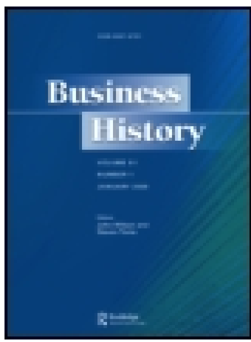

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Varieties of capitalism or variegated state capitalism? East Germany and Yugoslavia in comparative perspective

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ABSTRACT
This essay is a contribution to comparative capitalism studies. We begin with a critique of the 'Varieties of Capitalism' school, before presenting the 'variegated' alternative. We note difficulties of both schools in characterising statist challengers to the dominant market order. The rise of China has made this a pressing issue, one that raises questions: Is China capitalist, and since when? And how should one analyse the communist world, which has since the 1920s represented a substantial swathe of the global economy? We next present an account of capitalism that explains étatiste variants as the product of late development, and the 'communist' economies as a state-capitalist model geared to catch-up industrialisation. This obliges us to consider how to account for their differences. In the second half we take up this challenge, via comparative analysis of two state-capitalist economies: the GDR (representing the orthodox Soviet model) and Yugoslavia (a maverick, market-friendly variant).

KEYWORDS
Marxism; East Germany; Varieties of capitalism; Yugoslavia; state capitalism; institutionalism

1. Introduction

Although universal and universalising, capitalism is anything but homogenous. It takes radically different forms through time and across space. This raises questions: how to relate capitalism in general to particular institutionally-bounded capitalist societies, how to define and taxonomise the latter, and how does the institutional variation help us understand the whole? This article begins with a critical literature review, in which we identify the origins and pre-suppositions of the 'Varieties of Capitalism' (VoC) school and draw attention to three shortcomings: its firm-centric focus, its lack of a theory of capitalism, and its tendency to misrepresent the global economy as an aggregate of national units. We then turn to the concept of *variegation,* an alternative to VoC that offers better tools for understanding global capitalism. Variegation emphasises the interconnectedness and hierarchies in the world economy which elude the VoC literature.

Comparative capitalist research has traditionally focussed on 'advanced' market economies, but some contributions within both schools—VoC and 'variegated'—have recently turned their attention to China's state-capitalist model and its major role in the world

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economy today. We review and critique these studies, arguing that they obscure the historical origins of Chinese state capitalism. Their assumption that Soviet-style societies, including Mao's China, should be understood as non-capitalist and cut off from the world capitalist system requires revision. Using the concept of uneven and combined development (UCD), we extend, in time and space, the use of the concept of variegation. We argue that the USSR and its derivatives in the Cold War (and to some extent after) represented not 'state socialism' but a distinct variety of state capitalism, a 'variety' that enjoyed its heyday in the middle decades of the twentieth century. Turning to our case studies, East Germany and Yugoslavia, we show that these societies were integral parts of a variegated global capitalist system, as was the state-capitalist firm. There is a strong case, we will conclude, for bringing the largely neglected communist-run states of the Second World into the study of business history, with significant implications for understanding business history as such.

2. Origins of a debate

Theorisation of capitalism and its 'varieties' goes back to the nineteenth century.[1] Karl Marx's approach centred not on national institutions but on capitalism as a system defined by two axes of conflictual social relations: the separation of producers from the means of production and the competitive relationship among the owners of the means of production. The compulsive connection between the two processes, competition and exploitation, provide the capitalist epoch with its core dynamics. Marx paid attention to the sharply divergent evolution of various nations, for example of colonised Ireland vis-à-vis colonial Britain, and he was interested in the articulations between different modes of production. Nevertheless, his analysis was of capitalism as a universalising and tendentially global system; his focus was not the institutional complexes of capital accumulation. In his day, he believed, all countries of Western Europe were transitioning to the capitalist mode of production. England figured centrally in his work not because he regarded it as an instance of a particular institutional complex but, rather, as an illustration of his theory of capitalism as such. 'If', he added, one of his German readers, 'pharisaically shrugs his shoulders at the condition of the English industrial and agricultural workers, or optimistically comforts himself with the thought that in Germany things are not nearly so bad, I must plainly tell him: *De te fabula narratur!* … The country that is more developed industrially only shows, to those that follow it on the industrial path, the image of its own future' (Marx, 2004).

'That story is *not* about us!', replied Germany's school of *Nationalökonomie*. Marx's contemporaries (roughly speaking), they have a stronger claim to have inaugurated the study of comparative capitalism*s* (Marx & Reitmayer, 2019). Their antagonists were not only Marx and Engels but above all the British classical economists. Against the tendency of the latter to postulate the market economy as a natural phenomenon they stressed its constructedness. They rejected the naturalist-positivist quest to discover transhistorical laws of social behaviour, emphasising instead historical specificity and the variability of national economies. From Friedrich List onward, this school of German institutionalism defined its position against the laissez-faire model of 'Manchester capitalism'.[2] Troubled by the threat to social cohesion that the free market posed, they warned of the 'casino speculation mentality' that it spawned, and advocated welfare measures and state regulation (Schmoller in Peukert, 2001, p. 99).[3] As institutionalists, the accent—shared by Wilhelm Roscher (of the 'Older'

school), Gustav Schmoller, Albert Schäffle and Adolf Wagner (of the 'Younger') and Werner Sombart and Max Weber (of the 'Youngest')—was on the social construction of markets, the centrality of states in coordinating them, and the cultural and psychological rootedness of national economies.

Weber played his part in establishing institutionalism, including comparative political economy, on a firmly orientalist platform, with western capitalism seen as uniquely liberal, rational, and 'growth permissive' (Hobson, 2004, p. 15). The East, and the ancients, by contrast, were held back by non-capitalist institutions, or by forms of capitalism that were less properly capitalist.[4] The Eurocentric ethic of this position need not detain us. Rather, we are interested in the image it projects of the formation of global capitalism and its 'varieties'. Modern capitalism, for Weber (2019, p. 373), developed in the West thanks to particular institutional and ideological innovations (cities, Calvinism, corporate agencies capable of checking princely power, and suchlike). The effect of the West on 'the rest', both directly (e.g. imperial powers erasing and creating institutions in colonies) and indirectly (e.g. the very different conditions that confronted non-Western businesses and states following the initial carve-up of the world-market by colonial states and firms) is occluded. Weber takes care to sequester his rational occidental capitalism from its history of brutality, despotism and genocide. He does this by locating its 'spirit' in commercial practices that are at least one remove from centres of power (Rehmann, 1998).

3. A 'diversity of planning regimes'

Rich in institutionalism but poor in theorisation of capitalism, these threads from early comparative capitalisms scholarship extended forward to the 1960s, at which point systematic research in this field was born. Its initial focus, invariably forgotten (except by Wolfgang Streeck), was on the onward-marching power shift 'from private capitalism to interventionist nation-states and their—*highly diverse—planning regimes*' (Streeck, 2010, p. 13, emphasis added). We are speaking here of the Hungarian-British economist Andrew Shonfield. He lays claim to have been *the* seminal thinker in the field of comparative capitalisms. It was only following *Modern Capitalism,* his magisterial study of national political-economic systems, published in 1965, that, in the judgement of Søren Etzerodt and Jesper Eriksen (2017, p. 2), it became 'conventional wisdom that there is more than one viable road to economic growth'.

Shonfield's (1965) method is institutionalism; his subject is the 'evolution of institutions'. His book sets up the British and French systems as the core polarity: Britain with its 'arms-length government' contrasted with French *dirigisme*. He links France's statism to its history of centralised absolutism, but also to its eighteenth and nineteenth-century relative backwardness vis-à-vis Britain, to which governments responded by steering economic innovation. His comparison between Britain and France does not foreground how they market but how they plan. The focus on planning is striking. It dominates the book's early chapters. One chapter, on Austria and Italy, is titled 'The State as Entrepreneur'[5] and includes a sub-section on 'state capitalism'. Equally striking is that Shonfield classes the USA and Germany as 'exceptions'—albeit ones that, given their size, may one day become the mainstream. Whereas the section on Britain and France is entitled 'The Approach to Planning', the USA and Germany are relegated to a later section: 'Market Ideologies'. The US is introduced as the

only country in which capitalism is considered 'an OK word'. The US and Germany, in Shonfield's lofty summary, are 'out of the mainstream of modern capitalism', for they 'show no enthusiasm for the increasingly organised pattern of economic behaviour. … Their official doctrines continue to carry a high content of simple traditional capitalist folklore'.

The focus on planning apart, Shonfield's book has much in common with the VoC literature of our century. It is institutionalist and methodologically nationalist. It builds its argument upon a polarity posited between a traditionally liberal and a less liberal state. It ignores the economic effects of militarism. Its geographical focus is parochial, with Europe and the USA receiving a monopoly of attention. (As one reviewer (Kidron, 1966) snorted at the time, 'to pretend that this Handbook of Contemporary Planning Practice in Some Major Developed Orthodox Capitalist Countries is an analysis of modern capitalism is nonsense. … 450-odd pages on *capitalism* could not ignore the arms economy and its effect on the system; or the Cold War; or the colonial revolution. Yet this is what Shonfield has done'.) Finally, it is technocratic, equating success with economic growth. Its broad theme is simple enough, writes the same reviewer: 'growth now requires planning; only governments can plan on a national scale' (Kidron, 1966). Planning, for Shonfield, was 'not only essential for growth but also essentially for growth'—as such, he was a purveyor of 'growth fetishism' (Kidron, 1966).

Shonfield was writing during an age of rapid growth, state capitalism and national planning. Comparison between types of capitalism appeared straightforward: study the various national institutions that shape economic activity. But the return of recessions, the demise of planning, the neoliberal ascendancy, regionalisation, and above all the juggernaut of globalisation unsettled that, and comparative capitalisms research swerved in a new direction.

First, the turbulent 1970s saw the birth of the regulation school. It braided threads from Polanyi,[6] Marx, and institutionalism in its theorisation of regimes of stable capital accumulation ('modes of regulation'). Simultaneously, economic sociology was turning to the study of regional clusters of industrial production (Marx & Reitmayer, 2019), and brought Japan within its purview. This shift was associated above all with Ronald Dore, who happened to be a leading member of the Andrew Shonfield Society (yes, it existed), and who was to play a pivotal role in the renaissance of comparative capitalisms research.

Next, in the 1980s, and especially the 1990s after the collapse of the Soviet bloc and the spectacular implosion of the Japanese miracle, the question of convergence appeared with redoubled force. Were national economies being dissolved by globalisation? Would capitalist diversity disappear altogether?

The 1990s, although commonly recalled as the decade of neoliberal globalisation, in which pressures to institutional homogeneity—the Washington Consensus—reached their zenith, had begun with an explosion of comparative capitalisms research. US-Soviet bipolarity was dead; long live the new bipolarity of the Rhine model versus the Neo-American model!—to borrow Michel Albert's terms. In *Capitalism Against Capitalism* (1991), Albert proposed that there exists a Rhine model of capitalism (Germany, Netherlands and, oddly perhaps, Japan) that is institutionally pitted against, and boasts superior efficiency and welfare potential to, the less organised and coordinated Anglo-Saxon variety.

