Small leap forward: Emergence of new economic elites

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The collapse of Communism is often explained as resulting primarily from those economies' inherent inability to adjust to global change, to provide sustained economic growth, and to satisfy increasing consumer demand. Thus, many observers have expected rapid and far-reaching structural changes in the economy and the quick replacement of economic leadership during the transition from state socialism.

This article aims to provide a first glimpse into the formation of the post-state-socialist economic elites in Hungary, Poland, and Russia.[1] We raise four related but analytically separate questions:

1. What is the extent of the change at the top of the economic hierarchy? Do we find that, in general, the same people have stayed in the same positions, or do we see a turnover of individuals since the transition from state socialism began?
   Even if the personnel of the new elite changes, its *composition* may remain unchanged if the same kind of people take the place of those who exit. Therefore we have to ask the following questions:
2. Which are the predominant social groups in the new economic elite?
3. What individual characteristics are overrepresented in the new elite?
4. What type of individuals are losing and gaining ground among the elite because of the transition?

For this inquiry the definition of the "economic elite" has been restricted to the domestic business elite, more precisely to the top managers of companies with the largest annual turnover measured in domestic cur-

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rency as recorded by the national statistical offices in 1992. We thus excluded private proprietors not involved in running their enterprises as well as many other important actors in the economy who represent the interests of others, such as policymakers, heads of interest groups, state officials, experts, and consultants. Moreover, our research design also excluded all foreign actors, involved though they may be in the economies under study, thus we ignored foreign bankers, investors, trade partners, experts, consultants, etc.

This article (1) sketches some components of the institutional conditions of the economic transformation and provides generic expectations concerning the overall effects of institutional changes on elite formation; (2) it formulates three individual-level hypotheses leading to empirical predictions concerning the formation of the new economic elites during the transition; and (3) examines the results of the survey by drafting a preliminary analysis of some of the most pertinent features of the recruitment of the economic elites in the three countries.

Institutional change

Economic elites are in constant flux in all societies. What makes the problem of economic elites in postcommunist societies a worthy object of special attention is the large-scale institutional transformations engineered from above to redesign these formerly state socialist economies, and creating, at least theoretically, the possibility of increased inflows to, and outflows from, elite positions. Because of some truly radical changes in the rules, one would expect an unusual amount of change in the ranks of those who occupy command posts in the economy.

The postcommunist governments have singled out the development of a private economy as the centerpiece of their programs for an institutional transition from state socialism. The wholesale transformation of the property structure is widely expected to contribute to reshuffling the economic elites. In our view, much of the specific expectations for elite circulation due to rapid privatization are exaggerated: At least so far, the transformation of the property structure of the economy has had much less impact on the composition of the new economic elite than expected. In the following section, we outline our argument to support this point. We also suggest two additional institutional processes – decentralization and a sectoral shift in the economy – that play an important role in shaping the new elites but often tend to be overlooked or underestimated.[2]

Emergence of a private sector: Patterns and constraints

In the transition from state socialism, a private sector can develop in two ways. First, the share of the private segment of the economy can be increased by transfers of state property into the hands of private individuals. For the sake of simplicity and brevity, we use the term "privatization"[3] to denote such transfers, irrespective of the details concerning the particular process through which private property ownership is created. If we compare the current transition from state socialism with the emergence of capitalism in earlier historical periods, we find that the postcommunist transition is unique because there exists a sizable stock of state-owned assets that are, at least theoretically, available for transfer into private hands. As that very change is the main pronounced policy goal of the new governments, the basic political conditions are extremely favorable for structural change.

The second way in which a private sector can develop is if new companies are founded from private domestic savings, via the importation of capital from abroad, or by way of exit from the hitherto hidden segment of the economy. Through such new private business development, the economy "grows itself out," as it were, from the numerical predominance of ownership by the state characteristic of state socialist economies. Henceforth, we shall distinguish between those two segments of the emerging private sector by (1) denoting the sum total of companies passed from state ownership into private hands as the "privatized sector," and (2) labeling all firms created originally as private enterprises and never in state ownership as the "private sector."

While the radical transformation of the inherited basic property structure of postcommunist economies has been formulated as one of the main mid-range economic policy objectives of all of the new governments, measures toward that objective have been introduced under severely constraining economic and social conditions that have an impact on the institutional nature of the outcomes. We enumerate those in the next few pages.

The historical pattern of the relative economic underdevelopment of all three economies manifests itself in the three countries' comparative disadvantages. A biting aspect of inherited East European backwardness is in the realm of the production and consumption infrastructure.[4] Bottlenecks in transport and communications facilities are capable of increasing transaction costs tremendously, making expected returns on investment (including, of course, investment in formerly state-owned assets) more tenuous.[5] In addition, widely-noted problems with the availability of economic information, attributable to a large degree to the previous centralization of the economy and the underdevelopment of the communications infrastructure, make economic calculation – a crucial component of property transformations – difficult. All of those obstacles work to slow down privatization and, hence, decelerate elite replacement.

Another widely noted characteristic of East European postcommunist economies is the obsoleteness of their capital stock.[6] Much of the industrial equipment reflects the high technologies of the 1950s to mid-1970s, i.e., it is outdated by at least one generation of technological invention.[7] The situation is similar in the extremely energy-wasteful and environmentally polluting agricultural sector, as well as in other extractive industries and in transportation. This technological gap became particularly damaging with the collapse of COMECON when these countries became exposed to more intense international competition. The relative outmodedness of the capital stock places a downward pressure on expected profitability – hardly a prescription for an investors' rally. Again, this points in the direction of less replacement of managerial elites.

