

Embedded Politics



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Industrial Networks
and Institutional Change
in Postcommunism

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Ann Arbor

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*To Patricia and Kevin,
for giving me the security to attempt the adventure
and
to Sandra,
for guiding me along the way.*



Preface

This book is the product of a personal journey. It began with some intellectual questions that took me behind the iron curtain, onward to MIT, back to Prague, through Buenos Aires, and finally up to Philadelphia. In the course of my doctoral studies and the numerous versions of this manuscript, my father passed away, I became an uncle seven times, I lived on three continents, I married Sandra Aidar, and I became a father (and quite a happy one at that). The point is that writing a dissertation and then a book is as much about renewal of the spirit as it is about strengthening of the intellect. My choices of topic and argument as well as my ability to execute these choices have drawn on both my emotional and academic foundations. The story of this book, in turn, intertwines my personal and scholarly journeys as well as the support and lessons from family, friends, colleagues, and advisors. I guess, then, the best way to describe my interests in East Central Europe and institutional change and to thank those for helping me get through this journey is to tell about how the issues came together.

My first significant adventure in East Central Europe was in 1988–89 as a Thomas J. Watson Foundation Fellow. I went to interview managers, bureaucrats, and theorists about the ongoing transformation of industrial and communist governance structures. My professors at Middlebury College and my buddies, like Stefan Sullivan and Dave Blumental, were vital in helping me think about the political and economic changes in the region, win the fellowship, and have the confidence to go into uncharted territory. Czechoslovakia soon became the focus of my interests for two reasons. First, friends and scholars like Dušan Tříška, Kárel Dyba, Lubomír Mlčoch, Aleš Čapek, Vladimír Benáček, Jan Mládek, Roman Češka, Josef Kotrba, Jiří Jonáš, Michal Mejstřík, and Alena Zemplerová soon helped me learn that despite the apparent orthodoxy of the communist regime, the textbook hierarchical pyramid of command and control was virtually upside down. Managers, workers, and bureaucrats were surviving by diverse social, political, and economic bargaining networks. This perspective quickly influenced the way I began to understand the profound changes taking place throughout the region. Then I met Tony Levitas in Warsaw. Tony began to teach me about how historical, political, and social ties at the micro or everyday level could impact the tenuous position of the communist regimes and the aftermath. His years of experience in Poland, especially on the shop floor, made his perspective appealing, and our friendship gave me the confidence to pursue my intellectual curiosities further, both “in the field” and in a Ph.D. program.

Second, my personal relationships in the region gave me the comfort, strength, and joy to make East Central Europe a key part of my life. People like Wlodek Zieleniec and Stefan Kawalec in Warsaw, Michal Moeller in East Berlin, and Emese Szontagh and Kalman Mizsei in Budapest made me realize I had friends far from White Plains, New York. But my intellectual curiosity in the puzzle of Czechoslovakia, often overlooked because of the fast-paced changes occurring in 1988–89 in Poland and Hungary, was cemented by the enduring personal bonds developed with Kryštof Duchoslav, Daniel and Victoria Spička, Patricie Vláhová, Juraj and Tanie Mihalík, Ivana Mazálková, David Koláček, and, especially, with the Bobeks—Pavel and Marta and their children, Klara and Pavlíček. When I was asked why I chose to spend Christmas and New Years in Prague and Bratislava in 1988–89 after just a few months in Czechoslovakia, I replied that this was a time to be with family and close friends. Over the years, I felt like a cousin returning home. They helped me see communism and the transformation through their eyes. They offered me all the support imaginable—from accommodations and contacts to a friendship in which we could share our most personal problems and joys. It may be no coincidence that I was in Prague when my father became suddenly ill, that Sandra and I married in Prague 6, and that Pavel was my best man at the wedding.

