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Between the Market and the State:
Middle Class Clientelism in Central and Eastern Europe

by

Michael Westberg

Under the Direction of Charles Hankla, PhD

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of

Doctor of Philosophy

in the College of Arts and Sciences

Georgia State University

2022

ABSTRACT

In Central and Eastern Europe, wealth is on the rise, but democracy is in decline. Populist parties assail the foundations of constitutional rule of law and enhance their networks of patronage and clientelism to gain greater support with the electorate. Yet, it is little understood as to why citizens vote for illiberal parties in the region. This paper seeks to address this ongoing phenomenon by exploring voter support for clientelistic behavior by the middle classes of Russia, Poland, and Estonia. I develop and test a theory of “middle class clientelism” which seeks to explain under what conditions more wealthier voters become a cost-effective target for vote buying, patronage, and particularistic goods. The literature on clientelism has been fairly consistent in explaining that middle class voters are too cost prohibitive for parties and elites to clientelize because they have better access to personal wealth and employment opportunities. However, I determine two critical variables that can account for this occurrence. These are the levels of state management of the economy and vulnerabilities within the middle class that has been induced by years of financial crisis in Central and Eastern Europe. This type of clientelism is damaging for democratic outcomes because it allows parties to participate in state capture and fuse themselves into the state without responsive democratic pressure in response from the middle.

INDEX WORDS: Institutions, Eastern Europe, Former Soviet Union, Russia, Poland, Estonia, Varieties of Capitalism, Developing Economies, Clientelism, Democratic Backsliding

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2022

Between the Market and the State:
Middle Class Clientelism in Central and Eastern Europe

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May 2022

DEDICATION

I'd like to dedicate this work to all of my friends, family, and colleagues without whom this work could never have been completed. And to the professors who dedicated their time in helping me to craft a two year long project into a productive dissertation.

ACKNOWLEDGEMENTS

I would like to thank Charles Hankla for his time and insight with this work. He helped me pull the important concepts of this work out and reconstruct them in more articulate fashion. Additionally, much gratitude and thanks go to Andrew Wedeman and Jelena Subotic who helped me shape this project over the years. I would also like to thank Russell Luke whose assistance with the statistical analysis helped improve this paper greatly. Blake Morley for the patience of letting me bounce ideas off of him, no matter how hair brained. Finally, I would like to thank my friends in Eastern Europe who helped me conduct this research. Even if it was just a place to stay, this project would not have been the same without their assistance.

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PREFACE

Why is democracy in decline? The ongoing phenomenon has affected just about every corner of the globe and yet its causes are unknown. In this dissertation I was motivated to seek out the relationship of democratic decline and apply it to Eastern Europe. There are methodological reasons for using this region, but my motivations were also out of curiosity and passion for these countries. It is for these reasons I applied my energies to understanding what is occurring in Central and Eastern Europe with the intention of applying these lessons more broadly.

The post-Soviet world is sadly much overlooked in comparative politics. Most universities had dedicated faculty to the study of the Soviet Union, but the collapse of its empire changed all that. Researchers turned their attention to China, and other developing countries. While these other countries are worth studying and analyzing, this left a whole in the research that very few scholars, in the United States at least, have been interested in filling. My dissertation is focused on mending these gaps. I dedicated several years of intensive Russian language study with the hopes of conducting in-country research to utilize compelling evidence for this dissertation. While Covid-19 prevented this goal, I was able to conduct research in the countries of Estonia and Poland which greatly benefitted this dissertation.

The conclusion I came to regarding this dissertation's question was that political elites in these countries were using clientelism to their advantage. The research regarding state capture by elites and parties is fairly extensive but a missing component was who they were targeting. In this case, I argue that parties are targeting the middle class for patronage and clientelism. My first inklings of how populist and autocratic leaders can target middle income families came from after reading Bryn Rosenfeld's *The Autocratic Middle Class* (2021). His work illuminated the

potential connections that compelled me to investigate further. Further research uncovered a compelling connection between a party's policies, middle income households, and democracy quality.

However, the availability of a middle class does not necessitate that they would then want patronage. Indeed, the theories around state capture and clientelism argue to the counter. Recent events after the Financial Crash of 2008 changes the calculus though. The middle class is in decline, or at least elements of itself are. This shaky ground creates vulnerabilities, which I argue acts as the demand side this clientelistic relationship. Vulnerabilities in the middle class hardens dependence on patronage and corruption, secures loyalties, and ensures elections can be purchased by redistributing rents and goods to these constituencies.