Probably the most severe and most obvious obstacle to privatization in all Eastern Europe is an endemic, extreme shortage of investment capital, which makes it very difficult to privatize state property through sales at market price. The available liquid cash savings of the domestic populations mobilizable for investment in state assets dwarf in comparison to the amount necessary to cover purchases of state property slated for privatization. The severe external and internal debt burdens of the post-state-socialist states increased tremendously the hunger of the state budget for revenues. To make matters even more difficult, the Polish and the Russian economies arrived at the transition from state socialism burdened by a hyperinflation that thwarted the state's ability to stimulate privatization through subsidized investment loan programs for citizens.

The fiscal crisis of the postcommunist states produced a dual effect on elite replacement. First, it provided powerful incentives for the states for *some* kind of privatization process so that revenues can be increased and budgets can be balanced. On the other hand, the states clearly tended to favor privatization against cash, preferably at market price, which eliminated a large number of possible candidates for ownership.

The political drive toward privatization, which carries an ideological momentum of its own, coupled with the governments' need for increased revenues points toward foreign investment as a possible privatization strategy. Yet, this alternative, under constant attack from many political angles, has been further constrained by the current crisis of the world economy and western investors' lack of confidence due to the region's perceived instability and foreign indebtedness. Of the three countries, Hungary has received by far the largest proportion of direct foreign investment, but even there the relative importance of foreign ownership has remained small so far.

If domestic privatization cannot be conducted against past earnings, could it not be conducted against future earnings, by extending credit? This, again, runs into difficulties because the fiscal crisis of the post-state-socialist states restricts their ability to provide subsidized loans. Those would-be domestic investors who turn to commercial lenders also encounter severe difficulties. Due to the history of these economies, no individual or corporate actor has a credit history that could be used to establish creditworthiness. The banking sphere has thus precious little to go by when future entrepreneurial profitability needs to be assessed. This leads to two typical consequences. First, banks place overly strenuous requirements on applicants for commercial credits, frustrating private investment. Second, the extra danger of loan default drives up interest rates, which are already high due to high inflation. Both mechanisms thwart private investment and thus inhibit elite replacement.

Historically, the economies under study have been characterized by social-institutional developments that work to compensate for the weakness and unreliability of the flows of information.[8] Clearly, structures of informal social networks are important features of North American and West European contexts as well: The relatively higher degree of "informality-intensity" of East European postcommunist economies, however, makes informal social networks even more crucial factors in determining economic outcomes. Widespread, extremely sophisticated and discriminating systems of informal networks of actors crosscut the boundaries among formal economic institutions. As a result of this feature, the local knowledge and the social network assets of managers become exceptionally crucial components of the functioning of firms. Managers often use this knowledge and position to manipulate the availability, marketing, assessment, and sale price of the company that they are in charge of, and sometimes acquire it for a token sum in a management buy-out. Thus both the difficulties of information flows as well as the main way of getting around them impede elite change.

Adapting to these constraints on privatization, the solutions employed in the three economies can be best described as social-institutional inventions simulating the original accumulation of capital[9] to create new institutional and private owners. New institutional owners are created through complicated patterns of cross-ownership, whereby companies "buy" shares in other companies, usually by writing off debts or through assigning state property to municipalities, the social security system, or other organizations.

Domestic private owners are created mainly by giving away state assets or selling them at a symbolic price. The principle of the distribution of ownership titles varies: In voucher privatization, individuals receive investment shares on their rights as citizens, in Employee Stock Ownership Programs (ESOPs) or cooperatives as employees of the company, or in compensation schemes as previously disappropriated owners of capital. These principles can be combined as voucher privatization has been combined with the ESOP principle in Russia – where vouchers of company workers and management are given preference – or via the Hungarian examples of mixing elements of voucher privatization with compensation.

Both citizen vouchers and ESOPs create micro-investors who acquire only a right to income but no right to control in the privatized companies through their shares. Of the three countries, only Hungary adopted compensation as a partial means of privatization. Compensation, however, did not mean the full restoration of precommunist property relations but, rather, the distribution of investment coupons roughly proportionate to the original value of confiscated property at a deeply discounted rate.

Poor infrastructure, obsolete capital stock, low personal savings, shortage of investment capital, and the difficulties in obtaining credit have stunted the growth of the new private sector as much as they obstructed privatization of state companies. Although small private firms have mushroomed in all three countries, we find only a handful of large, privately founded companies thus far.

Effects of the emergence of a private sector on economic elites

The core of our argument is that there exists a systematic link between transformation patterns of economic institutions and patterns of elite formation in the economic sphere: The formation of the new economic elites takes place in the context of, and is to a large extent shaped by, the simulating social-institutional mechanisms of property change. This section outlines a generic logic of such connections.

The replacement of occupants of elite positions requires an overwhelming imbalance of power favoring actors other than incumbents. Short of generalized political violence – largely absent from the transition in the three societies so far – the replacement of the economic elites requires concerted action on the part of those actors who have legally protected power to achieve such results.[10] Postcommunist ideology de-legitimizes the state as a property owner, but the state is unable to transfer its property to other, real owners.[11] This leaves managers of state-owned enterprises in an advantageous position. Fortified by a virtual monopoly on all-important local economic and technological knowledge as well as valuable social-network assets, managers of state-owned firms have a potential to marshal a formidable amount of power in the transformation process, which they often convert into ownership rights through management buy-outs.[12]

It is on the basis of these considerations that the process of institutional transformation affects the outcomes of elite formation: The removal of current management and their replacement with new individuals requires action by actors with a sufficient amount of legally protected, concentrated proprietary power.[13] Given the large state-owned capital stock and the presence of the incumbent old economic elite, we conclude that only the combination of both components of that formula – *concentrated* forms of legally-protected *private ownership* (one that includes legal rights and an effective apparatus for substantive control, along with an opportunity to draw incomes) provides the social-structural conditions necessary for a potential replacement of the state-socialist economic elite.

