EASTERN EUROPE: POST-COMMUNIST ASSETS IN CRISIS

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During the 1980s, in the final years of communism, Eastern European economists and politicians were easily persuaded by the myth that removal of the petty restrictions on private business would allow private enterprise to flourish. The idea of a permanent state of capitalist dynamism is rooted in the notion that finance spontaneously backs industrial enterprise. As Michał Kalecki put it: 'Many economists assume, at least in their abstract theories, a state of business democracy in which anybody endowed with entrepreneurial ability can obtain capital for starting a business venture. This picture of the 'pure' entrepreneur is, to put it mildly, unrealistic. The most important prerequisite for becoming an entrepreneur is the *ownership* of capital'.[1] This romantic view, that the inconvenience of doing business is the most effective obstacle to capitalism (a view most ardently subscribed to by inconvenienced businessmen), may be found even among the best-informed circles. The World Bank's *Doing Business in 2009* highlighted the achievement of nearly two decades of setting up capitalist institutions in Eastern Europe. The World Bank pointed out that it now takes on average 21 days to register a business in Eastern Europe, compared with 49 days in East Asia.[2] This relative inconvenience of doing business in East Asia has not prevented that region from being the most dynamic – at times the only dynamic – region of the capitalist world in the last decade. Capitalism is not set in historical motion by its conveniences, but by the accumulation of capital.

CREDIT AND A NEW CAPITALIST CLASS: THE FINANCIAL LEGACY OF COMMUNISM

The collapse of the communist system induced a financial crisis of the state and its enterprises. Under communism, the balance sheets of state enterprises, consisting of productive assets matched by state financing, were integrated in the balance sheets of the government in an elaborate system of automatic cross-subsidy that may have been at times inefficient, but was at least financially stable.[3] The balkanization of the state-controlled economy, and the separation out of individual enterprises that were now supposed to be self-financing, or generate their own financing, plunged that system into financial crisis as newly autonomous enterprises struggled to secure financing for current production and new investment. Out of that came a rushed privatization that enriched those individuals and firms that could buy enterprises cheaply from the state and then resell them at a higher price, or float them on the stock market. The greatest damage was experienced by the heavy industry that had been privileged under Stalinist industrialization. Such industry required continuous high capital expenditures to maintain or modernize its equipment so that, by the time the Communist system collapsed, engineering, machine tools, shipbuilding, mining and energy were operating with badly dilapidated equipment. Masses of workers were laid off in those industries as state companies were sold off to multinational companies at negligible prices in the hope that foreign capital would re-equip the former state enterprises.[4] But the profits from such ventures were speculative rather than productive: they came from buying assets cheaply and re-selling or re-financing them at a higher price, rather than from the profits of production. The various schemes for distributing new shares to workers or to citizens, like privatisation in the West, only ever made any money through resale in merger or takeover.

The business success of the capitalists from emerging markets, notably the Russian oligarchs, even Arcelor Mittal, the Indian multinational that has bought up the steel industry of Slovakia, comes from their financial enhancements rather than the development dynamic of capitalism. By financial enhancements is meant here access to financial markets and operations within those financial markets.[5] Two operations in particular are at the heart of the way in which finance operates in the modern and emerging capitalist system. The first of these is secured lending, that is loans secured against assets. This allows banks, in practice, to overcome all those problems of asymmetric information to which New Keynesian theorists like Joseph Stiglitz and Frederic Mishkin attribute all banking problems.[6] If an asset is held as security against a loan then, providing that the value of the asset does not fall below the value of the loan repayments, there is no risk of default: should the borrower not pay, then the asset may be seized.

The difficulty in emerging markets and in the post-communist economies was that, until asset markets had developed, assets seized through non-payment could not be easily sold. Indeed, in the first years of transition, such was the 'liquidity hunger' among businesses, that obtaining a loan against an asset owned by a business and then defaulting on the loan became a way of acquiring liquid capital. The credit equivalent of the loan was, in effect, seized by the borrowing business and the bank given in return an illiquid asset.

Once asset markets develop, the second key credit operation becomes crucial to business success. This is using credit to buy assets that are appreciating in value because credit is coming into the markets for those assets through secured lending. Appreciating assets allow their owners to make a profit from capital gain. Notable here are real estate markets that have enjoyed a boom throughout Eastern Europe, until recently. Once financial markets are established then the obvious assets to use for this kind of speculation are financial assets. Real estate capital can be turned over more rapidly than industrial capital; financial assets can be turned over even more rapidly than real estate.