There was still a missing component from this argument that required further investigation. How could middle income households be bought off given they are typically too expensive to do so? My research led me to the Varieties of Capitalism literature developed by Soskice and Hall (2001) but was further expanded to include more developmental types of capitalism. My conclusion was that state capitalism, that is to say how leaders use the state's access to resources, has given parties and rulers an advantage for clientelizing the middle class. This provides the supply aspect of the argument and ensures that clientelistic elites have enough resources to offer their constituencies.

The formula for this paper was set and I began applying the argument to several cases. The use of in-country investigation, interviews, and data from the World and European Values Surveys provided me the methodological tools to apply my argument and examine the results. Those results were both compelling for their support of the argument and illuminating as to what this argument could provide when applied more broadly. I am enthusiastic to see what more can

be explored by applying an economic understanding to clientelism and observing how parties and elites target constituencies in exchange for political and electoral support.

1. INTRODUCTION

“We have fewer democracies in the world today than we did 15 years ago. Fewer, not more. Fewer!” President Joseph Biden said as he banged his hand on the podium in October of 2021 (Samuels and Gangitano 2021). The president of the United States was addressing a crowd at the dedication ceremony for the new Dodd Center for Human Rights at the University of Connecticut when he made this ominous claim. His words were quite relevant given the current condition of global democracy. The quality and quantity of democracies has been on the wane these past ten years. No more so is this more apparent than in the countries of Central and Eastern Europe (CEE) which have experienced the consequences of democratic decline. The institutions that support democracy have been eroded by the insertion of populist and nationalist politics. More troubling is the dearth of systematic, scholarly investigations to better understand what is occurring.

Democratic backsliding has occurred in tandem with a sharp rise in populist parties who have emerged to capture large swaths of disaffected voters who do so by orienting themselves towards the political extremes (Spruyt, Keppens, and van Droogenbroeck 2016). Comparative and democrat scholars first started to note the rise of illiberal parties in CEE countries since the 2000s (Greskovits 2007; Mesežnikov, Gyárfášová, and Smilov 2008). According to Fukuyama (2015, 16), “The legitimacy of many democracies around the world depends less on deepening their democratic institutions than on their ability to provide high quality governance.” If this is the case, democracies may be turning ever more towards autocratic politics as a function of stability and economic security rather than to maintain competitive electoral politics. This is a problem which may lead to further democratic unravelling as once secured democracies reorient their constitutions and laws towards one party dominance. Such an occurrence is not beyond the

imagination. As Anne Applebaum (2018) portentously writes, “Given the right conditions, any society can turn against democracy. Indeed, if history is anything to go by, all societies probably will.”

These kinds of crises are not unknown to Europe. The early 20th Century spelled the doom of many early European democracies as they fell towards fascism and communism. A momentous event that occurred in a time of extreme privation, depression, war, and economic frailty. This is not the case for 21st century Europe. The recent growth of illiberal trends in Central and Eastern Europe has come at a time when domestic wealth has dramatically increased, and consumer indexes have soared. This elucidates a pertinent question regarding democracy’s future. Why have these illiberal tensions occurred in the wake of increased wealth and purchasing power in Eastern Europe?

The deterioration of democracy in CEE has led me to estimate the presence of three main types of democracies in Central and Eastern Europe: *constrained democracies*, *retrograde democracies*, and *democracies*. In other words, countries where democracy has yet to be achieved, where democracy is in decline, and where democracy has been achieved and is stable. What are the causal mechanisms that lead to these varied democratic outcomes? As most CEE governments attain their legitimacy from popular consent, even in autocratically leaning ones like Russia, questions linger as to why populations give their electoral support to parties who formulate these policies. Further investigation reveals that as democracy erodes, problematic relationships tend to form between the polity and their representatives.

Some formulations of these corrupt interactions between voter and politician have been described as clientelistic and patronal (Rosenfeld 2021). That is to say, state resources are exchanged with voters for continuous loyalty and support. However, a theoretical gap remains as

to when populations in CEE countries are cost effective participants that parties can buy them off with clientelism, and personalistic patronage? These corrupt practices ultimately lead to democratic erosion and state capture, a phenomenon by which elites go about “manipulating policy formation and even shaping the emerging rules of the game to their own, very substantial advantage” (Hellman and Kaufmann 2001). Elites can, when the right variables align, absorb huge swaths of the state and its institutions, bureaucracies, and resources in order to corruptly engineer them to best sustain their own political dominance. Elite authority varies in degrees from fully entrenched and clientelistic all the way to competitive politics with low levels of patronage and abuse. In this dissertation, I attempt to unravel the connections that determines this variation in Central and Eastern Europe.

