On the Limits of Path Dependency Approaches for Explaining Postsocialist Institution Building: In Critical Response to David Stark

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In 1991 Terry L. Karl and Philippe C. Schmitter hypothesized “that the mode of transition from autocratic rule is a principal determinant of whether democracy will emerge.” In passing, they noted that this assumption “bears a generic resemblance to the currently fashionable attention being paid to ‘chaos theory’ and to ‘path dependency.”’ Although Karl and Schmitter’s concrete conclusions were—at least partially—disproved by reality within a few years, their general argument has apparently influenced how postcommunist change is conceptualized to a remarkable extent. In the subsequent years, two patterns of explaining postcommunist developments have become ever more dominant in comparative transformation studies.

The first trend is seen in a widespread tendency to trace divergent outcomes of institutional and policy choices to nationally dif-

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2. According to Karl and Schmitter’s conclusion from Latin American as well as Southern European experience, new democracies would most likely consolidate in countries where transition was brought about by imposition from above or by "foundational pact." In their own typology, these modes of transition relate to the Soviet Union, Bulgaria, and Hungary. With significantly lower probability, successful outcomes were to be expected in those countries where “incumbents lost control over the process of regime change and the new structures of power and authority emerged from below, either by reform or revolution” (282). This, however, was the case also in Poland and Czechoslovakia—countries, that besides Hungary (and except for Slovakia) already in the mid-nineties were regarded as the more successful in the region.
ferent modes of transition. Outstanding examples are Dieter Nohlen and Mirjana Kasapovic’s works about electoral systems in Eastern Europe and Gerald Easter’s study on constitutional choice between parliamentarism and presidentialism. The second trend is an increasing recourse to the concept of path dependency. In the German context, for example, this was used to explain diverging patterns of sectoral transformation strategies and the apparently suboptimal outcomes in reorganizing public administration structures in the East German Länder and municipalities. The concept of path dependency, initially developed for modeling processes of technological development, later migrated into institutional economics and comparative politics, from which it diffused into postcommunist studies.

For two reasons, we deal mainly with David Stark’s comparative analysis of postsocialist privatization policies: first, in contrast to the widespread practice of using the term without specifying its conceptual function, Stark has applied his concept of path dependency in a well elaborated and inspiring manner. Second, his work represents a combination of the two aforementioned patterns of interpretation in that he explains different privatiza-

tion strategies as path-dependent outcomes of particular modes of transition.\(^8\)

Three questions connected with the application of the path-depen-
dendency concept in comparative postsocialist studies will be in
focus here: first, how to account for the increasing recourse to this
concept—in other words, how does it relate to major theoretical
debates on postsocialist institution building? Second, to what ex-
tent can early assumptions of path-dependent institution build-
ing or policy formation, which regard the mode of transition as
the crucial variable for explaining national differences, be main-
tained in light of current outcomes of transformation? To address
this point, Stark’s hypothesis will be tested on a broader set of em-
pirical data. Third, what does the approach applied by Stark and
other scholars of transformation have in common with the orig-
inal theories of path dependency?

**Trying to Reconcile Voluntarism and Historical Determinism**

From the outset, the debate on major determinants shaping post-
socialist institution building or “trajectories” has been structured
around two competing (ideal type) approaches. The first, usually
labeled “voluntarist” or “creationist,” emphasizes the significance
of strategic choices made in the very early transition period. Ac-
cording to its proponents, the decline of communist regimes re-
sulted in an institutional vacuum, characterized as a situation where
“normal constraints of social structures and political institutions
seem temporarily suspended.”\(^9\) This provided new political elites
a window of opportunity for creating new rules for political and
economic competition. Once introduced, these rules, by modify-
ing constraints and incentives for political and economic behav-
ior, would in turn reshape the expectations and calculations of both
citizens and elites, thereby successively stabilizing themselves as
institutions. As the new political elites could reasonably be ex-
pected to be strongly committed to or at least subjected to the in-

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8. David Stark, “Path Dependence and Privatization Strategies in East Central Europe,”

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ternal pressures supporting the norms of liberal democracy and a capitalist market economy, this view has also been called the “imperatives of liberalization approach.”10 Given the institutional vacuum as well as an incentive structure shaped predominantly by western values, the success of democratic and market reforms would decisively depend on prudent institutional and policy choices. If expeditiously introduced, properly designed institutions and comprehensive policy programs could bear the capacity for effectively reducing the veto power of old elites as well as the impact of cultural legacies. In its political dimension, the creationist approach is commonly associated with neo-liberal strategies for economic reform. Opponents have mainly argued that the creationist approach ignores the necessity that effective institutions have to be embedded in the existing social and cultural environment and that it underestimates the long-lasting impact of historical legacies.

The alternative approach highlights exactly these legacies. It explains, as Crawford and Lijphart point out, postsocialist transformation “as a function of the social, cultural, and institutional structures created under Leninist regimes” or even in presocialist times.11 According to this approach, regardless of the institutional design and liberal commitment of new elites, these legacies will predominantly shape the course of transformation. The attempt to create democracy and a market economy would ultimately be undermined by the inherited predominance of a pre-modern political culture, vested interests, weak roots of party systems in society, and an undeveloped capacity of the new elites to control outbreaking political dynamics. As Ken Jowitt, a leading author of the legacy camp, assessed future perspectives for Eastern Europe in 1992, any successful response to the urgent economic problems was “likely to have an authoritarian cast.” It “will be demagogues, priests, and colonels more than democrats and capitalists who will

11. Ibid., 2.
shape Eastern Europe’s general institutional identity.”12 While legacy approaches correctly emphasize the importance of cultural, institutional, and structural inheritance from the previous social order, they lack the room for a systematic explanation of institutional innovation.