The developmental benefit of finance comes from its application to industrial production. Initially it was thought that the emergence of capitalism was being constrained by the lack of commercial banking and finance. However, even when this was successfully established, in most of the post-communist countries by the mid-1990s, the indigenous industrial capitalists were still missing. The reason was financial development. This keeps asset markets liquid, which in turn allows the balance sheets of companies to be far more liquid than the balance sheets of industrial capitalist producers operating with illiquid capital equipment.

Banking and finance develop in this way, forcing corporate finance towards speculation, because the turnover of capital is the alpha and omega of capitalist reproduction. Marx made this explicit in his analysis of circuits of capital, where he gave production the key intermediate role, because production generates surplus value, which financial market operations cannot create. Nevertheless, in a credit economy capital gains are profit and claims on surplus value. Moreover, once finance disengages from production, capital can be turned over much more rapidly and massively in financial markets. This disengagement is a key feature of today's finance-dominated capitalism.

Economic and financial liberalization in transition and emerging economies complicate the situation in those countries by allowing their indigenous proto-capitalists (or, more correctly perhaps, proto-rentiers) access to the financial markets of the financially advanced capitalist countries, in Western Europe and North America. This has greatly increased the scope for turning over capital in far more sophisticated markets. It again explains why such liberalization has failed to produce an effective industrial capitalist class, other than among small and medium-sized enterprises. Indigenous capitalists who can command credit prefer to use it to generate faster and easier profits in financial speculation. Small and medium-sized enterprises, with limited access to financial markets, can only accumulate capital through production. But that accumulation depends on the reinvestment of modest and precarious profits that are also needed as reserves, in the form of liquid assets, against the extreme fluctuations in business that have been experienced in Eastern Europe since 1990.

Apart from indigenous capitalists, another class of capitalist enterprise has also been active in Eastern Europe. These are multinational companies. They have entered Eastern Europe attracted less by cheap labour and more by mineral resources (oil, gas and metals) during a period of rising commodity prices in the 1990s and up to 2008. In the larger Eastern European countries the major attraction has been the size of the market. Many multinationals have entered Eastern Europe as a result of foreign direct investment (FDI). But little of that has been in the form of fixed capital investment. Most such FDI has been buying former state companies, usually at very low prices from financially-pressed governments. Far from upgrading and improving the capital equipment of former state companies, multinationals have tended to reduce industrial activity to assembly operations, concentrating production in home countries. The scandal of the Polish turbine producer which was taken over by ABB and run down, before being completely shut down, is a case in point.[7]

FINANCIAL CRISIS TODAY

As Marx showed, capitalist financing is about lending against assets. Since the late 19th century, through into the twentieth century, capitalist financing had come to be about financing productive assets. The value of those productive capital assets is then determined by the stream of income that they may be used to generate. This kind of financing is apparent in Marx's analysis of *interest-bearing capital* in *Capital* (1895), as well as in Keynes's *General Theory*. In effect these analyses postulate financing against streams of future *income* flows generated by the application of finance to profitable ventures. Actual financing from the late nineteenth century developed in a different direction, towards advancing credit against an increase in the value of an asset: a change in *stock* value rather than a flow. The increase in asset value depends on the liquidity of the markets in those assets for its realization or conversion into money.

The difference between financing against assets whose value is determined by income streams, and financing against assets, especially real estate or financial assets, whose value is determined by the credit coming into asset markets, provides the vital clue to understanding the financial crises that emerged in Eastern Europe, in Latvia, Estonia and Hungary, in the wake of the American crisis of 2007–08. The transitional economies were encouraged to open up their financial systems to asset-based lending and to FDI. Foreign direct investment hardly made up for the collapse in state-financed investment and the drastic squeeze imposed by self-financing on state enterprises. Eastern Europe languished in slow growth and periodic financial and economic crisis. Hyperinflation in the early 1990s was dealt with by market forces, reducing the incomes and employment from those on the lowest incomes upwards. This was a prolonged process because many more on the lowest incomes have to lose their jobs and incomes to obtain a given reduction in market demand, than if those with higher incomes are squeezed. When lower incomes are reduced, so is consumption, and this immediately affects the retail sector and companies serving the consumption sector. In turn, this affects the quality of bank loans advanced to those companies. Latvia and the Czech Republic experienced a first round of banking crisis around 1993.