Consequently, we expect the replacement of the "old" economic elites to take place in a postcommunist society only to the extent that (1) the new enterprises that emerge via (a) capital formation from private savings, (b) exit from the hidden and part-time segment of the previous second economy, or (c) foreign direct investment into new business, are able to reach sufficient economic prominence for their management to be considered part of the new economic elite; and (2) new owners with sufficiently concentrated packages of ownership appear and exercise their owners' rights to replace old management of previously state-owned assets. While our structural sociological approach may not give us precise predictions concerning the expected willingness of new propertied classes to replace old management,[14] it certainly provides us with ways of assessing the implications of the institutional patterns of the transition for elite replacement.

Our overview of the institutional conditions of the private sector in Hungary, Poland, and Russia suggests – in sharp contrast to expectations of rapid and fundamental structural and personnel change during the postcommunist transition – that:

1. None of the three economies exhibits a high potential for the replacement of the current elite with previous outsiders;
2. The reproduction of elites will be similarly high in the state and the privatized sectors;
3. The avenue most open to outsiders will be mainly restricted to the new private sector.

Decentralization and sectoral shift

Apart from the emerging privatized and private sectors, there are two other structural forces that play important roles in shaping the new economic elite: decentralization and sectoral shift. State-socialist economies have been widely noted for the extreme concentration of their economic organization – a relatively small number of internally highly differentiated enterprises seeking to achieve the highest level of autarky possible.[15] During the political transition – whose effects were exacerbated by pressures from the collapse of familiar export areas, outside competition, and the disappearance of state subsidies – these large state firms broke up into smaller parts, shedding their unprofitable operations. These break-ups were also necessary if the state was to sell the giant companies, because smaller parts are easier to sell in a capital-poor environment than the bigger whole. Some other break-ups served as the first step in complex schemes of managerial buyouts. Another process resulting in decentralization has to do with transfers of property management within the remaining state segment: Some of the previously centrally administered state property has been broken up into smaller parts and passed on to local governments.

The decentralization caused by break-ups facilitates elite change in two ways. The fragmentation of companies may dislodge managers from elite positions even if they keep their top positions in their companies by making the companies smaller and less important. On the other hand, break-ups tend to increase steeply the number of managerial positions in the resulting mid-sized companies. That process creates new opportunities for selected individuals to achieve elite positions by moving up on the corporate ladder in the most profitable companies.

The final factor we examine is a radical shift in the relative economic importance of the various branches of the economy taking place during the postcommunist transformation. State socialist economies had a highly unbalanced structure favoring (mainly heavy) industry and systematically slighting services and trade.[16] The freezing of this macrostructural feature made state-socialist economies less and less "in tune" with the direction of change taking place in the world economy and especially in the most developed countries of Europe since the early 1960s – the shift deemphasizing industrial production and accentuating services and flexible specialization in general. With consumer expectations for higher-quality services no less avid than in the West, and considering the increased exposure of formerly state-socialist economies to world-market competition in services, it is easily predictable that the transition from state socialism will create a general shift toward the services. The pace with which businesses rush to "correct" this structural legacy is accelerated by the fact that services and commerce are the least affected by the above structural constraints on the development of the private sector in general because they typically require less fixed investment.

In all three countries, the shift away from manufacturing and agriculture opens up avenues for successful business enterprises – catapulting their managers into new economic-elite positions. Being able to bypass the problems of capital and credit shortage while being somewhat less vulnerable to foreign competition, services and trade can be expected to be the fast lane for new domestic entrepreneurs.

In summary, we expect that the elite circulation that does occur is due mainly to:

(1) "Normal" replacement of retirees;
(2) The opening of new elite positions created by new private domestic or foreign business establishment;
(3) The economic success of some of the largest previously existing private enterprises, some of which originate from the hidden segment of the economy;
(4) The creation of new open "spaces" of managerial positions by decentralization;
(5) Finally, the replacement of old managerial elites by new owners of newly privatized companies is expected only in the very few cases when ownership is sufficiently concentrated – more an exception than the rule so far.

Individual trajectories

Having enumerated the structural forces and constraints influencing the *amount* of change in postcommunist business elites and outlining the most important marginal conditions for the formation of the new economic elites, we now turn to the individual "recruitment" process and develop three hypotheses aimed at explaining who – which actors, endowed with what kinds of assets – are the participants in whatever change does take place. These hypotheses focus on the emerging new business elite, regardless of how large or small it is during the first few years of the transition. Each highlights a different social process underlying the selection of the new entrepreneurs.

Political capitalism

The presence of the old nomenklatura in the new economic elite has been widely publicized.[17] To explain this phenomenon, Jadwiga Staniszkis[18] proposed the concept of political capitalism, which describes the various opportunities for the old political elite to convert their political might into economic power. She suggests that, during the early phases of the transition, the old political elite is able to use its political offices to manipulate rules and regulations to drive down the price of state property artificially, and then obtain it at steeply discounted prices because, due to the initial political vacuum as well as the lack of investment markets and shortages of capital, there is no competition that could challenge such practices.