After eight years of debating these approaches, continuing the controversy on this very general theoretical level no longer seems inspiring or instructive. On the one hand, there is no doubt that in many cases the newly built institutions resemble their western models at best formally, without really exercising the functions assigned them from a western perspective. Sometimes, even their characterization as “institutions” seems a euphemism. In some cases the attempt to construct new sets of rules according to an apparently perfect design obviously failed. All these cases seem to support the advocates of the legacy thesis in that the obstructive impact of history is much more powerful than has been assumed in an ideal-type version of the creationist approach. However, the failures do not provide good enough evidence to support the belief that non-evolutionary institutionalization of new rules would be impossible in principle. On the other hand, in several cases, the basic institutions of democratic rule and the market economy introduced by design have been consolidating successfully. With the processes of transformation ongoing, the increasing diversity of empirical outcomes clearly indicates the limits of the explanatory power exclusively assigned to one or the other approach. Consequently, recent discussion tends to reconcile both perspectives.13

The application and adaptation of the path-dependency concept to postsocialism, best represented in Klaus Nielsen, Bob Jessop, and Jerzy Hausner’s “path-dependent path shaping” formula, may be interpreted as just such a unifying attempt. Proponents of this reconciliation perspective support the creationist view that “the decomposition of state socialism created a conjuncture in which choices could be made”14 and that these choices can have

a long-lasting, “path-shaping” impact. At the same time, they assume that the set of options available for political actors making institutional and policy choices is generally constrained by legacies of the state-socialist and the presocialist past. Thus, they deny the assumption of an institutional vacuum and the possibility of simply replacing the old institutional order with a new one designed according to “neoliberal” blueprints. This is their common ground with the legacy approach. In contrast to the latter, however, they do not unilaterally perceive such legacies as negative forces that obstruct the emergence of democracy and the market economy, regarding them rather as social and institutional resources that can be recombined creatively. Thus, they offer a starting point for explaining both institutional innovation and the divergence in national patterns of postsocialist institution building.

As David Stark notes in critical response to both the institutional vacuum thesis of the creationists and Jowitt’s disorder scenario in the postsocialist environment, “institutionalization is undoubtedly low and uncertainty extraordinarily high. But it does not follow that paralysis and disorientation are the consequence [. . . ]. 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.” “Thus, transformation will resemble innovative adaptations that combine seemingly discrepant elements—bricolage—more than architectural design.” 15 “This exploitation of existing institutional resources is a principal component of the apparent paradox that even (and especially) instances of transformation [. . . ] are marked by path dependence.” 16

According to this understanding, postsocialist development is marked by path dependence in a twofold way: first, it proceeds on the new path shaped by strategic choices or emergent recombinations born during the immediate transition period. Once the “open situation” has vanished, the path instituted tends to

re-establish itself, and the direction once taken is unlikely to be significantly changed in subsequent stages of transformation. Second, the set of options available in that period is constrained by legacies of the past, i.e., by nationally different paths of state-socialist and presocialist development.

In short, advocates of this version of path-dependency thinking recognize the possibility of significant choices. But—and this is important—they tend to confine that possibility to choices made in the early transitional period. Thus, they implicitly deny the possibility of significant decisions in progressive stages, or, in other words, the possibility of political control over the process of transformation.

**Original Path-Dependency Theories: Functions and Implications**

As noted above, the theory of path dependency was first developed in economic studies of technological development to explain why a certain technological solution, once adopted, could continue to dominate the market even if it proved comparatively inefficient in the long run. Among those analyzing this process, two have increasingly attracted the attention of social scientists. The first, Paul David, became known through his case study of the economic success story of QWERTY—the typewriter keyboard arrangement developed in the last century that has remained the international standard up to the present. The second, Brian Arthur, first developed a general explanation of the phenomena of suboptimal outcomes of market-driven selection between competing technologies.

Douglass North, who first applied path dependency to institutional development, is interested in “what determines the divergent patterns of evolution of societies, polities, or economies over time? And how do we account for the survival of economies with persistently poor performance over long periods of time?” 17 Here, the concept relates to the historical persistence of institutional orders with divergent levels of “efficiency,” i.e., diverging


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abilities to produce economic growth.\textsuperscript{18} From this perspective, path-dependent institutional change appears—to use a metaphor from Claus Offe—to be a kind of “identical reproduction” of a given basic pattern of institutional arrangements.

In both cases, models of path dependency are related to long-term outcomes of historical development that cannot be explained within the framework of neoclassical economics.\textsuperscript{19} The central arguments relevant for the application of this concept to postsocialism can be briefly summarized. The first relates to the selection of a particular “solution” from a broader set of possible—perhaps potentially more efficient—alternatives. According to Arthur and David, the factors responsible for instituting a certain path are “historically small events,” “random circumstances,” or “historical accidents.” In a situation characterized by multiple equilibria, such coincidental events can provide one of the competing solutions with a minor initial advantage for market-driven selection.\textsuperscript{20} This way, they “lock out” the alternative solutions, thereby shifting further development into a certain direction:

A path-dependent sequence of economic changes is one in which important influences upon the eventual outcomes can be exerted by temporally remote events, including happenings dominated by chance elements rather than systematic forces. Stochastic processes like that do not converge automatically to a fixed point distribution of outcomes [. . .]. In such circumstances historical accidents can neither be ignored, nor neatly quarantined for the purposes of

\textsuperscript{18} There is a great similarity to Putnam, who—explicitly relying on North—is also using the path-dependence argument in order to explain diverging outcomes of introducing the same set of formal institutions into different sociocultural environments (northern and southern Italy) in terms of “institutional performance.” See Robert D. Putnam, \textit{Making Democracy Work} (Princeton, N.J.: Princeton University Press, 1993).

\textsuperscript{19} Throughout most of the history and in much of the present world, institutions have not provided the credible commitment necessary for the development of low cost transacting in capital and other markets. There is, therefore, little evidence to support the view that the necessary institutions will be the automatic outcome of getting the prices right through elimination of price and exchange controls (Douglass C. North, “Institutions and Credible Commitment,” \textit{Journal of Institutional and Theoretical Economics} 149:1 [1993]: 12).

\textsuperscript{20} In David’s story, the following “historical accidents” probably shifted the game in favor of QWERTY: first, in a public speed-typing contest in 1888, QWERTY turned out as the winner probably because the typist using the Remington model with its QWERTY keyboard already deployed the innovative “all-finger” touch-typing technique, while the representative of the rival model (Caligraph) still used the four-finger typing system. And second, QWERTY probably gained an advantage because the first handbooks as well as typewriter lessons were adapted to Remington typewriters.
economic analysis; the dynamic process itself takes on an *essentially historical* character.²¹

This argument resembles Renate Mayntz's understanding of transitional periods in society as "open situations." In such situations, as Mayntz points out, different alternatives are possible, and the realization of one determines the set of possibilities that will open with the next step. But which of the alternatives will be realized is determined by the coincidental concurrence of several unrelated sequences of actions. The final outcome of such situations is, therefore, *non-predictable* by definition.²²

The other arguments refer to the mechanisms of stabilizing the developmental path once adopted. According to Arthur, the factor responsible for an initially favored technology’s eventual market dominance is its ability to produce so-called increasing returns. Increasing returns occur if increasing application of the technology at hand leads to falling unit costs and rising benefits. They can result from the following self-reinforcing mechanisms:

- large setup or fixed costs (which give the advantage of falling unit costs to increased output);
- learning dividends (which act to improve products or lower their cost as their prevalence increases);
- coordination effects (which confer advantages to "going along" with other economic agents taking similar action);
- adaptive expectations (where increased prevalence on the market enhances beliefs of further prevalence).²³

For North, the ability of an institutional matrix to display increasing returns is a necessary but insufficient condition for path-dependent institutional change. In his view, the enduring persistence of given patterns of complex institutional systems is mainly caused by imperfect markets characterized by high transaction costs required for radical institutional change. The more complex


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an institutional arrangement—the higher the costs of change. As uncertainty over possible costs and gains of institutional change increases with the degree of complexity, actors usually prefer to resolve their problems by altering the existing institutional framework at some margin. And, to reduce the complexity of the problems, they have to rely on the subjective resources at hand—experience, habits, routines, ideologies. In short, path dependency of institutional change results from the avoidance of high transaction costs by relying on subjective models that are shaped by the existing institutional framework. Consequently, changing a developmental path is not impossible as a rule, merely unlikely.

When using the path-dependency approach in comparative postsocialist studies, at least two implications of the original theories have to be acknowledged, if the concept and not only the term is to be adopted:

(1) Concerning the subject to be explained—for example, party systems or corporate governance structures—diverging long-term outcomes of transformation have to be identified, whose stabilization can be explained in terms of increasing returns and progressive transaction costs for subsequent alterations.

(2) With regard to the initial selection of a certain developmental path, the responsible differences concerning the features of the open situation have to be described. The point here is that the end of the open situation or the critical juncture must be defined, whereby the duration of this period may vary between countries as well as depend on the subject to be explained.

Path-Dependent Privatization Strategies?
On Overestimating the Mode of Transition's Significance

THE CONCEPT OF PATH-DEPENDENT PRIVATIZATION

The starting point for Stark is the broad variety of methods deployed for privatizing state-owned enterprises (SOE) in Central
### Table 1: Relations between Modes of Transition and Privatization Strategies according to David Stark (1992)

<table>
<thead>
<tr>
<th>Mode of transition</th>
<th>East Germany</th>
<th>Czechoslovakia</th>
<th>Poland</th>
<th>Hungary</th>
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<tbody>
<tr>
<td>Reunification</td>
<td>Capitulation</td>
<td>Compromise</td>
<td></td>
<td>Electoral Competition</td>
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<tr>
<td>Treuhand-Type</td>
<td>Voucher Auction</td>
<td>Citizen Grants</td>
<td></td>
<td>Decentralized Reorganization</td>
</tr>
</tbody>
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<th>Characteristics of privatization strategies:</th>
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<tbody>
<tr>
<td>Actors targeted to acquire assets</td>
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<td>Corporations</td>
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<td>Citizens</td>
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<td>Corporations</td>
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<td>Resources to acquire property</td>
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<td>Positional</td>
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<td>Valuation of assets</td>
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<td>Bargaining</td>
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Eastern European countries after the regime changes of 1989–90: “Despite broad and pervasive similarities in the systemic problems encountered, there are significant differences in the privatization programs that typify transformative processes.” Major differences can be observed with regard to:

- the actors targeted to acquire assets (judicial persons/corporations versus civic persons/citizens)
- resources utilized to acquire ownership rights (monetized versus positional resources)
- mechanisms of valuating the assets (markets, bargaining, administrative measures).

According to Stark, the variety of privatization strategies employed in a context marked by broad similarities with regard to contemporary problems is a strong indicator that there was no institutional vacuum that provided political actors with extraordinary opportunities to introduce “capitalism by design.” Rejecting this view, Stark and Bruszt argue that different decisions on how to privatize state property can be traced to the diverse modes of transition: “The year 1989 was not the ‘year of transition’ in Eastern Europe, but a period of a plurality of transitions with diverse paths to different types of political institutions.” These modes of transition, or paths of extrication, were brought about by “the preceding differences in social structure and political organization;” they “yield distinctive patterns across a triangle formed by the state, the market and the society” that shaped diverging privatization strategies. Table 1 illustrates how, according to Stark, different privatization strategies are linked to the “distinctive paths of extrication from state socialism.”

According to Stark’s typology, the privatization of former East German state property managed by the Treuhandanstalt (Trustee institution serving as interim owner of East German business and


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industry) best represents the type of “administrative evaluation of assets favoring corporate actors utilizing predominantly monetized resources.” “Reunification” as the specific mode of transition was responsible for the choice of this strategy for two main reasons: (1) deeply distrusting East German citizens, the West German leadership wanted the state to transform the economy; (2) since right after reunification the West German state enjoyed a high level of legitimacy among East Germans, it was strong enough to push through a rapid privatization and even to continue this course when it became obvious that the policy produced immense losses instead of the gains initially expected.

Czechoslovakia’s voucher-auction program was marked by the combination of market-driven evaluation of assets, non-positional resources of property transfer, and citizens as the actors predominantly targeted to acquire assets. Capitulation as the mode of transition meant that old elites could be widely prevented from utilizing positional resources to dominate the privatization process. The lack of both a strong state (compared to Germany) and an institutionalized civil society (in contrast to Poland) led the political leadership to a strategy that used the market to reorganize the economy (in that citizens could freely choose in which enterprise or investment fund to place their vouchers and the value of the shares acquired was regulated by demand).

In Poland, the mode of transition was marked by compromise between reformist elites of the old regime and a strong political opposition deeply rooted in society, particularly in the working class. The strength and the social structure of the opposition explain the combination of citizen grants and employee ownership in the “mass privatization” program of 1991, i.e., positional resources were to play a significant role. Due to the inclusion of old elites in power-sharing arrangements, however, in order to keep the trust of society, the state had to convince the latter of its own market orientation. In other words, the state had to win society’s faith in the market by preventively reducing frustration over undesired outcomes of a marketized privatization process. Thus, it relied on bargaining as well as state-controlled “asset management” agencies for evaluating the assets and placing the citizens’ vouchers.

In contrast to the Polish case, in Hungary the regime change
was brought about by direct electoral competition between reform communists and a political opposition that, despite its fragmentation, emerged the winner. Due to its weak ties to society, however, the new government was highly uncertain about society’s trust in its leadership and therefore profoundly ambivalent about the market. Additionally, it had to cope with the strong position of enterprise managers who, due to previous market-socialist reforms, emerged from the transition as the best-organized interest group in society. Consequently, the privatization process officially organized by the State Property Agency (SPA) was predominantly characterized by a combination of bargained evaluation of assets (“relational contracting” between the SPA and private firms managing reconstruction and privatization), corporate owners targeted to acquire assets, and positional resources (of SOE-managers initiating specific privatization plans for their companies).