A similar approach was being developed by Dore. Dore (1996) co-edited one of the defining comparative capitalisms books of the 1990s, *National Diversity and Global Capitalism,* and contributed a chapter on Japan to one of the others, Colin Crouch and Wolfgang Streeck's (1997) *Political Economy of Modern Capitalism: Mapping Convergence and Diversity*.[7] Dore

located Japan's distinctive model in its cooperative industrial relations, obligated relational contracting in intermediate goods sectors, mutually protective stock cross-holdings, and a muscular role for the state in industrial policy and distributional issues. Japan and West Germany (which after Willy Brandt was now suddenly re-theorised at the 'corporatist' pole), he argued, exemplified 'welfare capitalism' in contrast to the 'stock market capitalism [of the] Anglo Saxons'. The former tended to value social cohesion; the latter to facilitate greed. (That Dore (2000, p. 8) cites Donald Trump and Robert Maxwell as exemplars of Anglo greed caught our eye, for we are writing this on the day when Trump is giving his benefactions to Maxwell's jailbird daughter, Ghislaine.)

4. Varieties of capitalism?

The dominant colour of comparative capitalisms research in the 1980s and 1990s was 'old institutionalism', exemplified by Polanyians such as Streeck, Boyer and Esping-Andersen. At the start of the new century that changed. A growing body of Marxist scholarship entered the field, notably David Coates (2000), and these were joined, more influentially, by Peter Hall and David Soskice (2001). From this moment on the centre of gravity of research on comparative capitalisms shifted decisively.[8] Hall and Soskice's volume popularised a New Institutionalist research programme centred on the study of clusters of institutions that are most propitious for economic growth, and the development of institutional taxonomies. The central argument is that 'institutional complementarities' enable efficiency improvements and successful growth, while hybrids do not. Firms, understood as institutions, either fit with the broader institutional framework in which they're embedded, or they sit uneasily within it and economic performance suffers.

Here is not the place to discuss the VoC literature in detail. Instead, we shall draw attention to the ways in which the research programme has branched out since its beginnings in the Hall/Soskice volume. Initially, it focussed exclusively on two 'varieties' of economy in the Global North: the liberal market economy (LME) of which the US and UK are paradigms, and the coordinated market economy (CME) found in Germany and Japan. Since then it has branched out in several directions. (i) The 'varieties' have proliferated, taxonomically and geographically. Some identified a 'State-influenced market economy' (SME) that comprises France, other European Mediterranean countries, South Korea and Taiwan, while Bruno Amable distinguished five varieties: market-based, Continental European, Asian, Social-democratic and Southern European. Others have extended the scope to include countries of the Global South (in which category we are including Eastern Europe), although this remains a tiny fraction of the VoC corpus (Bohle & Greskovits, 2012; Feldmann, 2019; Schneider, 2013). (ii) The historical scope has expanded. Here, Martha Prevezer merits mention. In *Varieties of Capitalism in History* (2019), she argues that to comprehend the functioning of the 'meso-institutions' on which VoC theory focuses requires a historical orientation on 'primary' capitalist institutions (property rights, legal systems, state apparatuses) and how they have evolved historically in each nation. Also important is *Business History's* special issue on VoC, in particular the introduction by Marx and Reitmeyer (2019) which seeks to 'integrate historical institutionalism and a theory of institutional change' into the VoC framework. (iii) Some researchers affiliated to the VoC paradigm have trained their lens on the role of the state. Notably, the Institute of World Economics of the Hungarian Academy of Sciences sponsored a series of conferences on 'The Role of the State in Varieties of Capitalism'.

As a consequence of these developments within the research programme, in combination with resurgent interest in state capitalism (Kurlantzick, 2016), VoC theorists have extended the model to include 'communist' countries, notably China. At first blush, China appears a prime candidate for VoC analysis. Its growth has been stellar and, with its institutional hybrid of planning and markets, it tests the VoC thesis that mongrels underperform. In fact, however, there exists only a small literature, and with no common findings. For example, Christopher McNally (2007, p. 196) theorises China as 'a distinctly new variety of capitalism, incorporating aspects of the East Asian model of state-led capitalism, "network capitalism" and the "new global capitalism"'. In another essay, by Joachim Ahrens and Patrick Jünemann (2010), China is seen as a hybrid of LME and CME, albeit closer to the latter. Michael Witt, by contrast, presents China as an LME. In its industrial relations, for example, although *de jure* it exhibits high levels of employment protection, in practice, workers can be fired as easily as in LMEs such as Britain, and there is no possibility of collective bargaining along CME lines because independent trade unions are outlawed (Witt, 2010).[9]

5. Variegation, not variety

The lack of consensus on China's 'variety' relates to a broader criticism that has been levelled at the VoC literature, namely that, despite the name, VoC has no theory of the 'C'. It has, Jonas Pontusson (2005, p. 164) observes, 'a great deal to say about "varieties," but surprisingly little to say about "capitalism"'. Streeck has made the point with particular force: 'Ultimately, the functionalist make-up of the Hall and Soskice conceptual schema would seem to be most apparent in, and perhaps to derive from, the way it equates its main concept, "capitalism," with that of "market economy." The very problems of distribution and exploitation that are centrally emphasised when a socioeconomic formation is referred to as capitalist are thereby submerged in, or redefined as, problems of efficient production' (Pontusson, 2005). In its predilection for firm-centric analysis of a technocratic kind, it tends to downplay the antagonistic relations inherent to capitalist society. Instead it stresses cooperation and coordination, offering a functionalist perspective that conceives of countries as 'tightly coupled interactive systems of "complementary" institutions'. In short, it assumes stability, and downplays crisis tendencies; it depicts the two main varieties of capitalism in 'homeostatic equilibrium as they adjust to external economic pressures' (Schmidt, in Hay, 2005).

A related critique is that in its methodological nationalism VoC tends 'to privilege typological classification', (Peck & Zhang, 2013, p. 362) according only secondary significance to 'origin, history, agency, conflict, and change' (Streeck, 2010, p. 28). It portrays the global economy as an aggregate of national units, marginalising or altogether neglecting questions of imperialism and of uneven and combined development (UCD). As David Coates (2014, p. 174) puts it, the British and US economies 'are best thought of, not as LMEs but as imperial capitalisms, at different stages on a standard imperial trajectory'. In contrast to VoC approaches, UCD, as Nick Taylor (2014, pp. 131–132) describes, conceives of the world economy as 'a single entity in which the systemic logic of capital accumulation draws together its component parts into an overarching structure. States play an important constitutive role in this latter conception of the world economy. But so too do finance, inter-capitalist rivalry, the productivity of labour and a hierarchy of nations, or what Trotsky called an "imperialist chain"'.

In another notable contribution, Ingrid Wehr (2015, p. 134) has advanced a trenchant critique of VoC that links its lack of a relational understanding of global capitalism to its Eurocentrism. VoC leaves under-theorised 'the relational character of capitalism—that is, the fact that national forms of production and social regulation are influenced by international competition, predominant (global) modes of capital accumulation and transnational (inter-)dependencies'. It suffers from a 'blindness concerning the colonial and imperialist foundations of capitalist expansion and their repercussions for "postcolonial" societies' (Wehr, 2015, p. 135). Wehr (2015, p. 140) identifies in the VoC literature a widespread orientalist tendency to label economic regimes in the Global South 'patrimonial' (or 'crony') capitalism, centred on informal rules and authoritarian interests and thus 'not fully capitalist or not capitalist to the same degree as the United States, France or Germany'. This, she goes on, neglects the increasingly patrimonial features of Northern capitalisms and it ignores 'the fact that the dependence on subsistence production and unpaid domestic work is not an exclusive feature of "peripheral" societies but equally characteristic—not least through the gendered division of labour—for supposedly "fully developed" capitalist countries in the North'. What most comparative capitalisms research forgets, she concludes (Wehr, 2015, p. 142), is that 'capitalism from its very beginnings has been a global enterprise, not only in the sense of establishing contacts between geographically distant regions through trade but also by linking diverse geographical spaces and forms of production, consumption and social regulation. For instance, the breakthrough of industrial capitalism in England cannot be explained without the intimate entanglement of wage and slave labour'.

The above criticisms are most closely associated with left Polanyians and Marxists (Coates, Streeck, Jamie Peck, Bob Jessop) who have developed an alternative nomenclature: 'variegated capitalism' . The concept, Streeck (2010, p. 39) explains, has been advanced 'in explicit criticism of the VoC approach, not in an attempt to deny differences, but in order to place them in a context of economic and political interdependence'. Where 'varieties' connotes difference among units, 'variegated' presents the world economy as a hierarchically ordered space of flows, with multiscalar, differentially imbricated patterns of power. The concept draws attention to the role of the overall dynamics and steep hierarchies of the global system in driving institutional differentiation at the national level. Thus, a dominant 'variety', such as Britain in the nineteenth century and the US in the twentieth century, exerts enormous influence over the 'varieties' within their camp, and also, through commercial interdependence and geopolitical rivalry, on those without. Exemplary of the latter is China, which Tobias Ten Brink (2013) theorises as 'a variegated form of state-permeated capitalism', deeply shaped by its integration into the capitalist world system. Similarly, Peck and Zhang (2013, p. 266) highlight the dialectic of coexistence and competition with extant 'varieties of Western capitalism' that has moulded the Chinese model, intricately integrated as it is with the wider world economy through 'global value chains'.

6. Uneven and combined development

For Peck and Theodore (2007, pp. 733, 761), the idea of variegated capitalism shifts us away from VoC's reified taxonomy of institutional varieties in favour of a 'more expansive concern with the combined and uneven development' of capitalism 'and the polymorphic interdependence of its constitutive regimes'. They do not expand on the meaning of UCD, however.

They use 'combined' simply to mean 'systemic interdependence'. In our reading, the UCD of capitalism is a more complex concept that knits together the following ideas:

(i) Capitalism is a universalising mode of production. It undermines and usurps others. All corners of the world become in a sense 'combined': shaped by international economic and political rivalries and domination. These processes are *radically* uneven in that the development of the early colonial-capitalist powers forcefully and dramatically altered (and alters) the terrain for the rest. Seeking to keep up and to catch up, late developers adopt elements from the dominant powers: technologies, norms, institutions. These cannot be adopted wholesale; they are necessarily combined with existing structures and social relations.[10] To understand capitalism's institutional forms, one should not study only those that have evolved in the rich and former colonial powers but, equally, those at the margins and frontiers. To understand the system as a whole, the periphery has to be centred.