But why economic governance institutions? Toward the end of my coursework at Middlebury, particularly with the guidance of my professors, I began to question several of the traditional economic approaches to the theory of the firm and industrial organization. While assumptions of returns to scale limited our understanding of innovation, debates about optimal ownership and contractual structures had difficulty reconciling effective monitoring with decentralized experimentation. Was increased efficiency or productivity based solely on the development of labor-saving methods to produce a widget? Were firms relegated to the choices of becoming large-scale hierarchies or using arm's-length customer–supply relations based on price alone? Given the problems of the modern corporation that I saw in the turbulence of my father's professional life, I took these questions to heart and began wondering whether economic growth was generally incompatible with higher incomes and greater democratic participation in the reconstruction of economic institutions. These questions were put into sharper relief when I went to East Central Europe. I saw not only the wreckage and injustice of the Leninist alternative but also the differences between the ways socialist managers coordinated economic activity and the textbook pictures of communism and planning. Put another way, if the same assumptions that limited our responses to cold war capitalism also failed to capture the contemporary realities of communist planning, then maybe we had to rethink our first principles about political economy.

As this confusion was taking hold of me, Tony Levitas and Dave Audretsch directed me toward the work of Mike Piore and Chuck Sabel. They argued that there were several paths to growth and forms of industrial organization, both of which depended on political struggles over institutional constellations in specific historical contexts. With this introduction into the worlds of possibilities, I began my doctoral studies in political science at MIT. Suzanne Berger, Rick Locke, and Chuck Sabel helped me think long and hard about alternative approaches to political economy, particularly about ways to connect micro-level issues of industrial organization to larger political conflicts within countries. Their guidance led me to take intellectual risks in relating political governance to economic governance—risks that I hope can shed light on new ways of developing public policies and creating business organizations. When I met David Stark, the picture was complete. David, through both his unique work inside Hungarian firms and his big heart, helped me overcome many of the challenges of connecting larger theories of economic sociology to the realities of East Central Europe. Together these four scholars have been a guiding force through the years—intellectually stimulating, compassionate, professionally supportive, and, when needed, very demanding.

Dealing with the pressures of MIT, job searches, and life in general would still have been impossible without the friendship and support of my colleagues in Cambridge and Prague. Ram Manikkalingam, Pablo Policzer, Bob Hancke, Gernot Grabher, Zhiyuan Cui, and Waleed Hazbun really helped open my eyes to new ideas and kept me sane through general exams, fieldwork, and the challenges of marriage. With them I discovered the meaning of collegiality, always helping me renew the confidence needed to follow my intuition. Helen Ray calmed me down with a few simple words over the phone. The folks at the Harvard's Center for European Studies offered me resources and a vibrant forum for debate. And David Woodruff has continually gone above and beyond the call of collegiality, marking up chapters, pushing me forward, and putting up with my rants about academia. In Prague, Michal Mejstřík and Jan Švejnar gave me a base for my fieldwork at CERGE-EI, while Mike Jetton and Blanka Hadová became trusted friends and assistants. Aydin Hayri became my partner in bear-dancing and scholarship. Raj Desai and Mitchell Orenstein helped keep spirits high during gray days in Prague, while their sharp arguments have kept me on my toes. Roman Češka and Jan Vrba opened innumerable doors at ministries and firms for me. Ivana Mazálková helped me all too often in interviewing managers, kicking my ass when I needed it, and being there when I needed someone to talk to. Of course, hardly any of this would have been possible without the generous financial support from the American Council for Learned Societies, the International

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As odd as it may seem, I wrote and rewrote much of these chapters in Buenos Aires (my computer, my wife, and I needed some sun). The Universidad de San Andrés in Buenos Aires was extremely hospitable in allowing me to be a visiting researcher, with full use of their facilities. And then, more recently, IAE, Escuela de Dirección y Negocios, Universidad Austral took me in as a Research Fellow, providing me ample resources and assistance as well as thoughtful and endearing colleagues.