TESTING THE PATH-DEPENDENCY ARGUMENT

If Stark’s path-dependency interpretation is to prove valid in a broader sample of postsocialist countries, there should be no case in which (a) the same type of privatization policies followed from different modes of transition or (b) the same path of extrication from state socialism led to different privatization strategies. Furthermore, as described above the concept of path dependency implies that once a certain solution is established, departure from the path instituted is either impossible due to lock-ins (Arthur, David) or at least unlikely because of high transaction costs (North). Applied to SOE-privatization, this would mean that the strategy, once adopted and implemented as the consequence of a certain mode of transition, should prove widely resistant to later attempts by actors to change the initial policy. Therefore, there should be no case in which (c) the privatization strategy has been repeatedly changed. In turn, the path-dependency interpretation would be supported by cases where (d) the privatization regulations, once introduced, proved persistent despite significant changes in politics.

The Model of Treuhand Privatization: A Single Case? The conditions (according to Stark) required for the German model
of Treuhand privatization are difficult to find elsewhere in Eastern Europe. In no other postsocialist country were privatization policy makers able to rely on such a strong state as that found in the German case—both in its institutional strength and its economic capacity for assuming privatization losses.

Nonetheless, in Estonia—by no means characteristic of a strong state—a state privatization agency, organized according to the German model, has been even more successful than the German Treuhandanstalt. Based on a resolution of the Estonian parliament about implementing the Treuhand model (13 August 1992), on an interim institution called the Estonian Privatization Enterprise, as well as on the Privatization Act (17 June 1993), the Estonian Privatization Agency (EPA) was eventually founded in September 1993 (with extensive assistance from German Treuhand personnel). Like the German Treuhandanstalt, the EPA controls the state property designated for privatization, is responsible for preparing companies for privatization, and is authorized to decide whether to sell them completely or break them into separate units prior to purchase. Purchasing minority stakes is possible, but the EPA is committed to the so-called core investor principal, i.e., first attempting to sell the core stake (50 percent to 100 percent of the equity) to an investor—preferably corporate. “Privatization through open bids,” “public sale of shares,” and “privatization through bids with preliminary negotiations” are the methods permitted by law. The agency selects the enterprises to be privatized and deploys the appropriate measures. It also determines the minimum bid as well as additional conditions which then—like the German procedure—are subjected to further negotiation. Also similar to the German case, liability for the costs of running and reorganizing the enterprises as well as possible privatization losses are the responsibility of the Estonian state. In contrast to the Treuhandanstalt, however, the EPA proved able to realize significant privatization benefits.

Somewhat different from the German case is the use of vouchers distributed to ordinary citizens according to age and as compensatory coupons to persons whose property was expropriated in the 1940s after the Soviet occupation. Enterprises chosen for voucher privatization are selected by the EPA; they must be in solid

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financial condition, free of debt, and have a good reputation. However, vouchers have played a rather minor role in the Estonian privatization process. Thus, the similarities to the German case are of much greater significance than these differences.

Keeping in mind Stark’s path-dependency interpretation, the fact that Estonia chose, and was able to conduct, the same privatization strategy as Germany is, at the least, surprising. Major decisions that shaped the further course of privatization were made by a minority government (Prime Minister Savisaar, March 1990–September 1992) which had to cope with immature political parties and highly unstable power relations in parliament. Moreover, the subsequent center-right coalition government which established the EPA had to resign after a mere two years because of internal conflicts. Thus, with respect to both the path of extraction from the previous regime as well as the criteria of a strong state, there are no significant similarities between these cases.

**Following Diverging Paths: The Cases of the Czech Republic and Slovakia.** Whereas East Germany and Estonia clearly demonstrate that similar privatization policies could emerge through diverse modes of transition, the Czech Republic and Slovakia represent the opposite case: diverging privatization policies arising from the same mode of transition (capitulation). Although a common economic reform strategy, including measures for stabilization, liberalization, as well as privatization, was introduced in both republics in the very early stages of transformation, soon after the federation was dissolved at the end of 1992, privatization policies increasingly began to diverge.

Whereas in the Czech Republic the second round of voucher privatization was conducted as rapidly as initially planned, in Slovakia this part of the program was postponed and eventually canceled after Vladimir Mečiar’s party HZDS (Movement for a Democratic Slovakia) was reelected in the autumn of 1994. Privatization vouchers were replaced by public bonds, which could be used for acquiring medical insurance, pension plans, housing units, or for

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repaying debts to the National Property Fund. SOE-privatization, instead, was continued by utilizing mainly classical methods (open tenders, auctions etc.). The position of the National Property Fund (FNMT) was significantly strengthened through an amendment of the Privatization Act which deprived the parliament of its control over the FNMT and authorized the latter to cancel privatization contracts already signed as long as the buyer had not yet paid the full amount. Furthermore, potential buyers were then asked to propose business and investment plans for the companies they were seeking to acquire. As a result of the 1994 elections, FNMT personnel were increasingly replaced by members of the Mečiar party, whose election campaign had been strongly supported by the employers’ association AZZZ.31 Thereafter, management buyout (MBO) became the predominant method of further privatization.

Preventing employee/management buyout was one of the main purposes for which the Czecho-Slovakian leadership had initially adopted a policy marked by a combination of voucher privatization and direct sale. In contrast to Slovakia, the Czech government remained strongly committed to this strategy. The second round of voucher privatization began as scheduled and even continued after the director of the Coupon Privatization Center, Jaroslav Lizner, had been publicly accused (and later found guilty) of corruption. Since completion of the second round, privatization of the remaining enterprises directly or indirectly owned by the state has proceeded on a case-by-case basis as stipulated by the initial policy program. Although the political regime change was brought about through the same mode of transition, the privatization processes proceeded along increasingly divergent paths. Thus, in the case of Slovakia, the policy initially marked by a combination of market-driven evaluation of assets, non-positional resources of property transfer, and citizens as the actors predominantly targeted to acquire assets, ended up in a pattern predominantly characterized by bargained evaluation, positional resources, and “insider favoritism.” This divergence cannot be explained by a path-


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dependency interpretation in which the mode of transition is the crucial variable.