In the economic and financial crises that followed the collapse of the communist regimes, the aspirations of the working class and its allies for a more democratic socialism were thwarted by the drive of the International Monetary Fund (IMF), the World Bank, and numerous private sector consultants to create a model of free-market capitalism on the ruins of the communist economy.[8] The failure of the new democracy to satisfy the aspirations of the mass of working people was not only an ideological reverse but also bred social divisions. Nationalist sentiments that had been suppressed under communism were now acceptable and legitimized hostility to ethnic and religious minorities, generally Jews and gypsies – more specifically Hungarians in Slovakia, Turks in Bulgaria and Russians in Latvia. Extremes of nationalism were reached in Yugoslavia as Western encouragement to secession fomented a frenzy of killing that reduced a once-prosperous multinational federation into micro-states under international supervision.

The entry in 2003 of Poland, Hungary, the Czech Republic, Slovakia, Slovenia and the Baltic States into the European Union (EU) brought a degree of stability and renewed financing for economic and social infrastructure. The apparent stability encouraged asset-based lending and foreign direct investment. Industrial production recovered slowly from the crises of the 1990s. But the largest growth in demand came from the consumption of the middle classes, whose confidence in capitalism (even though few of them are capitalists) was revived by rising real estate markets, new means of financing desirable durable goods and visa-free travel.

The stabilization of Eastern European economies through FDI and EU support stabilized their banking systems, helped by the emergence of proper asset markets in real estate and financial securities. The middle classes and the political and business establishments in Eastern Europe reassured themselves that pampering the middle classes and asset inflation were stable and 'normal' ways in which capitalism functions. However, the apparent stabilization masked continuing weak capital accumulation in the region. Consumption-led growth, with underlying industrial stagnation, in Eastern Europe, as in North America and the UK, resulted in a widening foreign trade deficit. In Latvia, by 2006, the trade deficit had reached a staggering 25 per cent of Gross Domestic Product (GDP).

In mercantile capitalism, a trade deficit gives rise to the depreciation of domestic currencies, as more imports have to be purchased without an increase in foreign currency inflow. However, with a liberalized capital account, inflows of foreign direct investment (FDI) may cover the foreign trade deficit, allowing the exchange rate to be stabilized. With the collapse of their manufacturing industry and the stabilization of middle-class incomes and consumption, the foreign trade of most countries in Eastern Europe went into deficit, making those countries dependent upon foreign capital inflows to cover their deficits in trade. Without such capital inflows there is a tendency for the local currency to lose its value (or depreciate) against the foreign currency needed to buy imports, because the supply of foreign currency from exports is inadequate. Governments of the new member countries of the EU, and aspiring new members, sought this kind of exchange rate stabilization, through attracting foreign capital, as a prelude to entry into the European Monetary Union (which all new member governments of the EU have to join). The crisis that has hit Hungary and Latvia came as a result of the failure of those FDI flows in the wake of the collapse of Lehman Brothers in September 2008.[9] As international financial markets froze up because of fears of non-payment on international financial commitments, capital flows to Eastern Europe fell off, reducing the inflows of foreign currency that had previously kept exchange rates stable.

While the course of the crisis in many Eastern European countries has varied according to the different circumstances of each country, there are certain common features. For example, the Hungarian crisis of 2008 arose out a speculative selling in the foreign exchange market of the local currency, the forint, with its government's finances heavily exposed by having the highest per capita foreign debt in the region.[10] The Latvian crisis, by contrast, arose in an economy that had pegged its currency, the Lat, to the Euro, only to find that the local rate of inflation, due to buoyant local demand and asset inflation, made Riga one of the most expensive cities in Europe. The reaction of banks in both countries was to discourage lending, causing economic activity to slow down. The Latvian Government's difficulties were made worse by a taxation reform that had introduced flat rate taxes on property (real estate) and business. The reform was supposed to encourage enterprise, while keeping the effective tax rate on labour income at a staggeringly high 59 per cent. Needless to say, this highly skewed and regressive tax regime encouraged employment to go into the informal cash economy, with the result that, when business activity slowed down and government expenditure on welfare rose, tax revenue rapidly fell away and the fiscal deficit rose sharply. Government debt, which had been just 7.9 per cent of Latvia's GDP in 2007, shot up to 74 per cent in 2010, much the same level of indebtedness as that of Hungary.[11] Both the Latvian and the Hungarian governments rapidly embraced International Monetary Fund financing packages, with the usual strict conditionalities imposing reductions in government expenditure and raising taxes. IMF loans were substantially reinforced by loans from other European governments. In the case of Latvia, only $10 billion came from the IMF. Some $18 billion came from the European Union, the Nordic countries, Estonia, Poland and the Czech Republic.

