production requires not only competition but cooperation. Italian small-scale manufacturers (competing in the same product lines) are often tied to each other through old trade-union connections, reinforced by political parties, and supported by local governments. Not uncommonly, producer associations in a given locale hire marketing experts for information about new products and designs. All the participating small firms receive the information (too costly for any single unit) and then compete for a share of the market. Other research on the Third Italy further traced these patterns of cooperation to long-standing political and social institutions that protected society from complete penetration by the market. In this lies Gábor's deepest pessimism: state socialism prohibited the spread of the market in the past, but it also virtually eliminated any institutions of civil society that might form the basis for extensive cooperation in the near future. The networks of Hungary's small-scale producers are so restrictive they provide little basis for cohesion.
and coordination. Formulated in terms of the previous proposition, Gábor's observations could be restated: the networks of private entrepreneurs are not clanlike enough to yield comprehensive marketization.

Again, the proposition is less predictive than illustrative of hypotheses to orient future research. Research on small-scale producers should shift attention from the individual's aspirations for entrepreneurship to the broader features of localities that inhibit or encourage marketization. Instead of assuming that the unit of entrepreneurship is the individual, it draws the lesson from the new economic sociology that the unit of entrepreneurship is the locality. Entrepreneurs are produced and reproduced in networks of affiliation. These networks are the proper object of study.

A Market Economy or Modern Capitalism?

Will this bricolage, this metamorphosis of organizational forms and adaptations of social ties result in democratic market economies? It is too soon to tell. But functioning markets are more likely to come from trials and errors that can be corrected,

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9 These networks are too close to the nuclear family, and their patterns of trade are too close either to the large enterprises or to the final consumer (with relatively few purchase and supply links within the sector itself).
and new opportunities are more likely to be perceived and exploited when transformative processes are decentralized than by grand experiments that are centrally imposed on society. The more important question is whether the most far-reaching marketization of all aspects of economic life should be the policy goal in contemporary Eastern Europe. Advocates of such a goal suffer from two analytic shortcomings: (1) they mistake one possible means as the end itself and (2) they operate in a theoretical universe in which the dichotomies of state and market exhaust the range of coordinating mechanisms in modern economies. But (to take the first point) surely one goal of marketization has been to modernize the production processes and improve the international competitiveness of these damaged economies. Yet (the second point), as various currents of thinking in political economy recently indicate, there are sectors in which the most competitive forms of economic coordination are neither market nor statist but new forms whose alternative operations we are only beginning to understand and identify (with preliminary labels such as "networks," "alliances," "inter-firm agreements," and the like) (see esp. Boyer 1991; Hollingsworth et al 1992; Powell 1990; and Sabel forthcoming). An exclusive policy of all-encompassing marketization across all sectors would therefore hinder international competitiveness.

Such a tragedy is likely so long as the policy debate on the
transitions from state socialism is dominated by those who mistake the triumph of capitalism as the triumph of the market and look only to the "market revolutions" of Reagan and Thatcher when the real victories went to the industrial reorganizations in Germany and Japan that were neither market nor hierarchal. Modern capitalist economies should not be reduced to only one of their constitutive parts: markets are but one of a multiplicity of coexisting coordinating mechanisms in modern capitalism (Boyer, 1991). Transformative schemes that rely on an exclusive coordinating mechanism do not so much emulate existing capitalism as echo the implementation of state socialism and, like it, carry the danger of sacrificing the dynamic efficiency and flexibility that depend on diversity of organizational forms.

This diversity of organizational arrangements will appear discordant from the viewpoint of social theory that can accommodate complexity only as functional differentiation or as the transitional juxtaposition of the contradicting principles of overlapping systems. Marxism and modernization theory are equally inadequate for the task.\textsuperscript{10} The East European transformations of our era offer not only a laboratory to test existing theories but also an opportunity to develop new theories of complexity to understand and explain societal change.

\textsuperscript{10} On some of the many shared assumptions of Marxism and modernization theory see Stark, 1990.
Literature cited