In explaining the success of party functionaries in the private sector, Elemér Hankiss emphasizes the importance of family ties.[19] Top party people help their family members to launch a successful private enterprise. Once functionaries have to leave their political position, they are able to take over the family business. As a result, although the old elite as a political collectivity is doomed to lose its formal political power after the collapse of state socialism, they keep their economic influence as individuals and members of informal coalitions of actors.

Out of office, the ex-cadres can still make use of their insider knowledge and personal social network endowments as brokers among various key segments, institutions, and actors of the economy.[20] During the transition, the turmoil of institutional change amplifies the importance of these informal ties,[21] and special access to people and information allows them to prosper. Social capital gives old-regime cadres especially strong advantages in commerce, which is the most dynamic segment of the economy.

The theory of political capitalism is vague about the boundaries of the old political elite. In the narrowest sense, the old elite is defined as top party and state officials. A broader interpretation could include anyone holding any party function or even all party members. In its strongest form, this conjecture expects that the influx of the old party and state elite into the private and the privatized sector of the economy is greater than, or at least equal to, what it used to be under state socialism.

Given the different histories of the three countries, one would expect differences in the extent to which this proposition applies. The Russian political elite is expected to be in the best position to transform its political might into economic rights for two reasons: First, the process of political transformation was much more gradual and hence more ambiguous in Russia than in the other two countries: The Russian transition is dragging on and has not, as yet, created a clear political break. Second, the Soviet Communist Party had been the oldest such institution among the three countries, with the tightest grip on society.

Yet this hypothesis – developed in its original form about the Polish case – should be relevant for the other two countries as well: Both in Poland and in Hungary, the political exit from socialism happened through a negotiated process. Compromises with the old elite constituted a crucial element of such negotiations.[22]

Technocratic advance

This thesis observes that the post-war history of most East European countries suggests the gradual demotion of political loyalties as the main criterion of social advancement: Technical expertise became an increasingly important requirement for holding top positions. What compelled state-socialist societies to shift the criteria for social selection from political loyalties to expertise and knowledge was the increasing complexity of an industrial economy. By the end of the 1980s, the state-socialist political elite was split into two groups: an old guard, holding their positions to a large degree on the strength of their political loyalties, and a new guard, reaching their offices due to their technical skills and knowledge.[23] Under the more competitive conditions of economic reforms, expertise and cultural capital carry a greater return, and that propels educated people – especially those with expertise in technical fields – into top positions.[24] This concept argues that the postcommunist transition basically destroys the remaining power of the "old guard" and elevates at least some holders of technical expertise to new heights of economic power.

Expertise and knowledge will be the driving force behind recruitment into the private sector also because one possible way of dealing with pervasive capital shortage is by substituting cultural capital for financial capital. Starting a software company or a firm in architectural design requires relatively little initial capital investment but demands scarce knowledge acquired in years of training. This hypothesis sees professionalization and technicization as the twin master processes of economic elite recruitment and predicts that the new economic elite will be better-trained than the old and that, within the new elite, those in the private sector will be the best-trained of all.

Embourgeoisement

While state socialism formally endorsed both political loyalties and expertise as its main principle of stratification, private entrepreneurship received little official recognition. Nevertheless, all state-socialist regimes more or less tolerated at least a small private sector. This segment of state socialist economies came to be called the "second economy" and comprised all private economic activities, legal or otherwise, outside of the ownership and control structure of the socialist state.[25] The second economy soon became a major source of certain goods and many services, as well as income, as household plots provided large portions of produce, private fixers supplied many services, and individuals, their friends, and relatives together with private artisans made significant contributions to residential construction.[26] In all these countries, the second economy emerged primarily in the labor intensive sectors, using little or no capital and producing primarily for direct final consumption.

Of the three countries included in our study, the second economy proliferated furthest in Hungary, while its functioning was curtailed the most in Russia. Hungarian economic regulations decriminalized and even stimulated micro-plot household farming and supported private services in the less urbanized areas from as early as the early 1960s. Private home construction was openly encouraged from the mid-1960s, and new forms of private business partnerships were introduced in 1982. In Poland, a large portion of agriculture remained in private hands and the country had a sizable second economy in the non-agricultural branches of the economy as well.[27] After martial law terminated the Solidarity period in 1981, the Polish regime, unwilling to compromise politically and unable to reform its ailing economy, introduced measures to encourage private enterprise. It was in Russia that limited forms of private enterprise were legalized the latest. The law on private labor created legal protection for self-employment in 1987 and private partnerships (cooperatives) were allowed to be formed only from 1988 as part of Gorbachev's perestroika.

According to the embourgeoisement thesis, the second economy served as training ground for the new economic elite, providing experience in independent economic decision-making, the discipline of working under hard budget constraints and linking production with commerce.[28] In countries whose political leadership took a more open-minded approach to the second economy, people learned skills such as budgeting, writing, and honoring legal contracts, collective decision-making, and managing a few employees. It even allowed for limited private accumulation of capital.[29]

In the transition from state socialism, actors with previous experience in the second economy are likely to have begun their new economic life with a headstart, and to form a large segment of the new economic elite in the new private sector. Furthermore, the general trend of decentralization in the economy and the concomitant decrease in the size of the average firm makes it more likely that we find among the largest companies private domestic firms that grew in the second economy.

Those who participated in the second economy before the collapse of state socialism are expected to have an especially strong presence in Hungary[30] and the weakest in Russia,[31] reflecting the different levels of tolerance and support toward the private sector in those countries. The embourgeoisement thesis implied that continuing commercialization, which started under socialism and gains new impetus in the transition, was the key process of elite recruitment.