(ii) Capitalist market competition itself is radically uneven. Businesses operate in a framework of antagonistic interdependence: innovation in one threatens the viability of others. 'Far from establishing a harmonious equilibrium', as John Weeks (1997, p. 105) puts it, 'capitalist competition disrupts, eliminates the weak, challenges the strong, to force upon industry a new standard of efficiency and cost. The movement of capital to equalise profits across industries is the process of generating uneven development: equilibrium in exchange (a single price in a market) hides the generation of uneven development in production'. Just as innovation and high tech form the cutting edge of some capitalist sectors, crime, sweated labour, and repression are competition by other means that are forced on those in weaker positions—yet they are no less capitalist for that. Being subject to the same field of capitalist competition leads not to a homology of institutional forms but to difference, reflecting the different endowments and capacities of the various actors.

(iii) The early-developing bourgeois-colonial enterprises and states exploited their first-mover advantages, accruing wealth and power. Since then, in the Western heartlands a liberal institutional model has tended to prevail, with central state power balanced by decentralised political authority and market economy. Such structures facilitate economic globalisation and relatively flexible international political arrangements. Virtuous circles ensued, ensuring that capitalism's Western heartlands, home to the most profitable structures of accumulation and the most successful colonial domination, consolidated their global influence, while sovereignty was denied or limited for much of the rest (Dale, 1999; Van der Pijl, 2005). But the liberal capitalism of the heartlands co-constituted its 'others', through emulation and contestation. States outside the core engaged in catch-up industrialisation, which mostly relied on high levels of political mobilisation of populations and resources, dirigiste and mercantilist economic regimes and illiberal political forms.

(iv) Late development faces high hurdles. Funds for accumulation come from savings from current and future consumption, 'and if the level of current livelihood of the population is low, and the political and administrative machine weak', in Nigel Harris's words (1971, p. 140), 'then any surplus from this source is likely to be small. If the population is simultaneously growing, what surplus there is may only provide a basis for standing still rather than actually improving the situation. On the other hand, only a very powerful army and police force can snatch the surplus for national investment between the peasant's hand and mouth'.

(v) Later developers may also discover advantages of backwardness, enabling them to leapfrog developmental stages and industrialise rapidly. These include the forms of 'combination' that Trotsky identified: the availability of technology and techniques developed elsewhere, and institutional emulation.

(vi) The *loci classici* of UCD were late nineteenth-century Russia and Japan. Here, absolutist states, under pressure from military competition from Western powers (the Crimean War; Commodore Perry's black ships), launched modernisation programmes. Just as innovations in the pooling of capital through banking and the joint stock company had enabled US and German capitals to match their British rivals, in Russia and Japan the state was deployed to push through land reform, construct infrastructure, marshal resources and siphon them to 'national champions'. 'The more backward a country', observed Gershenkron, 'the more likely its industrialisation was to proceed under some organised direction; depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the state, or in bureaucratic controls' (Selwyn, 2011, p. 429). In Russia, he notes, the government *substituted* for the weak domestic bourgeoisie (Gerschenkron, 1962). Highly advanced and traditional forms of production were integrated (or 'combined') within a new national amalgam, with socio-politically explosive results. Japan, as Paul Kennedy (1988, p. 266) puts it pithily, 'had to be modernised not because individual entrepreneurs wished it, but because the state needed it'. Stages of development, and institutional forms gathered by emissaries from all around the world, were combined by the newly centralised Meiji state into a new structure, with 'archaic' and 'advanced' elements side by side. In their state-capitalist trajectory, Russia and Japan were followed by China.

7. Bureaucratic state capitalism as 'variety' and 'era'

Even if China is now widely analysed as a form of state capitalism, with transnational economic processes and domestic state or private capitals folded together in different ways,, even the most sophisticated of theoretical approaches, including the 'variegated capitalisms' research programme and Steven Rolf's UCD approach (2021), still lack an explanation of the *origins* of China's capitalism. The act of transubstantiation from 'state socialism' to state capitalism is implicitly attributed to the ability of the leadership of a supposedly workers' state—Deng Xiaoping and his comrades—to leap from one mode of production to another without encountering any major social struggle or resistance. While we find much of value in the 'variegated capitalisms' research programme, we propose to solve the apparent historical conundrum of the supposed transformation under Deng by proposing a different understanding of Mao-era China. In this section, we argue that the communist-run societies, built in the image of the Soviet Union, are best understood not as 'state socialism' but as bureaucratic state capitalism, a variant of a general trend to state capitalism in the middle decades of the twentieth century that was never as insulated or alien as implied by labels like 'state socialism'.

Indeed, to make sense of the institutional variegation of capitalism, one needs to compare across space and through time. Institutionalists tend to focus on the former, asking 'which institutional complex favours rapid growth?', radicals on the latter, asking 'what transformations are global capitalism undergoing and will they hasten its demise?' During each phase of capitalism, most 'varieties' tend to trend together. In the literature on variegated capitalism there is acute awareness of this in respect of our current era, neoliberalism. But there has been little or no attempt to theorise the varieties that prevailed during the previous phase. For the purposes of this article we call the previous phase 'state capitalism'. From the 1910s, it flourished worldwide in a variety of forms (war economies,

corporatism, import-substitution industrialisation (ISI), Stalinism, Keynesianism), before yielding in the final third of the twentieth century to neoliberal globalisation.

The state-capitalist trend was widely noted in the late nineteenth century, and already back then it was identified with 'state socialism'. In 1880 Prussia's railways were nationalised. It was essentially a war measure, but a school of Listian institutionalists, the Kathedersozialisten, saluted it as 'state socialist'. All governmental regulation of the economy is socialist, they maintained. Socialism is simply 'the transformation of private and competing capitals into a united collective capital', explained Albert Schäffle, a prominent Kathedersozialist (Schäffle quoted in Draper, 1989, p. 81).

Marx scoffed at this—as if 'a new society can be built through state loans, much as the building of a new railway!' Friedrich Engels, too, wrote withering critiques of the Kathedersozialisten 'who see in the nationalisation of something a half-way or preparatory measure' towards a socialist order. 'The term "state socialism"', he went on, 'expresses no clear idea whatsoever … it is "a pointless bit of twaddle"' (Engels quoted in Draper, 1989, p. 73). 'The modern state in whatever form', he went on to argue, 'is an essentially capitalist machine, the ideal collective capitalist. The greater the productive forces it takes ownership of, and the more it becomes in reality a collective capitalist, the greater the number of citizens it exploits. The workers remain wage workers, proletarians; the capital relation is not *aufgehoben*, rather, it is intensified'.[11] Rudolf Hilferding and Nikolai Bukharin took the case further, theorising the distinctive features of 'organised capitalism' and state capitalism in the age of imperialism and world war.

Several drivers lie behind the trend to state capitalism. Firstly, as the production process becomes more sophisticated, the provision of physical infrastructure and the equipping and management of the workforce becomes complex, and likewise the education and social reproduction of the workforce. States tend to take responsibility for, if not direct control of, these tasks. A second factor is the scale of organisation of leading industries. To caricature only a little, the dominant scale of ownership, production and marketing in most firms in the eighteenth was local; in the nineteenth and early twentieth centuries it was national, and this was conducive to the rise of 'national' variants of state capitalism. A third is geopolitical competition, including arms races and war. During the First World War, capitalist states assumed muscular coordination roles, notably of the arms industry and other strategic sectors—and it was this that inspired the work of Otto Neurath on administered economies, and Nikolai Bukharin on state capitalism. Nazi Germany, with its 4-Year-Plans, is another salient case. It is no accident that the most extreme forms of state capitalism emerged during the era bookended by two world wars. Fourth is deglobalisation, by which we refer to the breakdown of international trade and capital flows, most strikingly during the Great Depression, to which states tend to respond through greater intervention, and fifth is economic crisis, to which some states respond by bailing out firms and reorganising industrial sectors. The 1930s is the paradigm here, although there has been renewed interest in state capitalist theory since the 2008 crash, including in the internationalisation of state owned enterprises (SOEs) like Germany's Deutsche Bahn AG or Russia's Gazprom. The sixth and final driver is uneven development and steep-ascent industrialisation. Meiji Japan and Tsarist Russia were discussed earlier. They were followed by the 'developmental states' of East Asia (Johnson, 1999), and by a host of postcolonial countries that aspired to state-led industrialisation, including India, North and South Korea in the 1950s, Egypt under Nasser, and Brazil under Kubitschek, Goulart and Geisel—during which time the state controlled roughly half of all investment (Dale, 2020).

Taken together, these factors explain why state capitalism prevails at certain times and in certain places. It thrives in societies geared to war and in conditions of de-globalisation. Its heyday was the interwar period. It would be misleading to see the proliferation of command-economic forms in that era as the result of political elites selecting a particular model as we might choose chocs from a box. Rather, they were well adapted to mobilising economies for military conflict and for orchestrating the conditions for capital accumulation in relatively backward economies during a period of trade involution.

The state-capitalist trend was not localised but global. It included Keynesianism and corporatism in the West, and ISI in the South.[12] So profound was the transformation that towards the end of the 1930s, E.H. Carr (1939, p. 117) could declare that the old liberal belief in the 'separation between politics and economics has ceased to correspond to any aspect of current reality'. The further generalisation of *étatisme* during World War Two only confirmed Carr's observation, as war economies were constructed even in the liberal heartlands, notably the United States and Britain. In the middle of the century, subsequent to decolonisation, many more countries followed suit, and this period also saw the beginning of the rise of Newly Industrialising Countries (NICs) such as South Korea, Taiwan and Singapore, with high levels of state planning and ownership of key industries, government manipulation of currencies, trade protection and directed credit. Under the aegis of repressive regimes, state officials were often directly involved in the running of businesses, and promulgated conformist ideologies that stressed the need for hard work and deferred gratification. As Harris (1987, p. 145) notes, the growth of the NICs was 'just as much a triumph of state capitalism as [were] the achievements of the first Five Year Plans in the Soviet Union or the People's Republic of China'. In all these cases, governments supervised the catch-up drive, they acted to protect or even insulate domestic industry from the world market, and they acted as 'binding agents' between the ('political') interests of stability and security and the ('economic') interests of accumulation, as well as repressing workers' struggles and other social movements. Today, state capitals are found disproportionately in particular economic sectors (where natural monopolies exist, e.g. transport, and/or deemed strategic, e.g. arms and energy) and in a variety of hydrocarbon economies (UAE, Russia) as well as in such rapidly-industrialising countries of the Global South as China and Indonesia (Büge et al., 2013). In the OECD states, despite neoliberalism, average government expenditure as a percentage of GDP has for several decades remained roughly level, at around 40 percent—several times greater than in the interwar period.