Both Hungary and Latvia resisted the devaluation of their currencies against the Euro. Such a devaluation would have caused FDI to dry up, while raising inflation in countries that depend on imports for most (in the case of Latvia virtually all) of their consumption of manufactured commodities. In the region, the abandonment of exchange rate pegs would have exposed other countries with similar pegs to the Euro (most notably Slovakia and Estonia) to similar runs on their foreign exchange, and brought to a standstill the eastward expansion of the Eurozone. This is why the European Bank for Reconstruction and Development and the European Central Bank have all offered assistance, but on banking terms, in the form of loans that require governments to generate fiscal surpluses in the future in order to repay the loans.

One curious point about the assistance from the IMF is that much of it is in the form of lending to international banks rather to the governments in trouble. Under a little-known agreement with international banks at the end of March 2009, known as the Vienna Initiative, those banks are supposed to continue to lend to private customers through their subsidiaries in the countries affected, in order, ostensibly, to prevent credit markets in those countries from freezing.[12] The Vienna Initiative is crucial for the countries in crisis. A notable feature of the countries of Eastern Europe is the takeover of their banking systems by foreign banks, leaving only a small minority of bank lending in the hands of locally-based banks. Foreign ownership of banks now represents a major weakness in the financial systems of those countries. The money market operations of central banks in those countries are in effect conducted with foreign banks. The commitment of those foreign banks to the post-communist countries was strong while asset markets in those countries were rising. They are now falling. Moreover, those foreign banks (notably Italy's UniCredit and Vienna-based Raiffeisen International, and France's Société Générale, all of which have benefitted from the loans given by the IMF) are now under twin pressures to increase their lending in their home countries and to raise their capital ratios (the ratio of capital to risk-weighted assets). The easiest way of raising their capital ratios is reducing the lending that is deemed to be risky. Given the increased financial risks now attendant upon lending in peripheral markets, such as the post-communist ones, it is perhaps inevitable that those banks will reduce their lending to Eastern Europe, blaming the usual policy errors of governments in that region.

The international financial establishment has identified 'macroeconomic imbalances' (i.e., foreign trade and government deficits) as to blame for the financial crisis in Eastern Europe. These imbalances were created by weaknesses in those countries' financial systems; that is the way in which liberalized financial systems favour asset inflation and middle-class consumption without any corresponding increase in local production. The most striking example of such weaknesses is the United States, which has pioneered massive deficit financing of its government expenditure and its foreign trade. Indeed, its deficits are essential for the financial stability of the rest of the world because the deficits provide the flow of dollars to service the international credit and debt system. The misfortune of the post-communist states in crisis, and most other countries in the world, is that they are unable to finance deficits through the export of their domestic currencies. At the same time, fiscal deficits are a problem in the EU because their central banks are not allowed to regulate government bonds markets in the way other central banks –most notably the United States Federal Reserve and the People's Bank of China – effectively do so.

Moreover, it would be wrong to take at face value the economic diagnoses offered up by economists representing financial interests, the IMF or the World Bank. They not only got it disastrously wrong in advance of the crisis of 2007-09. They have also offered up contradictory advice, urging

Keynesian stimulus in 2008, only to criticize the growing indebtedness of governments two years later. An ugly class bias is now apparent in the view gaining ground, among central banks and in finance ministries, that the revival of economic activity in Eastern Europe can only now be obtained by a structural adjustment in the labour market. The painless way to obtain this is by devaluation of the domestic currency against the Euro. This would exclude for the foreseeable future membership of the European Monetary Union, to which all new member states are supposed to be committed. The alternative way is what is euphemistically called 'reducing the wage-price ratio', i.e., cutting real wages, as a way of generating 'international competitiveness'. This view confuses the economics of individual firms with the economics of whole countries. For a country as a whole, a fall in real wages reduces domestic demand and actually increases unemployment, rather than decreasing it. Any increased economic activity due to greater competitiveness must, if it is to be effective, exceed the initial fall in demand due to lower real wages.