Property Transfer Instead of Purchase: A Common Practice Not Only in Poland. According to Stark, compromise as the mode of transition is responsible for both free property transfer to citizens and employees playing a major role in the Polish privatization process. However, positional resources—for example citizenship, age, length of employment, managerial positions—as well as transfer of state property for special prices or free of charge have been used to a greater or lesser degree in most postsocialist countries. Besides using such methods to gain legitimacy and to address demands for social justice, the main reason, as Andrei Shleifer and Robert W. Vishny point out, that policy makers favor these methods is their consideration of the potential veto power of diverse actors. In contrast to a common perception that only recognizes the state and potential buyers as relevant actors, they argue for shifting the focus to stakeholders, i.e., diverse actors whose interests are significantly affected by privatization (local communities, medium-level state administrations, enterprise managers, employees). In several cases, privatization did not take off in the desired direction unless such stakeholders were satisfied with this kind of “side payment.”32 Therefore, except for Estonia, the Czech Republic, and East Germany, in all Eastern European countries employees of enterprises destined for privatization enjoyed preferential treatment in one way or the other: special public loans or leasing opportunities (Hungary); discounts on share prices (Belarus, Bulgaria, Romania); first refusal of company shares (Bulgaria, Latvia, Ukraine); acquisition of shares free of charge (Russia, Slovenia); and the right to choose between alternative privatization methods (Russia, Slovenia, Ukraine). The same can be said with respect to ordinary citizens who—in the context of voucher privatization programs—in some countries were given even more “grants” than in the Polish case: vouchers were distributed free of charge in Romania, Slovenia, and Ukraine; state


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funds for protecting small shareholders were established in Romania and Slovenia; grants graduated according to specific demographic criteria have been used in Belarus (age, health, number of children, years of employment) as well in Estonia (years of employment); in Belarus and Slovakia, vouchers not used in privatization programs can be returned for payments including interest and adjusted for the inflation rate.

That the choice of a similar combination of citizen grants and preferential treatment of employees, as characteristic of the Polish case, was possible under quite different transitional circumstances is best demonstrated by Lithuania. Here, the first post-communist governments (Prunskiene, Simenas, Vagnorius), which were dominated by Sajudis (Movement), committed themselves to the following goals: first, rapid privatization, and second, limiting social resistance to economic reform.33

Lithuania belongs to the countries that first introduced so-called mass privatization programs.34 Early in 1991 investment vouchers were handed free of charge to ordinary citizens, whereby the nominal value (1,000 to 5,000 rubles) depended on age. The vouchers could be used for acquiring either enterprise assets or housing units. In order to prevent an early redistribution of the entitlements to the advantage of “speculators,” selling these vouchers or transferring them to other persons was prohibited initially, while vouchers acquired additionally for cash could be traded right from the beginning. The “citizen grant” character of the Lithuanian investment vouchers became even more obvious during the period of high inflation (1991–92) when their nominal value was adjusted for the inflation rate eightfold.

Preferential treatment of employees in privatization of both small enterprises (through auctions) and large SOEs (through public subscription for shares) was regulated from the beginning. According to the Initial Privatization Law (November 1991), employees were entitled to acquire 10 percent of the company’s shares

at special prices (usually the nominal value);\textsuperscript{35} this rate was increased to 30 percent by the Law on Employee Participation in Privatization adopted by another Sajudis government in May 1992. Soon after the Lithuanian Labor party (the postcommunist successor party) had come into power in summer 1992, it increased the number of shares reserved for employees to 50 percent.

Similar to the Polish case, citizen grants and preferential treatment of employees were later combined with the permission of investment fund activities (Law on Privatization of State Property, May 1992). But, in contrast, the number of investment funds was not limited by state regulation. Thus, the number of freely founded and competing funds grew rapidly. At “the beginning of 1994 there were 379 registered investment companies in Lithuania [...]. They have participated in 783 privatisation projects (18\%) and acquired property for 169 million Lt. or 39\% of privatised state-owned property.”\textsuperscript{36} However, as the influence of investment funds within privatized companies increased to a degree not acceptable to the newly elected government, it limited the maximum share funds are allowed to acquire to 30 percent.

With the Law on Privatization of State and Municipal Property adopted in July 1995, the Labor party government eventually departed from the initial privatization path in favor of a Treuhand-type purchase policy. It strengthened the Lithuanian State Privatization Agency’s executive powers and extended available privatization methods with auctions, direct sales, public bids, as well as leasing schemes. However, as a high level of privatization had already been achieved by this time,\textsuperscript{37} what has been offered for sale since are only minority shares of little interest to active investors.\textsuperscript{38} Thus, despite a significant policy shift adopted in 1995,

\textsuperscript{35} “In some cases the prices of freely sold shares are 100 times higher than their nominal value, while employees acquire shares for their nominal value” (Simenas, “Privatization,” 112).

\textsuperscript{36} Ibid., 117.

\textsuperscript{37} According to OECD data, 71 percent of large Lithuanian enterprises had privatized the majority of their shares by the end of 1995. OECD, \textit{Trends and Policies in Privatization} (Paris: OECD, 1996).

one can expect that the final outcome of Lithuanian privatization will be widely shaped by the citizen grants as well as the employee participation strategy conducted in the first stage of the process.

As the issue of societal transformation in the Baltic republics was overshadowed by the issue of national independence during the period 1989–91, Lithuania’s path of extrication from state socialism is difficult to place in Stark’s typology. Although reform-oriented parts of the old elites remained influential due to their integration into the pro-independence movement, Lithuania’s mode of transition differs from Poland’s in at least two respects. First, there was no compromise in the sense of the Polish model; no parliamentary seats were preemptively reserved for the incumbent party that lost the first free elections to an overwhelming Sajudis majority. Second, Lithuanian trade unions had nowhere near the power their Polish counterparts were able to wield in influencing the course of privatization. Thus, the Lithuanian government’s choice of citizen grants and preferential employee participation can hardly be explained as a path-dependent outcome of the mode of transition, which resembled the Estonian more than the Polish. As noted above, in Estonia, the course of privatization took quite a different direction right from the outset.

_Frequent Policy Changes: The Problematic Case of Hungary._
In David Stark’s typology, Hungary figures as a paradigmatic case for a particular privatization strategy brought about by the direct electoral competition mode of transition and marked by a combination of bargained asset evaluation, corporate owners, and positional resources. As privatization policies have been changed significantly several times, this interpretation of the Hungarian case seems at least questionable. Instead, Hungary appears more typical for frequent changes between different privatization strategies.