8. State capitalism, Soviet-style

If state capitalism could be measured by the proportion of national output produced by state-owned firms and farms, its limit would have been reached in the Soviet-style societies. Our stance here is unorthodox, since the Soviet Union is normally referred to as 'socialist' or 'state socialist'. Early Soviet leaders and theorists, though, drew a distinction between the creation of a revolutionary-democratic state power in the form of soviets that had sprung up in 1917 and inherited economic structures that could not be revolutionised overnight. As Lenin (1922) saw it, a form of state capitalism existed in early 1920s Russia, albeit shaped and constrained by the workers' government. With the evisceration of the soviets in conditions of civil war, however, and with the ebbing of the revolutionary wave that had ricocheted around Europe to Latin America before finally ending in defeat in China (1926–1927), soviet

power lost its social basis at home and the potential for international extension. Political power was increasingly shaped by forces of geopolitical and geo-economic competition. In the mid-1920s a burning question was where to source the surpluses needed for new investment. In a context defined by a growing fear of external military threat, Joseph Stalin acted to violently create a new social system, based around forced industrialisation and collectivisation. In the decade that followed, investment more than doubled while consumption fell drastically as a proportion of national product. This was a 'modernising counter-revolution', undertaken by the state bureaucracy around Stalin, in the interests of capital accumulation and global competition (Cliff 1948/1974; Dale, 2017; Haynes, 2002). This moment marked the beginning of a new 'variety of capitalism'.

The state capitalism that characterised the Soviet Union from 1928 to 1991 was of a distinctive kind. This is fundamentally because the already weak forces of private business had been crushed in the aftermath of 1917, and because *all* other factors conducive to state capitalism were simultaneously present: economic backwardness, the legacy of tsarist *étatisme*, the intensity of the arms race against powerful and revisionist neighbours to the East and West, the nation's vast natural resource base (and hence its potential for autarky), and its repressive state apparatus. In addition, Cold War competition brought powerful pressures to autarky through sanctions on international transactions, notably via the CoCom list.[13]

The Soviet Union continues to be seen as the defining model of 'Communism', although we should recall that by now (2022) the North Korean CP has been in power longer than the CPSU, and the Chinese CP for roughly the same duration. While in cold-warrior fantasies all 'Communist' societies were painted with the same brush, in fact there were very striking differences, through time and among states. The extension of the bureaucratic state capitalist model after the Second World War was closely tied to the Red Army's advance, but, even so, some communist parties relied completely on Soviet power, others did not. The formation of the GDR through conquest was a different prospect to the relatively autonomous takeover of power by the Yugoslav and Albanian communist parties. Moreover, there were very different degrees of industrialisation, urbanisation, education, and so on across the region. Another variable was the immediate experience of war: some had sided with the Allies, others the Axis. And then the onset of the Cold War placed some countries, notably the GDR and Czechoslovakia, to the fore in the inter-camp rivalry while others remained peripheral, like Yugoslavia and Albania. The latter two states ended up outside the bloc, looking elsewhere for allies, the former to the Third World, the latter to China.

Indeed, the model spread globally, with China, Cuba and Vietnam evolving diverse new adaptations. The different historical legacies, economic eras and geopolitical challenges faced by 'communist' states outside Europe dictated that the adoption of bureaucratic state-capitalist institutions would bring diverging results. Their role in shaping global and regional institutions, their effects on such global processes as de-colonisation, and their mutual cooperation, coexistence or even conflict, reminds us that the Soviet experience is not the only prism through which to view the history of bureaucratic state capitalism. As James Mark and Tobias Rupprecht observe (2019, p. 82), these states were not 'inward-looking, isolated and cut off from global trends', but were 'engines' of globalisation. Our argument is a contribution in this direction, in that it integrates the stories of the GDR and Yugoslavia in a global capitalist setting, a task undertaken in the next section.

9. Variegated capitalism and state capitalism: the GDR and Yugoslavia

Following the 'variegated capitalism' method discussed above, in this final section we sketch a comparative study of two very different state-capitalist entities, the GDR and Yugoslavia, with case studies of industrial sectors. Common to both was communist ideology, their origination following the Second World War when global capitalism was predominantly nationally organised, and they both confronted economic decline when a renewed globalising shift was under way. Salient differences include their level of industrialisation, their relationship to the great powers, their national composition and their origination: one was born of revolution, the other of military occupation. The GDR was the most statist and Yugoslavia the most market-oriented of the Soviet-type economies in the 1949–1989 period.

That East German and Yugoslav political-economic institutions were similar in some ways and different in others is well known. But a systematic comparative analysis has not been attempted. This is our task in this section, drawing on the theoretical discussion above. In contradistinction to the methodological nationalism of VoC, our 'variegated capitalism' approach analyses institutional formation and differentiation as it is constituted, shaped and constrained by geopolitical and geo-economic competition within a steeply hierarchical world system. Such an approach dictates that the terms of comparison are linked to the eras of capitalist development during which the two models we are studying were constituted and functioned. The periodisation we adopt identifies three sub-phases, namely (i) the post-war and early Cold War period of national capitalisms and centralised planning in the context of sharp superpower conflict, ca. 1945–1961; (ii) a subsequent period of reform, within the context of the global great boom, which featured, across Central and Eastern Europe, periods of market experimentation with enterprises given greater autonomy, ca. 1961–1975; (iii) a new context brought about by two major factors, globalisation and deep and protracted crises, both of which posed problems for the continuation of state-capitalist structures, ca. 1975–1990. We begin the comparison on the large canvas then narrow the scope to individual industries.

9.1. An era of national capitalisms (1945–1961)

The GDR and the Federal People's Republic of Yugoslavia were established in a turbulent conjuncture characterised by revolutionary uprisings, economic deglobalisation, war devastation and post-war reconstruction. In East and West alike, the economies emerging from the war were 'war economies' characterised by muscular state intervention and planning, economic nationalism, an emphasis on armaments and heavy industry, and shortages of consumer goods. It was a period of dramatic international change, as empires fell away and the national form triumphed, and fraught with geopolitical tension, as post-war spheres of influence were hammered into place.

Pace the Cold War historians who treated Moscow and Washington as the capitals of symmetrical superpowers, the US and its allies were militarily and economically vastly stronger. Setting the terms of global competition, the US strove to construct a liberal world market, with the rest of the world integrated on its terms. The Soviet Union, having been a wartime ally of the US, emerged as its chief rival, and it simultaneously offered itself to the developing world as the model of state-led industrialisation. Its economic growth in the 1930s and its defeat of Nazi Germany provided triumphant proof that relatively 'backward' nations could

deploy state-capitalist methods to leverage competitive success. These two facets of Soviet prowess—its leadership of an imperial bloc and its status as the model of state-capitalist industrialisation—were connected but not synonymous. The GDR, set up by Soviet occupying forces, followed Moscow's geopolitical leadership and adopted its economic model; post-war Yugoslavia adopted the economic model but, following a brief spell in the Soviet bloc, broke away.

Both economies were geared to post-war reconstruction through state-directed resource mobilisation. Both exhibited a strong bias towards heavy industry, in keeping with world trends at the time and that sector's military-strategic importance (Dale, 2011). Both initially favoured a Soviet form of enterprise, that is, vertically integrated and with strong backward integration into component manufacturing, which itself was a variation on the classic Fordist model (Czaban & Henderson, 1998, p. 591). The management of labour encompassed measures to muzzle the workforce, such as the suppression of independent union organisation, as well as the subsidisation of basic consumer goods to assure at least minimal welfare and social stability. The Party's task was to bind each economic unit, and each element of society, behind the overarching project of state-capital accumulation, lashing individuals and institutions into a national corporate unity and promoting a 'siege ideology' to encourage greater sacrifice.

Initially, plans were set deliberately taut in both states, particularly in capital goods and military sectors, with the aim of forcing up growth rates. The planning process centred on competitive bargaining. At the central (ministerial, federal and republic in Yugoslavia), sectoral, and enterprise levels, competition for inputs occurred on the labour market, over the allocation of investment resources (notably by managers currying favour with officials during the process of 'plan-bargaining'), and on 'grey markets' of inter-enterprise barter. Planning was reactive, not *ex ante*, and was undertaken with one eye on world markets. Planning officials were continually comparing their economies' performance against western benchmarks, and introducing successive waves of reforms—sometimes market reforms—in the attempt to 'catch up and overtake' the West. Yugoslavia abandoned taut planning in the mid-1950s but planning remained an important economic coordinating mechanism.

With these structures in view, the GDR and Yugoslavia appear as two instances of the same basic 'variety' of state capitalism. Yet in other respects they were quite distinct. The GDR was the rump of a major industrial power defeated in war; its Soviet-type institutions were directly imposed by the hegemon that brought it into being. Yugoslavia, by contrast, was a largely rural economy that had belonged to the victorious alliance. Its Soviet-type institutions were imposed by a popular party that, although looking to Moscow for inspiration and support, had led a peasant-based resistance movement during the war and came to power largely through its own forces. The GDR was the creature of conquest, Titoist Yugoslavia was born from revolution.

While both states were defined by their low productivity vis-à-vis the dominant centres of the world economy, the reasons were quite different. The GDR had been occupied by a war-devastated and economically backward power which was exacting reparations on a titanic scale. Already in 1947, gross capital industrial assets in the Soviet zone had declined to 75% of the 1936 level, in contrast to the British-occupied zone where they had risen to 111% (Ciesla, 2013, p. 65). The difference was due largely to the dismantling and removal of plant; some sectors never recovered (Ciesla, 2013, p. 67). Major industries were transferred, including, either in their entirety or large majority, aluminium, chemicals, electrical,

engineering, iron and steel, locomotives, optical, and tyres. Aviation and aeronautics are another case. Having been (notoriously) a world leader during the war, with firms such as Junkers and Messerschmidt that benefitted from vast supplies of skilled slave labour in Germany and Austria, following the war most plant was removed, and most of the Soviet-occupied zone's aeronautical engineers, scientists, and technicians were removed to the USSR, too, where they worked until the early 1950s. Or consider the auto industry. The zone included plants run by Audi, BMW, and Mercedes-Benz, among others, that had produced over a quarter of Germany's pre-war automobile output. During the war much of this plant was damaged or destroyed, and then the Soviet authorities asset-stripped most of the remainder. In one typical factory in Chemnitz they removed 3800 machines—98% of the capital stock (Ciesla, 2013, p. 64). Of plants where production did restart, many were Soviet-run, with most product shipped as reparations to the USSR, at least until the early 1950s. None of this is to say that East German industries were not innovative. Even the Trabant, when introduced in 1957, was pioneering in several technology and design aspects (Koscs, 2021). But it did place them at a disadvantage vis-à-vis counterparts across the Cold War border. Such 'domestic' disadvantage was exacerbated by economic warfare from the western powers, notably the Battle Act (1951) and the CoCom list—which the SED leadership regarded as a 'productivity-embargo and therefore a factor in the worldwide competitive struggle' (Mittag, in Dale, 2004, p. 164).