The rationale for increasing 'competitiveness' in this way is that it may attract FDI again, bringing in much-needed foreign currency and spearheading economic revival. This is unlikely because falling demand discourages FDI inflows rather than encouraging them. FDI is only attracted by low wages if there is a growing market nearby. But the largest markets for Eastern European business are in Western Europe, and those markets are stagnant because of financial crisis and falling real wages. Finally, the very mechanism of international capital flows is now crippled because of the financial crisis, and the reduced investment of key multinationals (e.g., Arcelor Mittal) since 2008.

There is a further reason for resisting the adjustment of 'macroeconomic imbalances' through the labour market. This is the existence of debt in modern credit-based economies – debt being the balance-sheet counterpart of credit. As Europe's national financial systems have become more integrated, much as globally financial systems have become integrated around the US dollar and American financial markets, the solution that seems obvious to capitalists of reducing wages in countries in crisis, and raising them in the apparently more stable countries such as Germany and Scandinavia, actually make those imbalances worse. Since prices follow wages, this solution would cause inflation in Germany and Scandinavia, and deflation in the peripheral, crisis-hit countries. Rising prices would then cause a reduction in the real value of German and Scandinavian business debt, while falling prices in Greece, Hungary and Latvia are raising the real value of business debt in those countries. This means that, far from redirecting production from higher cost Germany and Scandinavia to countries now affected by debt crises, the reflation of those higher cost countries will concentrate production even more in those countries.[13]

The fiscal programmes being inflicted upon all governments in Eastern Europe, but obviously with greatest urgency on the governments in crisis in Hungary and Latvia, all involve reductions in expenditure. This contrasts with the 'Keynesian' policies adopted in the US and UK, and in Poland, whose government has avoided crisis at the expense of only token reductions in its expenditure. When asked about the cost in unemployment of his fiscal austerity package, the Hungarian Prime Minister, Viktor Orban, on a visit to London in October 2009, referred to grants being given by the European Commission and multilateral agencies to support social welfare programmes, and increased reliance on foreign remittances. As Western Europe succumbs to the crisis, remittances are if anything likely to fall rather than rise, while the 'contracting out' of social welfare to NGOs and multilateral agencies threatens the welfare state foundation of modern social democracy.

CLASS AND POLITICS

The politics and social complexion of Eastern Europe is determined, as elsewhere, by the balance of class forces in the countries of that region, and also, to an unusual extent, by the region's historic economic, financial and political dependence on powerful neighbours. In domestic politics, this placed nationalism in opposition to class politics. Under communism, political dependence on the Soviet Union brought a degree of industrial and social progress (in women's rights and cultural policy, for example). But it always had a tendency to reinforce backwardness, through the incorporation of traditional leaders who became ruling party secretaries when communism took over, most notably in the Central Asian parts of the Soviet Union, or later under Brezhnev, when social policy took a distinctly conservative turn. The legacy of this backwardness is the political immaturity of the 'new democracies' aimed at playing off the great powers, seeking membership of the EU but, at the same time, using American military interest in pursuit of regional rivalries, as in the case of the Anti-Ballistic Missile installations that aroused the anti-Russian interest of Slovak and Polish governments. The EU, in particular, became the new pole of attraction after the collapse of the Soviet Union. Social progress was put on hold because, after years of 'goulash socialism', consumption has become the focus of individual and social aspiration.

The main casualty of the polarization of nationalist and communist politics has been class politics. Communism in backward Russia, with a narrow social base for the working-class movement, could only survive using dictatorial methods which were then imposed on the rest of Eastern Europe. Ironically, communist governments got the working class that they deserved: in Poland, the Solidarity movement had a socialist and syndicalist core, but it also showed clericalist and nationalist influences. By the end of the 1980s, the inability of communist governments to sustain living standards and democratic engagement led to their downfall.

Post-communist governments have not done so well. After an initial period of democratic enthusiasm, they got the capitalism that they deserved: a large-scale rentier capitalism operating in financial markets rather than applying finance to expanded reproduction, contrasting with the many petty capitalists in small and medium-sized enterprises eking out a precarious living in services or small-scale production. The result is that industrial employment has not recovered to the levels reached in the final years of communism.

But the biggest social change has been the rise of unemployment, virtually unknown under communism. This rose dramatically immediately after the fall of communism, and subsequently fell in the early years of this century, as economic activity stabilized, especially among the new member countries of the EU, and in Russia after its crisis of 1998 and its subsequent commodities boom. The key cause of the first rise in unemployment was the breakdown in industrial cross-subsidies in the previous centrally planned system. The imposition of a hard budget constraint, before firms had had a chance to accumulate reserves of liquid assets (as capitalist firms in the West have) was bound to have a devastating effect on economic activity and employment.