Summary of empirical predictions

Table 1 summarizes the logic of empirical predictions derived from our arguments so far. We distinguish between institutional and individual-level effects. Our institutional arguments predict the total amount of elite change and the pattern of elite recruitment across the three sectors of the economy. We examine the implications of our individual-level hypotheses in three sets of comparisons. (1) We compare the relative size of various component groups of the economic elites to each other to establish which is the dominant category of the new elite. (2) We contrast the composition of groups of the economic elite with population proportions to find out which groups are at an advantage in belonging to the new elite. And finally, (3) we juxtapose the proportion of certain elite segments in 1988 and 1993, to see how much elite recruitment has changed during the transition.

Constraints on the property transformation work to slow down elite change so that the empirical expectation is that rates of change will not be much higher than those during the last state socialist period. In contrast, both decentralization and sectoral shift are expected to result in more change in the economic elite.

Table 1. Logic of empirical predictions

	Total change	Recruitment patterns	
Institutional effects:			
– constraints	little change	privatized more similar to state than to private	
– decentralization	more change	privatized more similar to state than to private	
– sectoral shift	more change	private different from both privatized and state	
	Dominant group	Relative composition	Change
Individual effects:			
– political capital	Communist cadres	political capital overrepresented	no change or higher for political capital
– techno. advance	highly educated professionals	educational capital overrepresented	no change or higher for educational capital
– embourgeoisement	pre-transition entrepreneurs	2nd economy overrepresented	higher or same prop. for 2nd economy

The presence of severe constraints on the transition process implies that the new elites of the privatized sector will be more similar to incumbents of elite positions in the state-owned enterprises than to the private elites. The implications of the decentralization and sectoral shift arguments are similar.

The political-capital hypothesis suggests that Communist cadres will be the main source of inflows into the new elites. The theory of technocratic advance predicts that the dominant group of the new elite will be highly educated professionals. The embourgeoisement hypothesis implies that entrants into new elite positions will be recruited primarily from the ranks of pre-transition private entrepreneurs.

In terms of the comparison of relative composition, the three individual-level hypotheses suggest that their respective groups of social origin, i.e., those with political credentials, those with educational – and primarily those with technical – credentials, and those with experience in the second economy, will be overrepresented among the new economic elites. In terms of changes of elite replacement, each hypothesis expects an increase in the proportion of its designated group.

Data and method

As we are interested in not just what the new economic elite is like but also how the transition has changed the recruitment of the economic elite, we compare the new economic elite to the socialist economic elite. Our point of reference in the past is the business elite of 1988, the year before the collapse of state socialism in Eastern Europe.[32] We compare the different segments of the new economic elite, dividing them into chief executive officers of state, privatized, and privately founded companies.[33]

In our discussion, we keep our analysis simple and leave more complex, precise, but also more cumbersome multivariate models for later analysis. This, however, constrains our ability to evaluate the causal claims of these three theories and to weigh them against one another. While our discussion makes it sound as if the three theories posit three separate groups as the main beneficiaries of the economic transition, these three groups, although conceptually distinct, overlap to a large degree: Consider the technocrat who accumulated a great deal of political capital as a high party functionary along with his knowledge and expertise. If this ex-party-member technocrat moved into the new economic elite, we will be hard pressed to tell if this was due to his expertise or political connections. In this article we only look at simple trends and leave the more sophisticated analysis for the future.

Findings

To begin the discussion of our data we described our old and new business elite by their past occupation, age, and economic branch.[34] In all countries, the overwhelming majority of the economic elite came from either top or other managerial positions (see Table 2).

This is what one would expect in the absence of radical institutional change. This is a sign of surprising stability, despite the fact that at the individual level there is considerable mobility within the managerial stratum from below.

Once we compare the new state elites to the old ones, this within-stratum mobility is not exceptional in Russia, but we see an acceleration in Poland and Hungary where second-rank managers could move up more freely to top positions. This is not surprising given that these

Table 2. Occupational background of the old economic elite in 1983 and of segments of the new economic elite in 1988, column %

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	102	172	200	169	236	219	226	80	61	271	163	110
Occupational category:												
party-state elite	5.9	2.3	2.0	1.2	3.0	0.9	0.4	0.0	18.0	9.2	11.7	4.5
top mgr	43.1	29.1	33.0	21.9	73.7	42.0	56.2	46.3	50.8	59.0	36.2	25.5
other mgr	44.1	54.1	52.0	46.2	20.8	48.4	31.9	37.5	24.6	25.1	35.6	46.4
other	6.9	14.5	13.0	30.8	2.5	8.7	11.5	16.3	6.6	6.6	16.6	23.6
Chisq	10.4*				55.2***				4.2			
Chisq		23.7***				16.6*				58.6***		

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

two countries were further along in reforming their economies by 1993. Turning to segments of the new elites, one should note that patterns of managerial promotion are quite uniform in Hungary – about half of the new economic elite held "other" managerial positions five years earlier. In Poland, the proportion is similar for current managers of state-owned enterprises while significantly lower in the privatized and private segment. The largest percentage of those with top managerial background are in the privatized sector, just as in Hungary. In the Russian case, privatized and private companies offer more opportunities for lower managers than state companies do.

While most of the business elite in the privatized and private sectors came from the ranks of managers, there are also people who enter from the outside, either from "above" – from the party-state apparatus – or from "below" – from professional, other non-manual, or manual occupations. Under state socialism, the old business elite was more open to entry from above: There was frequent circulation between company management and the state and party bureaucracies. This phenomenon was most pronounced in Russia, where 18 percent of the 1988 elite had been in the state or the party bureaucracy five years earlier, and the least manifest in Poland, where this figure is only 3 percent.