At one level, East Germany's adoption of the Soviet economic model was rational: the USSR had proven itself, in terms of industrialisation and growth, in the preceding two decades. A strictly centralised economy would ward against economic encroachment from the West. However, as a resource-poor and plundered economy, geared to rapid industrialisation and squeezed living standards and attempting to replicate, within a fragment of German territory, the sort of industrial breadth that had existed within Hitler's Reich and its *Mitteleuropa* extensions, inevitably bred contradictions. These initial adverse conditions dominated GDR economic history. A significant example was the semi-forced collectivisation of agriculture. Although aimed at releasing labour-power for the industrial towns and squeezing the rural population for industrial investment, in fact it led less to an intended movement of labour-power into the factories than to an uncontrolled flight of farmers to West Germany that resulted in food shortages and consumer discontent.

In Yugoslavia, by contrast, low productivity is explained principally by the backward, agrarian character of much of the country. By some accounts, interwar Yugoslavia had the largest rural overpopulation in Europe and, despite an ISI drive, half of its exports were made up of just five primary products (timber, corn, wheat, iron and copper ores), while four fifths of its imports were finished or semi-finished goods (Aldcroft, 2006, pp. 83–84). War reversed much of the economic progress of the inter-war period, destroying up to two-fifths of industrial facilities (Lampe, 2000, p. 239). The post-war regime hoped to radically change the country's economic base by launching a Soviet-inspired five-year industrialisation plan in 1947, based on a gigantic value transfer from the countryside, support in terms of equipment and materials from the USSR, Czechoslovakia and Hungary, and imports from the West. Its plans proved over-ambitious, badly timed given the onset of the Cold War, and partly resulted in the Soviet-Yugoslav split in 1948, as Moscow and Belgrade clashed over development policies. Soviet leaders viewed Yugoslav leaders as acting too independently, while the Yugoslav side rejected the self-serving terms under which Moscow sought to form Yugoslav-Soviet joint stock companies (Perović, 2007, p. 57).

While Yugoslavia's agrarian character contrasted with industrialised East Germany, it too experienced significant economic dislocation on account of the changing geopolitical situation, which in some ways paralleled the East German experience, and impaired its firms' international competitiveness. To protect against the Soviet military threat and to promote economic equality between the republics, entire factories were stripped and moved to mountainous or coastal areas of Bosnia and Herzegovina or Montenegro. New industrial plant, ranging from machine tools to locomotives, tractors and trucks, was often built in poorly connected areas, sometimes without adequate sources of supply and with few industrial traditions (Bombelles, 1968, p. 34). Significant proportions of the new investment related to defence, and, from the mid-1950s, with Yugoslav-Soviet rapprochement in full swing, military production branched out. Military-industrial capacity began to be used on a dual track to produce for non-military purposes as well, and for exports of military hardware (Pezo, 1983, pp. 38–93). Thus, as with the GDR, economic dislocation had long-term economic consequences, albeit for different reasons. The GDR was asset-stripped by the USSR, while Yugoslavia relocated industries to less developed areas in face of the Soviet threat. Both economies experienced long-term disadvantages as a consequence, even though particular industrial sectors in both states did exhibit innovation and dynamism. Even though it ultimately became a bone of contention between those Yugoslav republics that gained more from it and those that gained less (Lampe, 2013), the military-industrial complex was at the centre of some of Yugoslavia's key diplomatic and economic gains in the Third World (Lazić, 2021).

After 1948, Yugoslavia re-designed its developmental institutions with a view to leaning on the West to maintain national independence. The shift involved abandoning the command economy and the harsher elements of Stalinist rule in favour of enhanced market mechanisms and socio-political freedoms. In performing this manoeuvre, the party-state had to toe a careful line. To prove itself to the West, it had to underline its dissimilarity with the Soviet bloc, which is why it emphasised 'de-centralisation', 'de-*étatisation*' and 'democratisation'. At the same time, to justify its rule and to deflect Soviet accusations that it had abandoned its ideology, it developed the doctrine of the withering away of the state, of which workers' self-management was the basic building block. The commitment to 'withering' was on paper only, but self-management involved a real attempt at decentralising state power and devolving investment to economic units operating on a market basis. Workers participated in enterprise decision-making through elected workers' councils. In these ways, Yugoslav institutions reflected the regime's attempt to adopt a non-aligned, Third Way course between East and West (Unkovski-Korica, 2014).

The Yugoslav system of workers' self-management became a *cause célèbre* among sections of the global left, even spawning an academic school of thought which studied what it called the 'labour-managed' or 'Illyrian firm', which was presumed to maximise profits per worker while operating on the market. Although proponents of the school later accepted that the self-managing firm on the market existed more on paper than in reality (Estrin & Uvalic, 2008), and although up to two thirds of investment at the time was still disbursed by federal institutions, 1950s Yugoslavia appeared sufficiently unlike the Soviet bloc to ensure that it maintained its most-favoured-nation status in the US and friendly trade relations with Western Europe (Unkovski-Korica, 2016, pp. 116–123). The Yugoslav government at this time developed an ISI strategy based on the protection of domestic industries, administered

international trade (through import and export licenses), production using imported Western capital goods, cheap primary and intermediate inputs from the CMEA and/or Third World states, and cheap domestic labour (Czaban & Henderson, 1998, p. 591). Thanks to Western aid, Yugoslavia was also able to chart a strategy of accumulation without peasant dispossession. Put differently, aid enabled it to avoid agricultural collectivisation and thereby the sort of damage wrought by the Soviet collectivisation drive in the 1930s. This allowed for a less confrontational transfer of value from countryside to towns, which was achieved instead through price policies. Western aid and loans amounted to seven percent of Gross Social Product in 1952–1966, which underwrote the transfer of fully eight percent of GSP from agriculture in the same period (Dyker, 2011, p. 59). Despite this, the frenzied tempo of Yugoslav investment in finishing the central heavy-industry projects of the first five-year plan led to a squeeze on consumers, with consumption per head not returning to pre-war levels until 1960 (Sirc, 1979, p. 51). Although it avoided open rebellion, as occurred in East Germany in 1953 or Hungary in 1956, Yugoslavia did experience a strike wave that lasted several years starting in 1958, which deeply shook its political leadership and intensified the struggle between proponents and opponents of deeper market reform (Unkovski-Korica, 2016, pp. 165–219). The bilateral trade and financial arrangements with Western economies, meanwhile, had led to a spiralling trade deficit and increased sovereign debt problems, which heralded a growing dependency on Western states (Woodward, 1995).

The history of the Yugoslav automotive industry illustrates the above points. The *Zastava* factory in Kragujevac was not built under Tito but had a long prehistory as an armaments producer since 1853, with a brief attempt at Chevrolet truck assembly in 1939–1941. Sustaining heavy damage during the war, it faced a further crisis when the Tito-Stalin split forced the relocation of military-related production and experts to the mountainous and more defendable terrain of Bosnia (Stankovic, 2018, p. 239). Here Yugoslavia's position outside the blocs provided an outlet for Yugoslav enterprises not immediately available to the GDR. Able to find partners in Western companies, *Zastava* attained a FIAT licence to produce vehicles in 1954 and undertook major modernisation on the basis of Italian know-how in 1958 (Palairet, 1992, p. 900). As early as 1955, *Zastava* underwent an early change in management that characterised the later generational shift in much of Yugoslav industry in the 1960s, as the loyal, political partisan director and former worker gave way to an expert manager and a team of highly trained experts who went on a two-month tour of Western Europe (Stankovic, 2018, pp. 240–241). Under pressure to produce quickly for the domestic market under an ISI strategy, however, *Zastava* relied on local suppliers who did not find it profitable to produce parts with specialised tools given *Zastava*'s small size. Enterprise management complained about the high costs, unreliable quality and intermittent supply of parts (Palairet, 1992, p. 900). Moreover, the company struggled, as did much of Yugoslav industry, to turn peasants into workers. Raising production from 1,000 vehicles in 1956 to 26,000 in 1964 required more workers, more training in response to the demands of mechanisation, and careful negotiation of high absenteeism rates, as worker-peasants shuttled between city and country following the agricultural seasons (Stankovic, 2018, p. 242). For a time, though, firms like *Zastava* in the automobile industry enjoyed a captive local market, and domestic competition was still in its infancy, guaranteeing sales growth despite costly production. By the early to middle 1960s, though, there were signs of market saturation across Yugoslav industry (Music, 2021, p. 35). This was a problem commonly encountered

by states that adopted ISI in Latin America too: despite—or because of—the limits of selling to the small, domestic market, firms had few incentives to compete for new markets abroad (Schwartz, 2000, p. 244).

While Soviet-style ISI had charted some success in lifting the GDR and Yugoslavia out of wartime devastation contradictions were piling up. In the initial phases of ISI, overall accumulation was emphasised over firm-level profitability, leading to the infamous problem of soft-budget constraints. The resulting waste and inefficiency have parallels with the major banks in our own era, which can accrue gargantuan bad debt because they know they are 'too big to fail'. Soft budget constraints and taut planning generated a distinctive business cycle. As each new investment cycle opened, there were shortages of inputs; debt and balance of payment deficits grew; these resulted in disruption and bottlenecks; and finally consumer goods grew scarce, exacerbating worker dissatisfaction. Planners had to slow the pace of investment in order to get priority projects going again, which would then release resources, and economic growth could once again resume. A peculiar cycle of stop-go policies characterised these societies as a consequence, as the state tried to brake and then re-start accumulation. Enterprises in turn hoarded, bartered, engaged in 'storming', and produced low-quality goods to meet formal or informal targets (Dale, 2004, pp. 85–89). Despite abandoning taut planning and increasing market operation from 1950, some of these symptoms persisted, a concern that Tito explicitly decried in the early 1960s (Dyker, 2011, pp. 60–61). These afflictions of the Soviet model provided the context, in Yugoslavia and the GDR alike, for the market reform experiments that we consider in the next section.

9.2. Dilemmas of globalisation (1961–1975)

Through the 1950s, and into the 1960s, the economies of 'communist' Eastern Europe, including the GDR and Yugoslavia, posted growth rates at or above the European average (Good & Tongshu, 1999, p. 114). But the world-economic shift from post-war national reconstruction to internationalisation began to signal problems ahead. Pressures to economic reform resulted from a contradiction inherent in the state-capitalist institutional arrangement. It had achieved some success in promoting 'modernisation' and trade expansion. In so doing, it contributed to forms of economic integration and internationalisation, which in turn would accelerate competitive pressures (Haynes & Husan, 2002, p. 279). Both regimes experimented with business reform and pursued greater internationalisation, but the GDR remained at the statist end of the spectrum, while Yugoslavia pushed the bounds of market reform, passing over temporarily to an export-led growth model.