The first stage of SOE privatization (mid-1989 to early 1990) is usually characterized as “spontaneous privatization.” The Law on Transformation (May 1989) allowed SOEs to transform themselves into shareholding and limited companies. Tax incentives were introduced to support changes in the legal status of companies. However, instead of promoting legal reorganization of existing enterprises, the law stimulated above all the creation of new ones in that

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SOE-managers transferred valuable sub-units of state-owned mother-companies to limited-liability companies newly founded by them or by foreign investors. Thus, the original companies were somehow reduced to state holdings confined to the remaining unprofitable sub-units and responsible for the debts of those that had been “invisibly” privatized. The spontaneous privatization period does not fully fit Stark’s typology, as bargaining processes that would have included the state did not occur.

Responding to the unintended outcomes of this stage, the (still reform-communist) government “re-nationalized” the economy by abolishing the right of “self-management” (Law 7 January 1990) and founded the State Property Agency (SPA) in order to re-centralize the privatization process according to the Treuhand model. However, whereas the SPA was able to control the purchase of small enterprises more or less successfully, it failed to manage the privatization of large companies “from above.” Having offered 42 enterprises in two calls for tender, it could purchase only insignificant shares. Thus, this second period also eludes Stark’s typology because property transfer strictly followed from the highest bid instead of positional resources.

During the next period, privatization strategies were changed repeatedly. Beginning in February 1991, the SPA introduced a series of programs differing from each other with respect to the owners targeted, the actors authorized to initiate the privatization project, or the method of financing. First was the so-called Investor-Initiated Privatization Program, followed by the Enterprise-Initiated Privatization Program, which attracted particular public and scientific attention due to the important role of private consulting firms. As David Stark points out, the “SPA was not directly selling enterprises but instead selling the rights to lead and manage their privatization.” It is mainly this latter program to which Stark

39. Since the mid-1980s, SOE directors could be elected by the workers, and the workers’ council consisting of their representatives could make decisions in strategic and business affairs.
41. Stark, “Path Dependence,” 42.
relates his argument about the outstanding role of bargaining and “relational contracting” in Hungarian privatization. However, the majority of investors targeted were not corporations but “Hungarian citizens, many of them taking advantage of the opportunity for employee buyouts.”

Further programs allowed for funding by leasing, compensation coupons (for persons whose property had been expropriated under communist rule), or interest-free loans handed out to citizens (under the aegis of the Credit Voucher Program). The “period of manifold privatization programs” further included the adoption of the Law on Employee’s Share Ownership Program (10 June 1992) which regulates preferential treatment of employees in acquiring company shares. Last but not least, a Hungarian State Holding Company, founded for managing 160 SOEs temporarily excluded from privatization, was dissolved only months later in favor of the newly created State Privatization and Property Management Company (Allami Privitizaciós es Vagyonkezelő Rt [APV])—a story symptomatic of the overall picture of this period.

The latest round in Hungarian privatization policy making was ushered in with the Law 39 on the Sale of State-Owned Entrepreneurial Assets adopted by Gyula Horn’s center-left government in June 1995. In contrast to previous practice, instead of strictly binding its decision on purchase to the highest bidder, the APV now has to consider the company’s future economic perspectives as offered by competing applicants; investment guarantees, technological modernization, as well as employment guarantees have become relevant. In the case of equal offers, domestic investors are to be preferred. Proposals for employee and management buyouts have to compete with alternative applications on equal terms. Only when public auction fails are they allowed to be treated on special terms. Once again, the right to initiate privatization projects was re-centralized into the hands of the APV.

Considering the frequent policy shifts and changing strategies,


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one can hardly interpret the mode of transition as having long-lasting influence on privatization policy choices. Instead, as the transformation process proceeds, choices on privatization strategies seem rather weakly constrained. The only constant observable in Hungarian privatization history—the preference for sales instead of free-of-charge property transfer—can be explained by the huge amount of foreign debt (i.e., a legacy of the socialist past) rather than by the particular mode of transition.

STRATEGIC SHIFTS: ON THE RELEVANCE OF POST-TRANSITION POLITICAL DYNAMICS

As observed above, Stark offers a starting point for institutional innovation in that his "conception of path dependence does not condemn actors to repetition or retrogression, for it is through adjusting to new uncertainties by improvising on practised routines that new organizational forms emerge."44 However, the set of options for recombining the resources inherited from the past is strongly constrained by "how the pieces fell apart,"45 i.e., by the distribution of resources and power positions among diverse actors decisively shaped by the particular "path of extrication." According to path-dependency theories, interpreting postsocialist privatization policy making as dependent on this path would imply that policy choices made at the immediate outset of transformation have to prove themselves more or less resistant to later changes in the composition of the set of political actors.

The search for possible relationships between political constellations and the process of large-scale privatization in 15 European postsocialist countries, reveals that (1) in correspondence to Stark’s argument on the importance of the initial composition of the actor set, the results of the first free elections proved to have had significant influence on the course of privatization; and (2) in contrast to the implication of path-dependency theory, later changes in the political constellation are not irrelevant for the further course of privatization.

### Table 2: Results of the First Elections and Privatization Legislation

<table>
<thead>
<tr>
<th>Countries where (ex-)communists won the first elections</th>
<th>Privatization legislation in first period?</th>
<th>Initial privatization legislation (in parentheses: months running out before legislation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania (4/91–3/92)</td>
<td>no</td>
<td>Law on Commercial Companies 11/92 (31)</td>
</tr>
<tr>
<td>Bulgaria (7/90–10/91)</td>
<td>no</td>
<td>Law on Transformation and Privatization 5/92 (22)</td>
</tr>
<tr>
<td>Romania (5/90–9/92)</td>
<td>yes</td>
<td>Privatisation Law 8/91 (15)</td>
</tr>
<tr>
<td>Belarus (3/90–9/91)</td>
<td>no</td>
<td>Law on Destatisation and Privatization of State Property 1/93 (34)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries where oppositional forces won the first elections</th>
<th>Privatization legislation in first period?</th>
<th>Initial privatization legislation (in parentheses: months running out before legislation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSFR (7/90–6/92)</td>
<td>yes</td>
<td>Law No. 92/1991 Large Privatization Law 2/91 (7)</td>
</tr>
<tr>
<td>Poland (6/89–9/93)</td>
<td>yes</td>
<td>Act on Privatization of State Owned Enterprises 7/90 (11)</td>
</tr>
<tr>
<td>Hungary (3/90–5/94)</td>
<td>yes</td>
<td>Law XIII on Transformation 5/89 (1-)</td>
</tr>
<tr>
<td>Estonia (3/90–9/92)</td>
<td>yes</td>
<td>Law on Basis of Property Reform 6/91 (15)</td>
</tr>
<tr>
<td>Latvia (3/90–6/93)</td>
<td>yes</td>
<td>Law on Transforming State and Municipal Property 7/92 (28)</td>
</tr>
<tr>
<td>Lithuania (3/90–92)</td>
<td>yes</td>
<td>Law on the Initial Privatization of State Property 11/91 (20)</td>
</tr>
<tr>
<td>Slovenia (4/90–12/91)</td>
<td>no</td>
<td>Property Transformation Act 11/92 (31)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Countries with reform presidents and diffuse composition of parliament</th>
<th>Privatization legislation in first period?</th>
<th>Initial privatization legislation (in parentheses: months running out before legislation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia (4/90–6/91)</td>
<td>no</td>
<td>Law on the Privatization of State and Municipally Owned Enterprises 7/91 (15)</td>
</tr>
<tr>
<td>Ukraine (10/90–12/91)</td>
<td>no</td>
<td>Law on the Privatization of the Property of State Enterprises 3/92 (17)</td>
</tr>
</tbody>
</table>
Although the outcome of the first free elections did not determine the choice of a particular privatization strategy, it obviously influenced when the first privatization law was adopted. Except for Slovenia, in all countries where the first freely elected governments were formed or at least dominated by the former anti-communist opposition, privatization laws were adopted during the first electoral period. In those countries where ex-communist successor parties had won, legislation on SOE-privatization took (on average) significantly more time (see table 2). This difference becomes even sharper, if one keeps in mind that in the cases of the Baltic republics, as well as Slovenia, the first free elections took place more than a year before national independence—the major issue on the agenda—was achieved.