In the end, unemployment was managed by the expansion of the middle classes and services (especially financial and business services), 'forced' self-employment or entry into precarious small business activity, part-time or casual employment, and emigration, most commonly to the EU, but also from non-EU countries to new member countries. In any case, these changes in employment have had a devastating effect on the working-class movement, reducing its most important concentrations in large factories and other places of work. Large factories are most at risk in the shift to raw materials production (in Russia) and services (in all the countries of Eastern Europe).

The main beneficiaries of the fall of communism may be found among the middle classes. The 'free' professions of law, medicine and accountancy, had their incomes and professional independence reduced under Communism. After 1990 their business burgeoned as authority shifted from the political authorities to the courts and private medicine flourished. More importantly, their ranks were joined by a whole new stratum of business and financial services personnel. This stratum expanded with the introduction of a new business of consultancy, giving advice on a range of questions from the organization of business, through financing of that business, and its (possibly) eventual dissolution in the periodic crises that have plagued the post-communist economies. To this must be added a growing profession of banking, as households moved over to operating with bank accounts and borrowing for house purchase, and as financial development allowed firms to make money from turning over their balance sheets in the new financial markets. Another segment of the middle class – those employed in public services, such as teaching, health care and public administration – did not do so well. Falling real wages and reduced staffing contributed to insecurity and a deterioration in conditions of work.

INDUSTRIAL VERSUS FINANCE CAPITAL

The collapse of communism in 1989-90 was an opportunity for the labour movements in those Communist countries to install social democracy and capitalism directed by social priorities.[14] That collapse gave Eastern Europe democracy, weakened by feeble class politics, and two decades of speculative financial capitalism, in which businessmen turn capital over in financial markets and pretend that they are capitalists, and multinational companies buy companies in Eastern Europe and pretend that they are investing while in reality running them down. Both local and multinational companies benefit from the access that financial liberalization gives to the more sophisticated markets in the major financial centres of the world. But that has also weakened the productive impetus of the 'new capitalists' and exposes Eastern Europe to the crisis of those financial centres.

The working class in Eastern Europe faces the current crisis of accumulation in the region handicapped by the absence of a socialist alternative. In countries that have managed to evade recent financial difficulties, such as Poland and the Czech Republic, workers with jobs view their continuing employment as the just reward that capitalism bestows for their effort and loyalty, while looking anxiously at countries in the region hit by crisis. However, even the relative stability of the fortunate countries cannot hide the rising youth unemployment, reaching up to 40 per cent in certain regions. For the young unemployed the only vent is the traditional one of emigration. Indeed, on 1 May 2011, German restrictions on labour immigration from Eastern Europe expired. This is how the present regional macroeconomic imbalances will be resolved through the labour market.

The political elite in Eastern Europe, supported by the conservative establishments in central banks, the International Monetary Fund and the

European Commission, will offer solutions to local crises restricted to 'technical questions' of exchange rates and the refinancing of bad debts, and making workers pay for the crisis. Their solutions will at best revive asset inflation, instead of reviving productive economic activity, and distort still further the problems of uneven development in European capitalism. The financial crises in their neighbourhood have made this political elite even more sensitive to the financial interest in their local capitalism at the expense of an international, historical perspective that reveals those crises to be merely the latest stage of the confrontation between finance capital, which creates luxury, but cannot create value, and industrial capital, which can generate value, but is corrupted by luxury. All over the world, except perhaps in China, finance confronts industrial capitalism to sap the dynamism of capital accumulation with the prospect of easy profits from financial operations rather than production. In Eastern Europe industry remains a legacy of state-sponsored industrialization. Only in Eastern Europe does industrial enterprise enter the confrontation with finance bearing the stigma of communism.

NOTES

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8 Peter Gowan, 'Neoliberal Theory and Practice in Eastern Europe', *New Left Review*, 213, 1995 captures the constructivist ardour of Western diplomats, academics, and financiers, as well as it exaggerates the consistency of their aspirations. George Soros, for example, has devoted much of his philanthropy to the establishment of democratic institutions in Eastern Europe. However, in 1998, he shamed the West into providing financial support for Russian democracy, support that enabled the Russian Government to repay loans outstanding to Soros.

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