For the GDR, reform was facilitated by several background conditions: the SED regime's enhanced confidence following the building of the Berlin Wall in 1961, the Soviet Union's own reform debates of 1962–1965, and the slight but significant relaxation of the Soviet grip that followed from Khrushchev's destalinisation, from the shocks of the 1953–1956 upheavals in the GDR and Hungary, and from the Sino-Soviet split. Beginning in 1967, the GDR enacted reforms to business organisation and incentive structures. Larger business units were created, in emulation of the Western multi-divisional corporation, and were given greater managerial autonomy with respect to allocation of resources for investment, collection of income, borrowing, and wage determination (Swain & Swain, 1998, p. 119). Incentives were adapted to encourage quality over quantity, productivity enhancement and intensive growth. Planning criteria were adapted to favour indicators based on

efficiency rather than brute output, and prices were accorded an enhanced role in determining resource allocation, with the aim of forcing inefficient methods out of use. Raw materials prices were raised, and managerial reward systems were redesigned to encourage the introduction of new technologies. The SED leader Walter Ulbricht (in Przybylski, 1992, pp. 164–165) even spoke of the need for a 'symbiosis of plan and market', adding that those that fail to meet 'the requirements of the market cannot live up to society's requirements either'.

Simultaneously, attempts were made to expedite international cooperation. Khrushchev's call for greater CMEA integration was embraced by the East German regime. 'The great monopoly groups of Western Europe', warned Ulbricht in 1964, 'have spread across national barriers due to pressure from American competitors, in their search for technical progress' (Marsh, 1973, p. 54). His successor, Eric Honecker, believed, likewise, that West European integration should act as a spur to closer integration in the East, and indeed as a model—and he communicated these beliefs to the CMEA Secretary, Nikolai Faddeev (Graf, 2020, p. 123). The GDR's strategy was to capitalise on its position within the CMEA, promoting its industries as the ones that could supply high-value products in exchange for primary and intermediate inputs from other CMEA states. Some movement on intra-CMEA cooperation was charted, but the going was slow, and conflict among member states over the distribution of costs and benefits was endemic.[14]

To illustrate, let us again take the automotive industry. In the GDR it had not been a strategically prioritised sector, but the car was gaining increasing significance for mobility and as a prized consumer good. Domestic sales brought in substantial revenues to the national treasury due to the high price mark-up on cars (Bauer, 1997), plus there was export potential, at least within the CMEA.[15] However, the industry was becoming increasingly sophisticated. New cars were composed of thousands of parts, many of them complex; each car manufacturer required either ambitious levels of vertical integration or closely coordinated links to networks of suppliers. In order not to be left too far behind global standards, in the 1970s a modernisation programme was initiated. Given the limitations of the domestic engineering industry and pressure on funding in the wake of the economic crisis of 1970–1972, compounded by the financial demands of a housing programme announced by the new SED leader Eric Honecker, a go-it-alone strategy appeared unviable (Bauer, 1997). Instead, planners and auto executives began to explore cooperation with their Czechoslovak counterparts. The Czechoslovaks would develop and produce the engine, with the East Germans taking responsibility for the gearbox, axles, and other parts (Bauer, 1997). The GDR-Czechoslovak joint venture would provide most of the necessary equipment, with the rest to be obtained from the 'non-socialist abroad'. At the time this seemed perfectly rational, in view of the international context of détente and the revival of GDR trade with the West that followed the Federal Republic's 'new Ostpolitik'. Western policymakers and companies also perceived a renewed interest in expanding trade with CMEA partners as a way of rescuing investments and counteracting falling domestic profit rates in the troubled 1970s. Finally, the global financial environment was opening doors. With financial globalisation and the 'oil crisis' of 1974–1975, the world was flush with cheap money. Ultra-low real interest rates were conducive to 'debt-led growth': the import of advanced equipment to modernise industrial plant, the output of which will in part be exported, earning revenues to repay the initial loans. Their good reputation for repaying loans ensured that the East European dictatorships were seen as a safe bet by Western bankers. It seemed, for a time, that the GDR's

variant of state capitalism was evolving from a heavily national model towards a new type that would include cooperation with CMEA partners and strengthened trading links with the West. A number of GDR companies commenced collaborative ventures with western counterparts, typically in the Third World, and some of them saw a significant scale of activity (Trecker, 2020). The engineering firm Schwermaschinenbaukombinat 'Ernst Thälmann' (SKET), for example, owned, among many other assets, 350 rolling mills and 1,200 cranes in over forty countries.

Whereas the GDR had scaled back its cautious market reform programme at an early stage, Yugoslavia pressed on. At the turn of the 1960s it embarked on a major market reform programme, with profound implications for its business, societal and political institutions. Market expansion was coupled with a *de jure* strengthening of workers' self-management as ideological cover, as had occurred in the early 1950s. If in the 1950s investment funds had still been centralised, with prices centrally controlled and enterprise income distribution heavily regulated, the 1960s saw investment decisions devolved to enterprises and banks, prices freed except for key raw materials and investment goods, and greater control of income distribution ceded to the enterprises (Granick, 1975, pp. 323–350). In theory, this was happening to allow workers' self-management to realise its full potential. Reforms established the Workers' Assembly, an institution embracing all employees that could, supposedly, take sovereign decisions over and above the elected workers' council, with referendums as a way of making major decisions involving the whole workforce. In practice, however, these bodies were subordinated to the managerial group or the director of the enterprise. Contemporary researchers showed that, in the late 1960s, it was directors who largely made decisions, though they did feel indirectly constrained by the structures of self-management and duly factored in policies which would mollify work forces (Granick, 1975, pp. 351–394). Later research confirmed the increasing power of the managerial elites—*de facto* if not *de jure*. Enterprise managements imported the multidivisional corporate structure from the US (Sacks, 1983). Ljubica Spaskovska and Anna Calori (2021, p. 421) recount the process whereby the Bosnian giant Energoinvest hired McKinsey to advise on its restructuring in the 1960s, with the aim of breaking into global markets. They cite Energoinvest's founder, Emerik Blum, stating his wish for McKinsey to redesign the company's structure, into which he would simply insert the workers' councils wherever he felt necessary. While agreeing that managerial elites in the late 1960s were strengthened in the factories, Goran Musić (2021, pp. 41–49), in his study of two automobile factories in Yugoslavia, has suggested that the extent of the influence of self-management bodies also depended on the standing of individual enterprises on the market, the composition of their workforce, and the political activism of the blue-collar workers themselves through the party, trade unions, workers' councils and higher bodies.

Behind the extensive market adaptations of the self-management system lay the attempt at a much deeper integration in the world economy than that contemplated by the Soviet satellites in the 1960s. Joining GATT in 1961, devaluing the dinar, introducing a single exchange rate, lowering tariffs, allowing foreign direct investment, and bringing most domestic prices in line with world market prices, Yugoslavia began what Diane Flaherty has argued was an export-led growth strategy, which lasted until 1976. While some successes were achieved in terms of productivity gains, the usual stop-go cycle continued, accompanied by rising unemployment, inflation and imports in 1967–1972. Moreover, in the following few years, global growth rates fell, West European protectionism increased and the rate of

recruitment of Yugoslav guest-workers, a key source of foreign currency through remittances, decreased dramatically, hampering the export orientation effort. The geography of Yugoslav trade did not follow the expectations of the reformers, who hoped for greater integration with Western markets after the early success of the 1950s and 1960s. In the 1970s, exports began to shift eastwards and southwards, areas where Yugoslav companies could not earn convertible currencies to plug the rising balance of trade deficit and cover the cost of foreign borrowing (Flaherty, 1982).

The Yugoslav auto-industry illustrates some of these tendencies well. The case of *Zastava* is once again instructive, as the company tried to exploit Yugoslavia's position between the blocs to improve its standing in international markets. *Zastava* began domestic vertical integration in the 1960s in order to overcome the obstacles to production described in the preceding section. Then it went a step further, and entered a complex, multi-lateral trading web, spanning the Western and Eastern blocs. With FIAT's help, it developed the capacity to produce the Z-101 model, a variant of a FIAT model. *Zastava* became an exporter of components within a system that united FIAT in Italy, the VAZ plant in the USSR and the FIS factory in Poland. In part payment, *Zastava* took Russian Ladas and Polski Fiats, which it would then sell on the Yugoslav home market. Its income rose from 115,000 clearing roubles in 1969 to 25 million by 1973, and saw *Zastava* devise a plan to ramp up production to 500,000 cars a year in order to supply the CMEA market from 1977. That plan, however, ran into trouble. It is not clear whether there was enthusiasm for it on the Soviet side. What does seem clear is that local political authorities played a role in scuppering it. Following the 1973 oil shock, the Yugoslav government and planners began to shift back towards an ISI model. They wanted to protect local producers, but they also wanted enterprises to seek markets which could lead to earnings in convertible foreign currency, aims which were at odds with the *Zastava* management's plans. Simultaneously, there was resistance to the plans within the factory, as the oil crisis made *Zastava*'s repayment of the debts incurred to produce an earlier model more expensive. There were also reports of a power struggle between the town hall and the firm's historic director, Prvoslav Raković. All that facilitated a politically-engineered coup against Raković in 1974 and the rejection of his plans (Palairet, 1993; Stankovic, 2018). If we leave aside the role of domestic political pressures in this example, the story of *Zastava* reminds us that international forces beyond the control of Yugoslav actors were decisive in enabling and constraining the potential of such ventures.

Deeper market reform in the long 1960s, however, did make it harder for state managers to discipline the population. In his extensive study of labour strikes in the period from 1958 to 1969, Neca Jovanov (1979) concluded that the decreasing influence of workers in the institutions of power in that decade was a prime reason for taking industrial action. Social discontent in the Yugoslav context was, moreover, not easily disentangled from the national question. The various republic leaderships sought to pass the blame to each other or the federal government. After the first post-1948 strike in Trbovlje (Slovenia) in 1958, for example, political leaders from several less developed republics accused the Slovene republic leadership of having encouraged the strike in order to extract from the federal state policy benefits favourable to Slovene industry (Unkovski-Korica, 2016, pp. 165–185). Later, following the 1965 market reforms, there was a further rise in social tensions. This time, the Croatian party leadership prominently rode a wave of popular mobilisation known as the Croatian Spring (1967–1971), which demanded greater liberalisation and republic-level control of resources (Batović, 2017). Given the Soviet-style fusion of political and economic power in

the federal party-state, discontent and pressure for greater democratic participation in decision-making threatened to spill over into a threat to the system as such. In the event, Tito and the federal party leadership still had enough room for manoeuvre in the 1960s and 1970s to weather the storm. They gradually reversed the liberalisation of the 1960s, while conceding some national and social demands, including the decentralising constitution of 1974, which strengthened the republics, and the Associated Labour Act of 1976, which promised to strengthen the influence of blue-collar workers relative to managerial and technocratic elites in the institutions of self-management. Increased state spending and debt facilitated a rise in living standards and ensured social peace through the rest of the 1970s, though this would ultimately prove as fleeting as the low costs of borrowing from global financial markets (Duda, 2010; Musić, 2021, pp. 54–59).