1.1. The Problem in the Middle

Throughout his many successful campaigns to become President of Russia (1999, 2004, 2012 and 2018), Vladimir Putin has made a wide range of overtures for needed economic, social, and political reform. Commentators have noted that many of these promises are oriented at elevating and growing Russia’s middle class citizens. Such goals included provisions and promises to increase wages, access to consumer goods, and government services (Belton 2012; Goodman 2018; LLoyd 2018). Whatever the case may be regarding the legitimacy of those promises or the electoral process in Russia, observers cannot disregard Putin’s rhetorical interest in bettering the lives of Russians as emblematic of his campaigns promises (Bremmer 2018; Bushuev 2019). And for obvious reasons, too. Following his election in 1999, the economic disposition of Russia’s citizens had increased dramatically. The average citizen’s purchasing power per capita went from \$5500 (1998) to \$20,000 (2008) in the span of ten years (World Bank 2022). As a

result, Putin has increasingly targeted economic prosperity during his 2012 and 2018 electoral bids at middle income Russians particularly.

During his 2012 electoral campaign, Putin promised that “The average salary in the economy will grow in real terms by 1.6 to 1.7 times to almost 40 thousand rubles in 2011 prices....” (Korval 2018).¹ There were reasons to expect that such promises could be delivered as worker’s incomes climbed in Russia along with rising global energy prices (Myant and Drahokoupil 2012). Yet, such promises revealed a counter intuitive logic. A stronger and economically more influential middle class in Russia has the potential to drive future democratization in a country that has yet to fully democratize (Evans 2011; Gozman 2021; Robertson 2009). By promoting the wellbeing and entrenchment of middle class interests, President Putin may be undermining his own political authority. At least, theoretically. The growth of middle class interests is often theorized to be the preamble of successful democratization and necessary for the opposition to dictatorial authority (S. M. Lipset 1959).

While many democratic observers were hopeful that Russia’s speedy and chaotic transition from one-party communist control towards electoral politics would lead to sustainable democratization, Russia emerged from its reforms less as a democracy and more as a mixed, hybridization of autocracy with electoral institutions. Such regimes have been distinguished by their stability and their balance of elections with autocratic governance (Diamond and Plattner 2002; Marina Ottaway 2003). Mixed regimes have confounded academics who study democratization, and the typology has spurred debate as to whether they are a form of transitory regime or a final destination within a corrupted democratization process (Gandhi and Lust-Okar 2009; Gandhi and Przeworski 2007; Lührmann and Lindberg 2019). As noted by O’Donnell and

¹ Putin’s direct quote in Russian was: <<Средняя заработная плата по экономике вырастет в реальном выражении в 1,6-1,7 раза, почти до 40 тысяч рублей в ценах 2011 года.>> (Korval 2018).

Schmitter (1986, 3), the process of democratization has the potential to become “an uncertain ‘something else’... a new, and possibly more severe, form of authoritarian rule.” Yet there remains a future potential for further transition.

So then, should Putin be worried about pressure from below for regime change, specifically from Russia’s middle class? Despite rising income statuses amongst Russian citizens, democratization scholars remain skeptical that any transition will happen soon. Obstacles such as corruption, societal forces, and power politics ensnared by political elites known as *siloviki* are all cited as likely culprits (Dawisha 2014; Ledeneva 2013; Vasileva-Dienes 2019).² Other scholars have shown increasing skepticism towards a governmentally dependent middle class whose interests lie in perpetuating the regime rather than working against it which has promoted an ‘autocratic middle class’ (Gontmakher and Ross 2015; Rosenfeld 2021).

It is estimated that some 59% of middle class Russian’s are employed by the Russian government, and this same group will often profess electoral preferences towards the regime which guarantees their employment (Rosenfeld 2021, 11). Strong ties between narrow, prosperous sectors of the economy and middle income employment opportunities have served to reinforce the bonds between client-patron relationships and patrimonial politics in Russia (Becker and Vasileva 2017). As a result, Russia, at all levels of society, relies heavily on informal networks and obscure principal-agent relationships that heighten the citizenry’s dependence on these governmental structures (Vasileva-Dienes 2019).

² *Siloviki* is a term that roughly translates to “strongmen” in Russian. In Russian politics, the term is widely used by academics to describe the political processes that personalistically ensnare much of Russian social, economic, and political life (Dawisha 2014).