Finally I landed back in my homeland, when the Management Department of the Wharton School opened its doors to me and allowed me to become part of one of the most intellectually vibrant and collegial settings around. I am truly indebted to all my colleagues here, especially Mauro Guillen, Chip Hunter, Steve Kobrin, and Bruce Kogut, for their support of my work and their insightful comments on revisions. My gratitude would be less than sincere without duly acknowledging as well the very helpful comments from two anonymous referees and the unceasing assistance and patience of Ellen McCarthy, Claudia Leo, and their colleagues at the University of Michigan Press—maybe, one day, we'll figure out the secret of the macros!

I will end this preface sort of where I began. The journey has actually just begun, both professionally and personally. Being an assistant professor at Wharton can often be overwhelming. But I have come this far and know I can fulfill my dreams most of all because of the love of my family and wife. It is not always so easy to trust in God and the intuition He gave me through all the ups and downs, but these people make faith so tangible. My mom and dad, Patricia and Kevin, and my brothers and sister, Kevin, Tom, Karen, and Steve, have truly made my adventure possible. Their devotion and calming advice provided all the foundations necessary to take risks with a courage I never knew was possible.

And then there are Sandra, the true love of my life and my eternal partner, and Miranda, our source of light. Miranda has put a new bounce in my step each day. Sandra is my intellectual debater, my soul mate, my best friend. It was she who moved me forward both as a human being and a scholar. Together, they keep the fire of idealism burning bright inside me. And it is only with them that I can face what's coming around the corner.



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Contents

List of Tables	xv
List of Figures	xvii
List of Abbreviations	xix
Chapter 1. Introduction: The Embedded Politics of Institutional Change in Postcommunism	1
Chapter 2. Institutional Experiments and the Emergence of Industrial Networks in Communist Czechoslovakia	28
Chapter 3. State Designs for Defining Property Rights and Maintaining Asset Value in the Czech Republic	64
Chapter 4. Hierarchical Networks and the Negotiated Restructuring of Czech Holding Companies: The Case of Škoda Plzeň	95
Chapter 5. Polycentric Networks and Fragmented Restructuring: The Case of SST	132
Chapter 6. Conclusion: Governing Institutional Experiments	164
Appendix: List of Interviewees	191
Notes	195
References	243
Index	283

Tables

2.1	Reorganization of Industries into VHJs in 1958	34
2.2	Employment in ČSSR Engineering Sectors, 1955 to 1974 (grouped by firm size)	35
2.3	Number of Firms in ČSSR Engineering Sectors, 1955 to 1974 (grouped by firm size)	35
2.4	Number of Industrial, Construction, and Agricultural VHJs under Federal and Republic Ministries, 1974	35
2.5	Structure of Individual Engineering VHJs According to Number of Employees, 1974	37
2.6	Czechoslovak Foreign Trade Balance in the 1970s, in Millions of Kcs	40
2.7	Changes in Trade Balances with Socialist Countries in Early 1980s, in Millions of Kcs	40
2.8	Structure of Czechoslovak Exports, 1951–85 (average share in total exports)	40
2.9	Number of Branches/Product Groups Covered by an Engineering VHJ	41
2.10	Structure of VHJs in ČSSR Industry, 1985	46
2.11	Credits Granted to State Economic Organizations (noncooperatives)	51
2.12	Structure of Operating Loans, in Percent	51
2.13	Sources of Current Operating Finances in State Economic Organizations (noncooperatives)	51
2.14	Structure of Sources Financing (large) Construction Investments, State Economic Organizations (noncooperatives), in Percent	52
2.15	Number of Industrial State Firms and Employment, 1987	60
2.16	Number of Industrial State Firms and Employment, 1989	61
3.1	Annual Percent Change in Real GDP	67
3.2	Annual Percent Change in CPI	67
3.3	Unemployment Rate	67
3.4	Fiscal Budget Surplus (+) or Deficit (–) as a Percent of GDP	67
3.5	External Debt in Dollars and Its Ratio to Exports	68
3.6	Annual Rate of Change in Inflation, GDP, Investment, Industrial Production, and Exports, Czech Republic, 1989–93	75