In the 1960s and early 1970s GDR and Yugoslavia found themselves torn between relative autarky and world-market integration. The former was expressed as a reliance on protected domestic and regional markets, principally the CMEA. The latter was expressed in trade at world prices, technology imports and debt dependency. The former was attractive because it gave national ruling classes more control over development, but it threatened to suffocate economic growth, given the inefficiencies of protectionism. The latter was attractive because it intensified the competitive edge of some industries, but it also proved destabilising, as it brought dependency on economic fluctuations beyond the control of these states. Worse, from their perspective, their more advanced competitors presided over more resources with which to adapt to, and indeed to shape, these fluctuations. Although the resulting crises and intensified class struggle in the GDR and Yugoslavia could be partially suppressed, they could not be avoided. The unravelling of the two states' attempts at dealing with the dilemmas posed by globalisation is covered in the next section.

9.3. Global shocks and the unravelling of state capitalism (1975–1991)

In the mid-1970s our two regimes faced a suddenly volatile global economic order. The certainties of the long boom, with steadily expanding demand and a predictable low oil price, yielded from 1974 to a rollercoaster decade, with deep recessions and wild fluctuations in oil price and interest rates. In finance, Nixon's dismantling of the Bretton Woods system and the reflux of petrodollars into western banks sparked rapid globalisation and volatility. For Yugoslavia and East Germany, in an exact parallel to the debt crisis that afflicted the ISI economies of Latin America and which led to 'La Década Perdida' of the 1980s, 1979–1983 brought a quadruple whammy in the form of collapsing demand and a soaring oil price, rocketing interest rates and a rising dollar (in which most international debts were denominated). The strategy of debt-led growth now lay in tatters. Both regimes shifted to an emergency footing, centred on desperate attempts to stave off bankruptcy through import controls, additional borrowing, export drives, and austerity measures. Welfare spending was throttled, with knock-on consequences for regime legitimacy.

For East Germany, servicing the interest payments on its existing debt swallowed roughly half of its hard currency earnings by 1980, which made further borrowing inescapable. In 1983 and 1984 the FRG stepped in with two gigantic interest-free loans, each of around 1 billion Deutschmarks. This was merely the most visible aspect of what was becoming a very awkward reliance on West Germany. Already in the 1960s Ulbricht (in Bender, 1995, p. 110) had fretted that trade with the FRG could play the role of a 'trojan horse', leading to an

economic dependence that would bring political consequences. By the 1980s, the horse was clearly within the citadel.

Once again we can take the auto industry as illustrative. In East Germany the calculations on which the modernisation plan had been based now suddenly failed to add up. The country's indebtedness to the West was spiralling out of control, and by 1980 its payments for Soviet oil were running at ten times the level of just a decade before (Bauer, 1997, p. 112). The option of self-reliance, with equipment provided by the domestic engineering sector, was vanishing: the share of its output allocated to domestic machine tool production had plummeted to only 16%, with exports prioritised—including of equipment for automobile manufacture (Bauer, 1997, p. 112). In this context, an alternative way of rescuing the joint venture with the Czechoslovaks began to be explored: to buttress it with deals with western auto firms. The method would be barter: the import of complete plant, to be paid for with products from its assembly lines. One such project, a propshaft plant built under licence from Citroën, did go ahead but most others stalled. In consequence, the modernisation plan could not be revived and, despite years of work on its development and substantial preliminary investments, the joint venture with the Czechoslovaks was scrapped (Bauer, 1997). The Ifa conglomerate had little option but to continue to produce the same old models for increasingly dissatisfied domestic consumers, and exports declined. Having once been among Eastern Europe's leading marques, Ifa's Trabants and Wartburgs ceded position to the Fiats and Renaults produced under licence elsewhere in the Soviet sphere and Yugoslavia.

No further CMEA joint ventures were attempted in the auto industry. Ifa's internationalisation initiatives shifted reluctantly but inexorably westward. In the early 1980s, in the context of inter-German détente, a liaison developed with Volkswagen (VW). The Western firm's intention, its president, Carl Hahn (in Dale, 2004, p. 223), explained to East Germany's Minister for Foreign Trade, Gerhard Beil, was to shift production to East Germany due to 'the rising costs in FRG industry'. Or, as VW's director of finance put it, 'why go to Korea when wage levels next door are only a quarter of West German levels?' (Damus, 1990, p. 70). The GDR's well-trained and low-paid workforce, and its proximity to major European markets, then, were obvious attractions. As for the GDR, cooperation with VW was valued as a lever for raising productivity, and a means of earning hard currency through exports to third markets. The SED Economics Secretary Günter Mittag initially hoped that an Ifa-VW joint venture would eventuate (Przybylski, 1992, p. 189). His colleagues, however, concerned about rising dependence on the West and the costs in every-scarcer Deutschmarks, blocked the idea. In 1984 a compromise was reached whereby Ifa would build VW engines under licence; a part of these would be delivered to VW as payment, with the rest to be installed in improved Wartburgs.[16] In short, by the mid-1980s Western TNCs were showing a greater capacity to re-organise the Eastern European division of labour than CMEA-based enterprises themselves. This shift is sometimes viewed as a triumph of private capital over state capital, but the picture was not so neat. Of the three major players in Eastern Europe, Fiat was a private company but Renault was publicly owned and VW was 40% in state hands.

The GDR planners, in the 1980s, were also facing constraints on their ability to manage the domestic population. Following periods of major industrial struggle in the 1940s and the workers' uprising of 1953, a combination of authoritarianism, welfare concessions, and the clampdown on emigration (the Berlin Wall) had succeeded in re-establishing social stability. Following resurgent social discontent in the early 1970s, under Eric Honecker an implicit social contract formed, with industrial relations stabilised in exchange for an

improved social wage (including a house-building programme). In the 1980s, a decade of austerity, social discontent returned, and the political limitations of the Soviet-type 'variety' of state capitalism grew more pronounced. Furthergoing economic reform would require the cooperation of classes of the population that were desirous of greater political participation, yet to absorb and channel these demands through liberal democracy was precluded. And because the economy was centralised in state hands, all popular grievances, whether political or economic, zeroed in on the government (Cliff, 1964, p. 319). In earlier decades, when rapid economic growth had brought villagers to the cities and workers into the offices, this vulnerability of the political system mattered less. But the citizenry of the 1980s was more educated and urban and less tolerant of regime hypocrisy and propaganda. When a new political opportunity structure arose, in Gorbachev's reforms and the crumbling of empire, they took the initiative, first through emigration and then through strikes and demonstrations that culminated in East Germany's dissolution in 1990.

Yugoslavia's trajectory from 1970s crisis to eventual dissolution was in some respects similar to that of East Germany. The global economic shocks of the 1970s upset several important calculations of Yugoslavia's reform movement. These were premised on increased trade with the EEC, Yugoslavia's main economic trading partner from the mid-1950s to the mid-1970s onward. To raise productivity, enterprises cut labour, and unemployment was only kept down by mass worker emigration. When migrant labour flows from the GDR dried up in 1961, Bonn sourced replacements in Italy, Greece and Turkey, and then in Yugoslavia. From around 9,000 Yugoslav labour migrants in West Germany in 1960, by 1968 the figure had climbed to 119,000 and to over half a million in 1973 (Dale, 1999; Molnar, 2014). At the height of the guest-worker migration, over a million Yugoslav citizens lived abroad, and the value of foreign-currency remittances, combined with funds raised through foreign tourism in Yugoslavia, helped temporarily finance the country's increasing payments deficit, as imports continued to outpace exports (Bernard, 2019; Schierup, 1990). Then, in the 1970s, rising protectionism in the EEC (including embargos or quotas on Yugoslav beef and textile goods), the 1973 oil shock (Yugoslavia was an oil importer), and the 1974–1975 recession in Western Europe (prompting a sudden drop in recruitment of workers and a rise in returnees) all combined to severely weaken Yugoslavia's economic position. Yugoslav industry in the early 1980s increasingly resembled its East German counterpart: importing Western technology and exporting higher-value products to the Soviet bloc (Artisien & Holt, 1980).

It was in response to these external shocks in the mid-1970s that Yugoslavia returned to ISI. To a degree, the shift was successful in that the economy grew at a respectable pace. Nonetheless, a World Bank document (1983, p. 15) concluded about the five-year plan in 1976–1980: 'Taking the plan overall, in substantial measure Yugoslavia succeeded in achieving its aggregate growth and investment objectives. Yet at the end of the plan its external position was considerably more vulnerable than had been the case at the beginning'. As in previous business cycles, high investment rates across the board, in part the result of a strategy of not disciplining enterprises for fear of provoking national strife, sucked in more imports. This then led to a sudden and unsustainable leap in sovereign debt, given changes in the international economic order at this time (rise in oil price, increase in interest rates, sluggish growth in OECD). In the words of the same World Bank document (1983, p. 15): 'external shocks were to a considerable degree responsible for this outcome'.

The situation deteriorated fast in the 1980s, and Yugoslavia entered economic freefall and institutional breakdown. To deal with its mounting debt crisis, the federal government

turned to IMF stand-by arrangements in June 1980. The further deep debt-servicing crisis in 1982, when the sovereign debt exceeded $20 billion, led to a series of painful structural adjustment programmes. The economic plight contributed to inter-republic conflicts over who should pay for the crisis. This expressed itself in part as a struggle between the richer, north-western republics that sought to preserve their powers and the constitutions of 1974, and Serbia, which sought greater centralisation, a demand which dovetailed with the IMF's demand for a clear creditor-borrower relationship (Woodward, 1995). Meanwhile, the IMF programmes in the 1980s contributed to a drastic fall in household income, with one survey showing only 16 percent of Yugoslavs were able to cover their cost of living out of regular incomes in late 1983 (Ramet, 1985, p. 6). Devaluing the dinar repeatedly did little to ameliorate the balance of trade deficit, but hard import restrictions did help overcome the immediate crisis. Yet, on account of import restrictions, the Yugoslav economy found itself on the brink of discontinuing technological transfer altogether in the second half of the 1980s. Policy-makers continued to flounder as export efforts appeared more improvised than strategic, Yugoslav companies found it difficult to beat competition in Western markets, and the end of self-management and the privatisation of the means of production became ever more appealing as a way out of the crisis for increasingly powerful sections of the party leadership (Dyker, 2011, pp. 238–285).

The automobile industry is again illustrative of these trends. The case of *Zastava* in particular is representative, in that every new model it produced saw the need for greater and greater investment, based on imported equipment, and greater debt. Already heavily indebted after 1973 and the Z-100 venture, *Zastava* fell into deeper problems with every new model. Both the Yugo (1979–1980) and Florida (1987–1988) models proved very expensive. Moreover, the company only appeared to invest when new models were designed, and not in the intervening periods, weakening its ability to use the new equipment to rapidly produce new models on a sufficient scale to capture new markets and make sizeable profits. In a desperate bid to earn hard currency, the company was subsidised and egged on by the forex-hungry federal government to push exports to the USA in the second half of the 1980s, even though it could make more profits at home. Producing the Yugo-America for the US market derailed the production of the last run of the still profitable Z-750 for the domestic market, and the Florida was built only in nominal quantities. Michael Palairet estimates that the accumulated losses in the 1980s amounted to $1 billion (Palairet, 1993, pp. 120–126).