The party elite lost much of its access to the top echelons of the economy in the transition. We still find that, in Russia, a sizable proportion of the new economic elite were apparatchiki five years earlier. There, the proportion of ex-party and ex-state bureaucrats is the largest in the privatized sector, while that figure is much smaller among today's private businessmen.

As expected, patterns of recruitment into the state and the privatized sector are very similar. We find that the privatized sector is not much more open to outsiders than the state sector, except in Russia.

In all three countries, the private sector is the most open to outsiders from below. In Russia, over 23.6 percent of the elite in the private sector came from outside and below.[35] The same figure is 16.3 percent in Poland and 30.8 percent in Hungary. Breaking in from above to the managerial elite was the easiest in Russia; breaking in from below was the easiest in Hungary. In all three countries, the private sector provided by far the greatest opportunity for outsiders from below.

The members of the new economic elite of all three countries, in all three sectors, are under 50 years old (Table 3). In 1988, the socialist economic elite in Hungary was less than a year older on average than in Russia and almost two years older than in Poland. By 1993, the new economic elite became younger in all three countries. This indicates that the turnover in the economic elite between 1988 and 1993 was greater than a smooth and even flow of demographic replacement would lead us to expect.

In both Russia and Hungary, managers of private companies are the youngest group followed by businessmen in the privatized sector – except for Poland where age differences are minuscule (and not significant). Table 3 also suggests that the real change in Poland happened between 1988 and 1992 across all sectors, while, in Russia, the age shift in the state sector was almost indiscernible, with considerably younger people emerging in the privatized and private sectors. The young age of Russian private entrepreneurs is especially striking: their average age is only 42.1 years (There is, however, considerable variation around this average figure.)

As Table 4 indicates, the shift from manufacturing and agriculture to trade and services creates a pattern of recruitment that confirms our expectations. The largest group in both the old and the new state sectors in all three countries are managers of industrial firms but their proportion decreases as we move toward the privatized and private segments.[36] In 1988, managers of service and trade companies made up only 20, 8, and 28 percent of the old Hungarian, Polish, and Russian economic elite, respectively. From these different baselines, the outcomes are also somewhat disparate. The percentage of service-oriented businessmen in the Hungarian state sector increases to one-third. Russia and Poland show a decrease when comparing the old and the new economic elites in the state sector in terms of the percentage of those involved in services.

The picture becomes more unambiguous when we observe proportions of those running service and trade companies in the privatized and new private sectors. In all three countries, the privatized and the new private sectors show spectacularly high figures for the involvement in service and trade. In Poland and Russia, the proportion of those in the service branches increases monotonically as we proceed from the state-owned sector through privatized establishments to privately founded companies. Industrial company managers constitute only four-tenths of

Table 3. Average age of the old economic elite in 1988 and of segments of the new economic elite in 1993

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	102	172	200	169	236	219	226	80	61	271	163	110
mean age	52.2	49.5	48.5	45.8	50.5	47.5	47.8	46.8	51.5	49.4	44.4	42.1
s.d. age	6.9	6.3	7.1	7.2	7.3	7.8	7.8	8.9	7.2	8.0	9.7	10.4
F	11.2***				18.2***				3.5			
F		13.0***				0.5				32.2***		

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

Table 4. Sectoral shift between the old economic elite (1988) and segments of the new economic elite (1993), column %

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	99	172	199	169	236	219	226	80	61	272	163	110
Sector:												
agri	4.0	15.7	19.6	5.3	3.0	1.4	5.8	2.5	0.0	3.3	2.5	5.5
industry	74.7	51.2	49.2	41.4	86.9	92.2	75.7	63.8	50.8	73.8	38.5	30.0
service-trade	20.2	33.1	31.2	53.3	8.1	6.4	18.6	33.8	27.9	18.8	55.2	61.8
military/public admin/ other	1.0	0.0	0.0	0.0	2.1	0.0	0.0	0.0	21.3	4.1	4.3	2.7
Chisq	18.7***				6.8				28.3***			
Chisq[a]		29.5***				43.3***				95.9***		

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

[a] For the Hungarian and Polish cases, the d.f. = 4.

the Hungarian private-sector elites (in contrast to 50 percent among those in the state sector). Poland and Russia show even more dramatic decreases in the relative importance of industry in terms of elite membership (a difference of 64 vs. 92 percent and 30 vs. 74 percent respectively). In contrast, the proportion of those involved in service activities among businessmen running privately-founded companies climbs as high as 53 percent in Hungary, 34 percent in Poland, and 62 percent in Russia.

These results suggest that the shift among the branches of the economy is indeed a major contributor to elite circulation during the post-communist transformation. As one would expect in terms of a quick catching-up scenario, and considering the low capital needs of much of the service activities and the extreme capital intensity of industrial technology, industrial elites are rapidly losing ground, giving way to service and trade elites.[37]

Political capitalism

We have seen in Table 2 that party and state bureaucrats are losing ground, even if this exclusive group is still overrepresented in the new economic elite considering their proportion in the general population. To probe further the political capitalism argument we have created two indicators of political capital (see Table 5). Both divide the sample into two groups. The first one employs a more restrictive definition of the old political elite. It contains party functionaries and party members in top state positions in 1988. The second broadens the definition of the political elite because it separates those who were party members in 1988 from those who were not.

In Poland and Hungary, ex-party functionaries make up about one-third of the new economic elite. This percentage is much higher in Russia. However, ex-party functionaries are clearly overrepresented in all three countries. Nevertheless, their proportion dropped significantly in the state sector between 1988 and 1993. Their proportion is the lowest in the private sector.