3.7	Change in Territorial Structure of Czechoslovak Exports, 1989–92	75
3.8	Comparison of Output (in constant prices), Average Profitability (current prices), and Exports (in constant prices) for Selected Branches, Czech Republic, 1989–92	76
3.9	Liquidity and Debt Indicators by Manufacturing Sector	77
3.10	Liquidity and Debt Indicators by Industry	78
3.11	Interest Coverage Ratios (times interest earned), Part 1	78
3.12	Interest Coverage Ratios (times interest earned), Part 2	79
3.13	Stratification by Sector of Total and Classified (doubtful) Outstanding Loans for Nonfinancial Institutions (firms), Czech Republic, 1992–94 (in millions of Kcs)	82
3.14	First Wave Data for Voucher Privatization (Sept. 1993)	87
3.15	Voucher Points and Equity Shares Held by the Thirteen Largest IPCs after First Wave	88
4.1	Sample of Czech Holdings and Their Privatization Strategies	100
4.2	Financial Status of Selected Czech Holding Companies, 1992, Part 1	108
4.3	Financial Status of Selected Czech Holding Companies, 1992, Part 2	109
5.1	Production Profiles of Leading SST Firms (break-away plants in italics), 1990	136
5.2	Privatization Methods of Leading TST/SST Firms (break-away plants in italics), 1991	138
6.1	Divergence in SME Growth in Manufacturing	176



Figures

1.1	Polycentric and Hierarchical Networks (ideal types of VHJ networks)	16
2.1	Hierarchical Network (e.g., Škoda VHJ)	57
2.2	Polycentric Network (e.g., TST VHJ)	58
3.1	Classified Loans as a Percentage of Total Loans to Given Sector	83
4.1	Main Network of Škoda Plzeň Plants	103
4.2	Internal Contracting Network, ČKD, 1990	105
4.3	Monitoring Triangles of DDR	121
5.1	New Ownership and Financial Network for TST/SST, 1992–93	140
5.2	New Control Structure of SST, 1996	159
6.1	Industrial Production in the Czech Republic and Poland	175



Abbreviations

Countries and Categories

CMEA—Council for Mutual Economic Assistance
CPE—Communist Political Economy
CR—Czech Republic
ČSR—Czech Socialist Republic
CSFR—Czecho-Slovak Federated Republic
ČSSR—Czechoslovak Socialist Republic
DDR—Delegated Deliberative Restructuring
GDR—German Democratic Republic
IPC—Investment Privatization Company
USSR—Union of Soviet Socialist Republics
VHJ—Výrobní Hospodačský Jednotek (Industrial Association for Economic Planning)

Government Institutions

CNB—Czech National Bank (Central Bank)
EBRP—Enterprise Bank Restructuring Program (of Poland)
FNM—Fund for National Property of the Czech Republic
KOB—Consolidation Bank, s.p.
ME—Ministry of Economy of the Czech Republic
MF—Ministry of Finance of the Czech Republic
ML—Ministry of Labor and Social Affairs of the Czech Republic
MPO—Ministry of Industry and Trade of the Czech Republic
MP—Ministry for the Administration of National Property and Its Privatization of the Czech Republic
SBČS—State Bank of Czechoslovakia

State and Private Companies; Associations

ČMKOS—Czech Moravian Confederation of Trade Unions
ČS—Česká spořitelna, a.s.
ČSOB—Československá Obchodní Banka, a.s.
IB—Investiční Banka, a.s. (after June 1994, Investiční Poštovní Banka, a.s.)
KB—Komerční Banka, a.s.
PPF—První Privatizační Fund, a.s.
SST—Svaz výrobců a dodavatelů strojírenské techniky
TST—Továrny Strojírenské Techniky, VHJ