1.1.1. *Russia is Not Unique*

The trend between an increasingly wealthy middle classes not buttressing democratic expectation is not unique to Russia. Rising incomes across Central and Eastern Europe have had contradictory effects on democratic attitudes, as well. Anti-democratic policies and sentiments have become increasingly common amongst post-communist countries. Even those that have experienced a longer democratic transition and consolidation period are not immune to this backsliding (Kubas 2020). Countries like Poland and Hungary have experienced these trends but they are not alone in this regard.

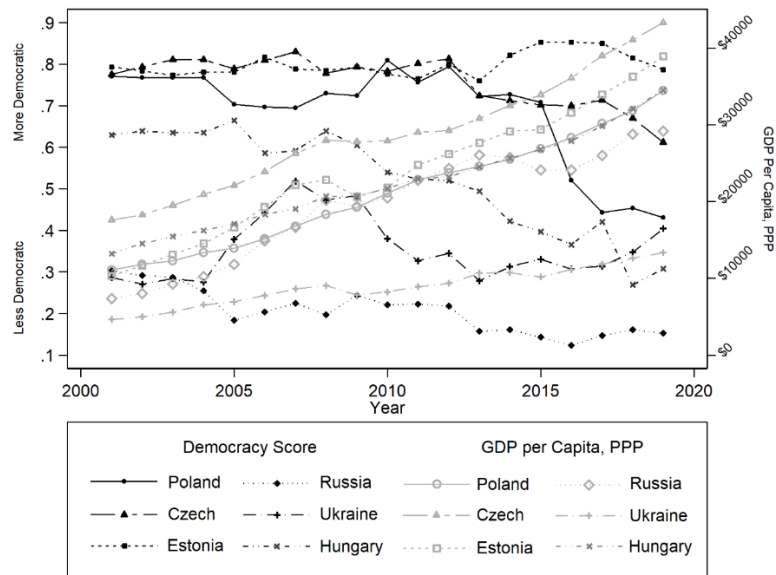


Figure 1-1 GDP Per Capita PPP and Democratic Attitudes for CEE Countries³

Figure 1-1 demonstrates the inverted trend between growing wealth and declining democracy scores amongst a selection of Central and Eastern European (CEE) countries. The left axis indicates their deliberative democracy score since 2000 from the *Varieties of Democracy*

³ GDP per Capita using PPP US dollars in 2021 with data provided by World Bank. Democracy scores provided by Varieties of Democracy dataset.

dataset.⁴ The darker lines show a strong downward trend in deliberative democracy scores for democratic Hungary and Poland. Other countries remain relatively low while some have continued to maintain high scores throughout the past two decades. The grayed-out lines trace GDP per capita data using purchasing power parity. PPP per capita is a useful economic tool that captures improvements and deteriorations to economic conditions in a country relative to the population. Interestingly, these trend lines are universally sloped upwards which indicates growing economic prosperity within these countries. This presents an interesting, if not concerning puzzle. Democracy, both occurrence and quality are not responding to widespread wealth accumulation and prosperity. Democracy, especially liberal democracy, has become a weaker feature in Central and Eastern Europe (CEE) in spite of growth.

Shifts in attitudes by political leadership are most apparent in these faltering democracies. Populist parties and charismatic leaders have grown more reliant on illiberal rhetoric and investing in political reforms that only further undermine democratic stability. One supposed populist leader, Victor Orban, Hungary's Prime Minister since 2010, delivered a controversial speech in which he criticized the future of liberal governments when he declared, "...societies founded upon the principle of the liberal way to organize a state will not be able to sustain their world-competitiveness in the following years..." (Toth 2014). Accordingly, Hungarian policy has been increasingly oriented towards emulating Putin's illiberal Russia rather than liberal European Union leadership. Hungary's democracy scores reflect this trend. Furthermore, many policies in CEE countries have been aimed at regenerating the position of the state and increasing government's control over the levers of the economy (Jasiecki 2017). For instance,

⁴ Deliberative democracy score measures the likelihood that decision making processes are deliberated in a manner "in which public reasoning focused on the public good motivates political decisions" see QoG Codebook 2021 (Teorell 2022).

Poland's ruling Law and Justice Party (PiS) has been increasingly enamored by Orban's consolidation of economic and political power in Hungary. Jaroslaw Kaczynski stated in 2011, that he was "deeply convinced that the day will come when we will have Budapest in Warsaw" (The First News 2018).