We find a similar story when we look at ex-party-members. Party members are vastly overrepresented in all three countries. In Hungary, ex-party-members are the most likely to be found in the privatized sector. In general, it is in the elite of the new private sector where one finds the fewest people with political capital.

Table 5. "Political capital" of the old economic elite (1988) and of segments of the new economic elite (1993), percent functionary and CP member in 1988

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	102	172	200	169	236	219	226	80	61	271	163	110
Functionary	49.0	30.8	35.0	17.2	78.8	32.9	40.3	22.5	85.2	67.2	46.6	27.3
Chisq	9.0**				97.6***				7.8**			
Chisq			15.4***				8.7*				53.7***	
n =	101	170	199	169	234	216	226	78	61	271	162	108
CP Member in 1988	73.3	65.3	67.3	43.8	81.2	47.2	52.7	34.6	96.7	83.0	69.8	47.2
Chisq	1.9				56.9				7.6**			
Chisq			24.7***				7.6*				49.5***	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

Technocratic advance

Our indicators of technical expertise are holding a tertiary degree, and educational specialization in technical fields (see Table 6). In terms of educational attainment, the new elite is highly educated: It is clearly difficult to make it to the top without a tertiary degree. However, the privatized and the private sectors seem to be somewhat less demanding in terms of educational credentials. Those in charge of privatized firms in Poland have the lowest attainment.

The majority of both the old and the new economic elites have degrees in technical fields. In Hungary and Poland, we see little change over time. In Russia, there is a marked, and statistically significant, drop in the proportion of those with technical degrees between the old and new state elites. Both in Poland and Hungary, individuals with technical training are the least likely to be found in the private-sector elite. Those differences, however, are not significant statistically.

Embourgeoisement

To capture participation in the second economy under state socialism, we created a variable that indicates if the respondent was either full-time self-employed or had a part-time private business in 1988 (see Table 7). By focusing on the entrepreneurial segment, this classification does not take into account a large part of the second economy, excluding such private economic activities as moonlighting or part-time household farming. This measure, thus, underestimates the effects of pre-transition involvement in the second economy.

In none of the three countries do people with entrepreneurial experience in the second economy under socialism make up more than one-third of the new economic elite. In other words, the large majority of the new economic elites had no private business in 1988. As we expected, it is the Hungarian business elite where we find the highest proportion of people with private business experience under socialism. Surprisingly, however, Hungary is followed not by Poland – as we expected – but by Russia. That is consistent with our earlier finding that the Russian private and privatized sectors are more open from below than their Polish counterpart. Yet, given the short history of a legalized second economy in Russia, we find this result rather puzzling.

Table 6. Percent with tertiary education and type of degree in the old economic elite (1988) and of segments of the new economic elite (1993), column %

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	102	172	199	169	236	219	226	80	61	271	163	110
% Tertiary	99.0	96.5	91.5	91.1	95.3	97.7	77.4	87.5	98.4	95.9	97.5	96.4
Chisq	1.6				1.9				0.8			
Chisq			4.9				41.6***				0.8	
n =	102	172	200	169	236	219	226	80	61	271	163	110
% Technical degree:	60.8	66.9	67.0	58.0	67.4	66.7	58.8	57.5	95.1	79.0	62.6	67.3
Chisq	1.0				0.03				8.7**			
Chisq			4.0				3.7				14.8***	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

Table 7. Percent who participated in the second economy – The old economic elite (1988) and segments of the new economic elite (1988)

	Hungary				Poland				Russia			
	old	st	pd	pt	old	st	pd	pt	old	st	pd	pt
n =	102	172	200	169	236	219	226	80	61	271	163	110
% entrepreneurs in 2nd economy	17.6	15.1	17.5	31.4	3.4	1.8	4.9	22.5	0.0	4.1	14.7	20.0
Chisq	0.3				1.1				2.6			
Chisq			16.0***				43.9***				25.7***	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
old: old economic elite;
st: new economic elite in the state sector;
pd: new economic elite in privatized firms;
pt: new economic elite in privately founded firms.

Consistent in all three countries is the pattern that those who were entrepreneurs in 1988 are most likely to be found in the private sector. In Poland and Hungary, their proportion in the privatized sector is virtually the same as their proportion among the old economic elite.

Conclusion

The institutional and structural transformations of the transition from state socialism created only a moderate amount of economic-elite circulation in the three countries. Most of the new members of the economic elite came from the second ranks of enterprise management. The privatized segment of the private sector proves to be quite similar to the state sector in all three countries. Privatization has not created a serious momentum for elite change. Most of the new people and the new kinds of people are in the private sector.

In all three countries, the typical member of the new economic elite is similar to that of the old one. He is a well-educated professional with managerial background who was a communist party member but not a party functionary.

All three individual-level theories are consistent with our empirical findings to the extent that they point to the disproportonate presence of certain groups in the new economic elite. Indeed, people with previous political capital, technocratic credentials, and pre-transition business experience are overrepresented. Yet, if we look at change over time and compare the different segments of the economy, we find that the importance of the first two – political capital and technocratic credentials – is not increasing or even decreasing as we move from 1988 to 1993, and as we compare the state and privatized sector of the present to the new private sector. Old political capital and technocratic credentials are clearly assets, but less so than they used to be. On the other hand, the transition has increased the importance of past private business experience as a determinant of membership in the economic elites.