As the crisis deepened and living standards plummeted, strike levels rocketed, bringing open class struggle back, after the relative hiatus of the 1970s. The number of strikers was 28.5 times higher in 1988 than it had been in 1980 (Dobrivojević Tomić, 2019, pp. 172–173) In his study of two automobile factories in this period, Musić investigates how the crisis was filtered through the institutional framework set up by the Associated Labour Act of 1976. He compares and contrasts the Slovene Maribor Automobile Industry (*Tovarna avtomobilov Maribor*, TAM) and the Serbian Rakovica Motor Industry *(Industrija motora Rakovica*, IMR). In the former, the managerial-technical cadres largely survived the purges and reorganisations of the 1970s, successfully disciplining the organs of self-management to push through their preferred policies. In the latter, the highest organs of self-management, especially the Central Workers' Council, acted as an arbiter for lower-level councils and department directors, blocking decision-making. Unlike in TAM, the lower-level department directors in IMR did not see eye-to-eye, and were constrained by more assertive blue-collar activism in the organs of self-management (Musić, 2021, pp. 60–78). The contrast between IMT and TAM allows Musić

to illustrate the extent to which, contrary to dominant interpretations of the period, the subjective factor, i.e. the conscious activity of ordinary workers, was an important feature of the history of individual enterprises and, indeed, the politics of the country as a whole.

As Music shows, mounting worker dissatisfaction and unrest fed directly into the legitimacy crisis of the ruling institutions. The higher party echelons of the 1980s, he shows, were reliant on the very same specialists that they had campaigned against in the 1970s, and whom workers actively distrusted. Prompted to discuss their views, however, workers in IMR actively sought figures in the higher party-state officialdom who would take their side against management and specialists, but without success. The sense of being blocked increased dissatisfaction, which kept building as time passed (Music, 2021, pp. 122–131). While management in TAM used nationalist divide-and-rule tactics consistently in the mid-1980s, that was eschewed in IMR, until after the leaked publication of the excerpts of the infamous Memorandum of the Serbian Academy of Sciences in 1986. The Memorandum was a Serb nationalist diatribe against the paralysed Yugoslav federal state, but, as Music recounts it, ordinary workers in IMR felt that their own company was paralysed and hobbled like the federal state, a feeling many industrial workers across the country shared. The promise of radical institutional reform sounded like a way out of the impasse, and legitimised the use of extra-institutional mobilisation like strikes (Music, 2021, pp. 147–185).

The explosion of extra-institutional mobilisation worked itself out differently across the Yugoslav republics in the late 1980s. The nature of workers' self-management played an important role in how these transpired. Slobodan Milošević rose to prominence as a defender of Serb national interests, but also a champion of self-management *and* a market reformer, calling for obstacles to be removed so that the individual and society would 'to be able to enrich themselves' (Music, 2021, p. 187). This appealed to many workers, but the older generations were less receptive to Milošević's nationalist messaging than younger and more rural constituencies. Milošević's 'Anti-bureaucratic Revolution' in 1988–1989 channelled national and class resentments in a direction that allowed him to attempt to centralise the federation (Music, 2021, pp. 217–226). He failed, as other republic leaderships and populations preferred to quit Yugoslavia than be subordinated to Belgrade. Indeed, in Slovenia, unlike in Serbia, although there was also an independent strike movement, it resembled an explosion without an impact (Music, 2021, pp. 226–238). Ironically, though, labour institutions in Serbia were weak compared to Slovenia in the transformation process. Marko Grdešić (2008) points out that Serbia's nationalist fervour through the 1990s wars lasted a comparatively long time, de-centring labour as an important category, preserving the role of trade unions as a conveyor belt for the state, and ultimately resulting in a privatisation process with few insider buy-outs in the 2000s. By contrast, Slovenia, with a short war of independence, saw privatisation occur in a process of insider buy-outs, in which management and labour continued a corporatist coalition, and labour unions developed a certain bargaining power. Yugoslavia's decentralised institutional infrastructure therefore left different, but connected, legacies after the disappearance of the state itself.

10. Conclusion

This paper is a contribution to the field of comparative capitalism studies. To simplify a little, we have delineated two approaches. The first, VoC, has faced criticism, not least

for its lack of a theory of capitalism. Serving as little more than an 'empty signifier', capitalism is reduced to a synonym of market economy. This approach masks the exploitative nature of capitalist relations, privileges a functionalist explanatory framework, and cleaves to a methodological nationalism that overlooks global hierarchies of power. It also faces difficulties in assessing statist challengers to the dominant 'varieties'. The rise of China has made this a pressing issue, one that raises questions for comparative capitalism research: What accounts for China's rapid growth? Is China capitalist and, if so, since when?

The other major approach, in which capitalism is presented as 'variegated', overcomes many of the methodological flaws of VoC, as we have detailed above. Yet it too has encountered problems explaining the nature and rise of China. Several accounts treat China as state capitalist but they ignore the pre-Deng period, and the 'communist' system more broadly. This raises a further problem. If the variegated approach is to analyse capitalist development in the round, how does one deal with the so-called communist camp, which has since the 1920s represented a substantial swathe of the world economy?

Our account of capitalism explains its *étatiste* variants not as the result of archaic forces that disrupt a pristine logic of capitalist competition, but as the product of late development in the shadow of the leading liberal powers. We theorise the 'communist' economies as a state-capitalist model geared to catch-up industrialisation. In so doing, we bring them squarely into the purview of comparative capitalisms research, but this then obliges us to consider how to account for their differences. In the second half of the paper we take up this challenge, via a comparative analysis of two state-capitalist economies: the GDR (representing the orthodox Soviet model) and Yugoslavia (a maverick and relatively market-friendly variant). In studying the institutional forms that comprise their economic regimes (state, business, labour relations), with a particular focus on the automotive industry, we emphasise interlinkages with the world market and geopolitics. We explore their joint origins in a Soviet-led post-war transformation to which they related in contrasting ways: one as a creature of occupation, the other of revolution. This contrast, we show, carried implications for the institutions their regimes set out to build. We proceed to analyse their institutional evolution in three phases. In the 1950s, both states constructed command economies, but the GDR, as a client of the Soviet Union, sought to limit its dependence on the West, while Yugoslavia, in a non-aligned position, balanced between the blocs and undertook significant market reforms. The following sections deal with their attempts and ultimate failures to compete in a globalising era. The first phase (1961–1975) saw the two states and their industries attempt to fit into regional and, in Yugoslavia's case, global value chains. They increasingly found themselves caught between reliance on protected domestic and regional markets, principally the CMEA, and world market integration. When the global economic winds turned adverse in the subsequent era of neoliberal globalisation (1975–1990), their small-scale and debt-laden enterprises struggled to cope. The economic crisis of the Soviet bloc helped fuel political demands for national self-determination from Soviet tutelage across the region, leading ultimately to German unification, and accelerating Yugoslavia's dissolution.

In parsing the economic history of these two states with concepts from the variegated capitalism literature, we are heeding Phil Scranton's and Patrick Fridenson's (2013) call for a departure from longstanding assumptions that the West is the paradigm for business history. Business history must be able to bring in the 'Second' and 'Third' Worlds—the

West's Others. Those who take issue with our approach—that the GDR and Yugoslavia are best theorised as state capitalist entities—may instead develop a 'variegated socialisms' analysis, but it must necessarily address the relationship between those states and the world market. From the USSR in the 1930s to China today, 'communist' states have been significant actors within the world economy; for economic history and business history to develop a truly global perspective requires further engagement with that experience.

Notes

1. A case could be made that the physiocrats got there first, in that they advocated the conversion of France's political economy to the English model. Yet they lacked a conception of capitalism, and, except in the dimmest of outlines, of political-economic models/varieties. See Dale (2021).
2. In overstating the difference, they helped to impart the laissez-faire model with a reified status. See Dale, 2019.
3. Translation GD.
4. We leave aside the awkward fact that Weber's much vaunted 'rational capital accounting' drew on sophisticated banking and trading techniques borrowed by Italians from the Islamic world.
5. Italy, we may note, is the country of birth of Mariana Mazzucato, the author of *The Entrepreneurial State, Debunking public vs. private sector myths,* Anthem Press, 2003.
6. Parenthetically, we may note the shared biographies of Shonfield and Polanyi. Both were Hungarian Jews descended from rabbis, both were naturalised in Britain (albeit Shonfield was born there), both were married to Communist Slavic aristocrats.
7. The other two key volumes of this period were Esping-Andersen (1989) and Joseph Rogers Hollingsworth and Robert Boyer (1997).
8. Peck and Theodore (2007, p.766) play down the shift. They follow Fred Block in subsuming all institutionalist comparative capitalisms research under the label 'Polanyian'. This is misleading. Polanyi's method was utterly unlike that of the new institutionalists (Dale, 2016).
9. For similar reasons, Martin Wolf describes China as 'in a sense, the most "capitalist" economy ever'. The reason is simple: its rate of capital accumulation. Between 1997 and 2009, he notes, 'gross investment rose from 32 per cent to 46 per cent of GDP, while household consumption fell from 45 per cent of GDP to a mere 36 per cent. This must be the lowest share of consumption in any significant economy ever'. (Wolf, 2010).
10. The two senses of combined, writes Steven Rolf (2021, p. 4) "are intrinsically linked," in that UCD in the first sense, the pressure exerted by international political and economic competition, drives later developing states to initiate the second form of UCD, the combining of their existing economic elements (technologies, institutions, etc) with borrowings from the advanced economies.
11. Engels (1894 [1878]) *Herrn Eugen Dührings Umwälzung der Wissenschaft,* Stuttgart: Dietz, p.260 (translation GD).
12. And statism in the South cannot be explained in terms of inspiration from Moscow. Indeed, while Moscow at times encouraged the turn to ISI—not least because of the potential it brought for its manufacturing exporters—at other times it actively encouraged an export promotion orientation, with the exports in question almost exclusively primary products (Kidron, 1972, p.12).
13. This point should not, however, be overcooked. In his meticulously documented *Red Globalization*, Oscar Sanchez-Sibony (2014, p.6) goes so far as to claim that the Soviet economy 'became first autarkic and then globalized in roughly the same measure and on roughly the same timetable as the world first became autarkic in the interwar period and then globalized in the postwar'.
14. The CMEA's problems were typical of regionalist projects globally in this same period, many of which collapsed over arguments over distribution of benefits. Jaster, 1963, p.519; Ravenhill, 2005.

15. Full disclosure: One of the authors owned a British-imported Wartburg.
16. Emile Boustani (2019) suggests that VW arrived only in 1990. In fact, its involvement in the Eastern German economy began a decade earlier.

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