There are (at least) two possible reasons to explain the protraction of privatization legislation in the countries first controlled by ex-communist parties: first, a low priority on SOE privatization informed by ideology. Second, a high level of ideological heterogeneity as well as organizational fragmentation often characterizes the internal structure of half-heartedly reformed successor parties.46 This makes it especially difficult for them to define commonly accepted policy goals. Initial privatization laws were usually adopted only during the second term—and this is to say nothing about the problems of implementation. Thus, the countries first controlled by the former oppositional forces probably had an advantage over the second group in that the rapid adoption and implementation of privatization regulation increased their chances to attract foreign investors.

For the next step in the analysis, countries that undertook a significant policy move in the sense of shifting from one of Stark’s privatization strategy types to another are distinguished from those whose initial strategy has not been changed but at best only modified, improved, or completed. In most cases significant shifts in privatization policy were found to have been preceded by major changes in the political composition of government (see table 3).

In Belarus, voucher programs were adopted in 1993, together

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Table 3: Changing Political Constellations and Major Shifts in Privatization Policy

<table>
<thead>
<tr>
<th>Major shift in privatization policy</th>
<th>No major policy shift</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamental change in political constellation</strong></td>
<td>Belarus (7/95), Bulgaria (6/94), Hungary (6/95), Latvia (2/94), Lithuania (7/95), Russian Federation (7/94), Slovak Republic (11/94)</td>
</tr>
<tr>
<td><strong>No or only minor change in political constellation</strong></td>
<td>Albania (5/95)</td>
</tr>
</tbody>
</table>

with the first laws on privatization.\textsuperscript{47} After Alexander Lukashenka was elected president in the summer of 1994, the implementation of the programs was first deliberately protracted (by repeatedly postponing the appointment of privatization agency officials, for instance). Later, the programs were finally abolished; privatization was reduced to strict legal procedure by which the companies were transformed to corporations with the state remaining the only or main shareholder.

In Bulgaria, the first freely elected government formed by the ex-communist Bulgarian Socialist party (BSP) had completely failed in large-scale privatization legislation. The privatization law adopted by the newly elected minority government of the Union of Democratic Forces (SDS) in 1992\textsuperscript{48} was initially oriented towards the cash sale of state and municipal property through different techniques. After the collapse of this government, a “cabinet of experts” mainly backed by the BSP shifted the strategy in

\textsuperscript{47} Law on Destatization and Privatization of State Property (7 January); Law on Privatization Vouchers (7 July).
\textsuperscript{48} Law on Transformation and Privatization (8 May 1992).
favor of insider privatization and citizen grants in 1994. A further policy shift towards a market-oriented voucher program took place after the SDS was reelected in 1997.

In Latvia, an insider-oriented strategy was adopted in 1992 by a broad coalition government that comprised the whole spectrum of pro-independence forces. After the pro-independence movement had split off and a new government led by the Latvian Path had come into power, this policy was abandoned for a combination of mass privatization, direct sale, and open tenders.

As already described, in Lithuania as well as Hungary, significant policy shifts were adopted in 1995. In both cases they resulted from major changes in the party composition of government that followed the victories of the Social Democrats (the reformed ex-communist successor parties) in the preceding elections. In Slovakia, as also described above, after the 1994 elections, the initial voucher program yielded to a privatization strategy through management buyout. This shift can be traced to a pre-electoral deal between the employers’ association and Vladimir Mečiar’s HZDS by which the latter (successfully) tried to improve his chances for reelection.

In Russia, the first privatization program was adopted in 1992 during the term of Prime Minister Yegor Gaidar with Antolij Chubais as head of the State Property Agency. As a compromise negotiated between President Yeltsin and the reform government on the one hand, and a parliamentary majority strongly influenced by trade unions and SOE directors on the other, the program combined distribution of vouchers to citizens with insider treatment. A certain policy shift allowing for more direct sales was only possible after the old Supreme Council had been forced to dissolve and presidential powers had been strengthened by the new constitution.

In Albania, the course of privatization is somewhat confusing.

49. Amendment to the Law on Transformation and Privatization (6 June 1994).
51. Law on Privatization of State and Municipal Property (February 1994).
53. Presidential Decree No. 721 (July 1992); Presidential Decree No. 1535 (July 1994).
In the period 1991–95, six governments were involved in various activities on privatization legislation. Except for the field of land privatization, an examination of the diverse decisions, decrees, and laws issued during the first three years reveals no particular strategy. However, in 1994 a coalition government formed by Democrats, Social Democrats, and Republicans adopted a regulation promoting direct sales. The policy shifted in favor of citizen vouchers after a new government had been formed by the Democratic party alone. However, whether contradictions between the individual regulations and the aforementioned policy shift were caused by the influence of changing coalition partners or resulted from de facto ineffectiveness of most of the initiatives is difficult to determine.

In contrast to these cases where privatization proceeded (or stagnated) without significant policy shifts, political development was marked by greater continuity. In the Czech Republic, the political forces around Vaclav Klaus, who had initiated the whole privatization process, left office only in 1997 after the SOE-privatization had almost reached its conclusion. In Slovenia, the Liberal Democratic party (with Prime Minister Janez Drnovsek) has been able to maintain its leading position since 1991 despite changing its coalition partners several times.