The finding that the economic elite is more stable than the political, at least in the short run, is not surprising. The revolutions of 1989 were political revolutions, aimed directly at changing the institutional character of the political sphere and removing the old political leadership. In the economy, however, elite change was, at best, only a tertiary objective, lagging behind the primary aim – to reverse the trend of these countries quickly falling behind the developed part of the world – and the secondary one positing privatization. Even if elite replacement had been a primary aim of the transition, it would have been extremely difficult to attain due to the structural constraints outlined above.

While in politics the removal of members of the old elite could be achieved by such direct methods as elections and subsequently by dismissing incumbents from political positions, the direct changes in the economic elite would have been more difficult to carry out. Even in the state sector, where at least in theory the new political leadership could fire company managers, the local knowledge and networks of directors make this very difficult. Replacement of the economic elite thus proceeds much slower, mostly as an unintended consequence of other changes.

Notes

1. The authors evenly share input into, and responsibility for, this article and their names are ordered alphabetically. This article could not have been written without Gil Eyal's, Éva Fodor's, and Eric Hanley's heroic efforts at cleaning, archiving, and endlessly rearranging this survey's data. We appreciate input at various points by Gil Eyal, Éva Fodor, Eric Hanley, Imre Kovách, Jarek Pawlak, Caleb Southworth, Iván Szelényi, Szonja Szelényi, Jacek Wasilewski, Edmund Wnuk-Lipiński, and Natasha Yershova, as well as preliminary data analysis and other research assistance by Caleb Southworth. The latter work was made possible by a small grant from the Center for European and German Studies at the University of California, Berkeley. The authors also gratefully acknowledge support by the Institute for Political Science of the Hungarian Academy of Science. Computing resources have been provided by the Irvine and San Diego campuses of the University of California.
2. We fully appreciate the contested nature of institutional change and recognize that political, ideological, and cultural factors do play an important part in social action, especially in such momentous times as the large-scale political transition from state socialism. The space and scope of our analysis, however, does not allow us to account systematically for those factors, and we are hence forced to treat institutional conditions as conceptually relatively independent. Moreover, we feel suspicious about explanations that posit direct and simple linkages among social structural outcomes and structures of interest, ideologies, cultural representations, and political action, each of which is in constant flux during the transition.
3. It is important to point out that much of the property transformation that has taken place in postcommunist Eastern Europe does not qualify for the term "privatization" as it either does not result in full property rights (i.e., not full, legally-protected formal ownership but only various elements of substantial control are transferred to

individuals) or the beneficiaries are not individuals (as in transfers of property owned by the central state to the local governments or to the major churches, etc.). Furthermore, a stricter definition of privatization would require that state-owned assets be transferred to private individuals at purchase prices negotiated through a market mechanism (which is clearly not the case in the dictated-subsidized price arrangements in coupon privatization and employee stock ownership programs or in the case of partial compensation programs).

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9. This is outlined in more detail in József Böröcz, "Simulating the great transformation: Property change under prolonged informality in Hungary," *Archives européennes de sociologie* 34/1 (May 1993): 81–107.
10. Confiscation drives introduced by the Communist governments during the transition to state socialism exemplify such processes.
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12. David Stark, "Privatization in Hungary: From plan to market or from plan to clan?" *East European Politics and Societies* 4 (1990): 351–392, 362–366; László Csaba, "After the shock: Some lessons from transition policies in Eastern Europe," in László Somogyi, editor, *The Political Economy of the Transition Process in Eastern Europe* (Brookfield, Va.: Edward Elgar, 1993).
13. Our argument does not imply that concentrated private ownership necessarily results in change in management. New owners may or may not replace old management, and it is also possible that old managers are able to acquire concentrated ownership by which they are able to preserve and solidify their old position.
14. Preliminary evidence from Hungary suggests that elite replacement may not be automatic even in such cases: At least some current managerial groups are known to have been able to promise successful application of their expertise in the service of the new owners.
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25. Ákos Róna-Tas, *The Social Origins of the End of Socialism: The Second Economy in Hungary* (unpublished dissertation, University of Michigan, Ann Arbor, 1990), 18–40; József Böröcz, "Informality and the second economy in East-Central Europe," 215–244 in Gregory K. Schoepfle and Jorge Pérez-López, editors, *Work Without Protections: Case Studies of the Informal Sector in Developing Countries* (Washington, D.C.: U.S. Department of Labor Bureau of International Labor Affairs, 1993), 215–217.
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29. For an opposing point of view see: Mihály Laky, "The chances of the acceleration of transition: The case of Hungarian privatization," *East European Politics and Societies* 7/3 (1993): 440–452. This article argues that the second economy is an obstacle to the development of a private economy.
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32. The old economic elite was selected from the nomenklatura sample, so that its selection criterion was not the same as for the new business elite. The two different selection principles – nomenklatura position and value of total sales – were necessary if our sampling design was to reflect the fundamental shift in the nature of economic power during the transition.
33. The three sectors – the ones we call state-owned, privatized, and private – are not separable mechanically, as privately founded companies often purchase bits and pieces of equipment, materials, etc., of previously state-owned firms.
34. Both the new and the old economic elites are predominantly male. In terms of gender relations, the transition from state socialism brought little change, with the possible exception of the privatized and private sectors in Poland.
35. Most of the new arrivals are professionals.
36. In the Russian state sector, the proportion of industrial firms seems to have increased – much of this is likely due to the fact that military factories were classified as such in 1988 and became categorized as industrial firms by 1993, reflecting a real move away from military production.
37. It is also fascinating to notice the increase in the relative weight of agricultural businessmen among the Hungarian economic elites. This is in marked contradiction to observed trends in drops in agricultural output and in the number of those employed in agriculture.