In Romania, all governments were dominated by the ex-communist successor party FDSN during the period 1990–96. Although the first law related to privatization was adopted in 1991, serious efforts to privatize large SOEs were apparent only after the 1996 elections, when the new coalition led by the Democratic Convention came into power. The same can be said about Ukraine, where progress in large-scale privatization has been delayed for some time due to enduring conflicts between reform-minded presidents and reform-resistant majorities in the parliament. Following the appointment of Valery Pustovoytensko as new prime minister, a policy shift from voucher to cash privatization was announced in November 1997. However, considering the outcomes of the March 1998 parliamentary elections, there is little reason to expect that the program will be implemented soon.


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Thus, in this respect only the Polish and the Estonian cases seem to best fit the expectation of path-dependent stabilization. Despite changing political constellations as well as time-consuming debates about the programs’ design,56 in both countries privatization has proceeded according to the strategies initially adopted. As Jan Winiecki points out for Poland:

Innumerable modifications since the summer 1991 did not change fundamentals. Although financial intermediaries at a certain stage acquired a name—that of National Privatisation Funds (NIFs)—their nature did not change. The range of beneficiaries has changed; public sector employees (health, education and administration) and pensioners have been added for special reasons. Employees of participating state enterprises received an increased stake (15 per cent rather than 10 per cent of shares). The number of potential participants... has fluctuated. But the heavy presence of the state and the extreme concern with the risk level... have been present at every stage.57

However, one does not necessarily need to rely on the lock-in argument of path-dependency theory in order to explain the strategic continuity in Polish and Estonian privatization. In both cases, since the initial policy programs had combined elements of different types of strategies from the outset, it would seem that significant policy shifts were prevented or at least made unlikely due to the internal structure of the specific policy design.

**Conclusion**

The particular mode of transition has undoubtedly shaped each country’s starting conditions for transformation in terms of the initial composition of the set of political actors. This way, they constrained the sets of options for SOE-privatization to a certain degree and in a (nationally) different manner. However, as the analyses of a broader set of cases indicates, the room for maneuvering was obviously greater than implied in Stark’s model. As shown above, different strategies were chosen in countries where the transition had proceeded in the same mode (Estonia, Lithua-

56. On the Estonian debate, see Kein and Tali, “The Process.”
nia), and countries that had moved from state socialism on diverse paths and that differed significantly with respect to the initial set of political actors have chosen a similar privatization strategy (East Germany, Estonia). Moreover, ongoing political dynamics can have a relevant impact on further privatization policy. In most cases, major changes in the party composition of government were followed by significant shifts in privatization policy. Thus, the impact of the mode of transition seems much more limited than assumed by Stark—both with respect to the initial policy choice as well as its long-term effects.

Postsocialist privatization strategies differ systematically from the type of problems to which original path-dependency theories are related. As discussed above, in these theories path dependency is regarded as an outcome of a series of converging decisions due either to adaptive learning (Arthur, David) or the avoidance of high transaction costs required for radical institutional change (North). The case of postsocialist SOE-privatization is distinctive. As a process not of “identical reproduction” but of radical institutional change, where extraordinary transaction costs are accepted, it does not belong to the matters of path-dependency theory in the sense of North. Nor does it fit the concept of Arthur and David, as standardization (of a certain privatization strategy) did not occur.68 This conclusion might become clearer if one considers the matter of “increasing returns.” Remember that increasing returns occur if the increasing use of a particular “solution” (here, privatization strategy) leads to decreasing unit costs and/or growing benefits. Postsocialist privatization seems to be the opposite case: the more units are determined for privatization, the more difficult the process becomes (one could rather speak about dis-economies of scale). Privatizing a particular unit does not necessarily become

58. James Hentz undertakes an interesting application of David’s approach to a process of policy formation in a transforming society. He uses the “small event” as well as the “standardization-by-adaptive-learning” argument to explain the model of regional economic cooperation possibly becoming dominant in Southern Africa as a path-dependent outcome of South Africa’s domestic macro-economic policy choice. However, it is much too early to determine whether the regional cooperation model in mind will indeed become predominant and lock-out the competing approaches. (See James J. Hentz, “QWERTY Worlds’ and South Africa’s Preference Formation: Ideas and Policy Making in Transitional South Africa,” paper presented at 92nd APSA Annual Meeting, San Francisco, 29 August–1 September 1996).

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any easier the more units that have been previously privatized by the same method. Although learning effects may occur, it is completely unclear whether they lead policy makers to improve the strategy once adopted or to change to another strategy. The costs required for changing the legal framework should be the same in both cases; thus, it is rather the difference between the expected gains that shifts the preference to either improvement or change. In short, increasing returns—an indispensable condition for path dependence assumed in the original approaches—are not discernible in the case of postsocialist privatization.

As much as we support the goal of overcoming the shortages of ideal-type creationist or legacy approaches, we doubt that importing special concepts embedded within a very distinct disciplinary context can be appropriate in every case. If compared to the original theories, Stark’s interpretation of privatization policy choices clearly indicates that the path-dependency concept was applied at the price of depriving it of its original conceptual background and its specific explanatory power and function. What is left is not much more than a metaphorical formula that history matters and that there is continuity also in processes of social change. As we emphasized, the matters of original path-dependency theories are always long-term outcomes of historical development—the long-lasting predominance of a particular technological solution or the persistence of divergent institutional orders. The case of postsocialist privatization strategies is the opposite: in terms of history, they are short-run phenomena by nature. Moreover, the current outcomes of these strategies cannot by far be regarded as persistent and stable. That is why the primary question should not be: Is the process of privatization (or transformation in general) “marked” by path-dependence? but Is path-dependency theory—at the present time—the right theory to be applied to postsocialist transformation? This is not to deny the possibility of path dependence in postsocialist developments in general. But, as long as these societies are still “transforming,” currently observable outcomes can hardly be regarded as stable, enduring, and historically persistent. Whether the emerging institutional settings will prove path dependent in the sense of the theories, can—according to these theories—only be determined.
from an ex post perspective. Thus, once transformation has been concluded, path-dependency theories could—perhaps—deliver fruitful approaches to explain the results of postsocialist development. The mode of transition, however, will hardly prove to be the central variable for explaining the diverse paths taken. As we can learn from other studies in comparative politics, the duration, the end of the open situation, or the critical juncture can also only be determined from an ex post perspective. In our view, the idea that we have already achieved this point seems somewhat premature.