The growth of economic prosperity of in CEE countries has not secured democracy in the region. This is a result that confounds previous scholarship that has estimated otherwise (Åslund 2006; Mucha 2007). Even among middle class groups who are often perceived as pro-democrat, for a variety of economic and structural reasons, there have been measurable declinations in pro-democratic outcomes. This requires a new program of scholarship that tempers older expectations within a new framework. One that highlights the growing dissatisfaction in the professional labor classes and their preferences for challenging or maintaining their socio-political status quo (Cianetti, Dawson, and Hanley 2018; Rosenfeld 2021).

The works by Hellman and Kaufman (2001) and Grzymala-Busse (2008) help shed light on the issue that confronts this dissertation. These authors have emphasized a phenomenon known as state capture by elites and incumbents. This is a clientelistic method by which elites and parties within a country may seek to exploit their own political institutions in order to further dominate it. State capture was initially regarded as a method of outsider elites shaping policy and institutions within the government for their own uses and gains (Hellman and Kaufmann 2001) However, in this dissertation I lean heavily on Grzymala-Busse's (2008, 640) conceptualization of *incumbent* state capture whereby political elites attempt to fuse their political party or organization to the state in order to gain additional autonomy and resources in a process known as state-party fusion. This should be thought of as state capture from within and that the

methodologies used by incumbent leaders to undertake this process are unique from oligarchic state capture.

Democracy's remission in Central and Eastern Europe can't alone be placed at the foot of state capture as it fails to explain democratic outcomes in response to voter preference. "State seizure does not simply corrode the state" (Grzymala-Busse 2008, 639). Parties and elites may use corrupt procedures, such as clientelism and patronage, to bolster their political chances, but these methods require a functioning society to operate within. Hardin (Hardin 2009, 247) very poignantly points out this fact, "even a devoted criminal must prefer a society that is well enough organized to produce enough to steal." Once parties are in position to do so, they can then initiate clientelistic relationships with constituent groups in their society to maintain that power.

1.2. A New Theory of Clientelism and the Goals of this Dissertation

This dissertation seeks to answer the questions: can the middle class be bought off by clientelism and what affect does that have on democracy in Central and Eastern Europe? The theory presented here argues that the middle class can engage in clientelism and that it leads to constrained, eroded, and nominal democratic outcomes in Central and Eastern Europe. This research led me to conclude that each of these outcomes indicate the presence of various levels of incumbent state capture as a result of middle class clientelism where state management of the economy precedes vulnerable constituencies. Throughout this dissertation, I find both qualitative and quantitative evidence to support this contention by showing that clientelistic linkages are stronger with the middle class in states with the worse democracy scores.

Clientelism often targets the vulnerable of society as a means of vote procurement that can snowball into state capture. My claim goes a step further. Incumbent state capture occurs, and democracy can fail when party elites clientelize the middle class. The middle class is often

heralded as essential to democracy and too expensive for incumbent elites to motivate to their causes. However, I have noted that a devaluation of material and psychic wellbeing within the middle class coupled with high levels of state ownership of the economy can change the calculus of buying off this constituency by elites. Support for this contention would be unexpected within the confines of the original clientelism literature.

Buying off the middle class through clientelism is not apparently obvious or clear. The group is more costly to clientelize, is democratically leaning, and are varied in their interests and political preferences. My theory proposes that vulnerabilities assist parties and elites in creating an available demand for patronage and clientelism, but a component is missing: the supply. The second piece of this puzzle relates to the status of the government in relation to its economic system which I describe as state management of the economy (SMotE). When state management of the economy is high then parties and politicians have more resources to offer emerging vulnerable constituents. This increases the chances of *constituent state capture*, a variation of state capture that describes state capture of the institutions and economy by incumbents but with the support of a specific interest group, or constituency. In this case, middle class voters. This relationship should be thought of as reciprocal whereby the government creates public goods that focus on middle class needs which then secures those voter's loyalty in future elections. Constituent clientelism is different from welfare because the products and services are typically not programmatic in nature or means tested.⁵ Instead, clientelistic goods are meant to increase the connection between middle income voters and their political patrons.

The main dependent variable in this dissertation is democratic outcomes described previously. However, the theory uses clientelism in the middle class as a proxy estimate for

⁵ Programmatic political parties are those that offer public policies and goods as electoral promises but these goods are not conditioned on political support. See Kitschelt and Kselman (2013).

when democracy is weaker or stronger. I demonstrate how constrained democracies experience the strongest elements of clientelism and incumbent state capture while retrograde democracies experience a polarized relationship between those who support state capture and those who do not within the middle class. I engage directly with estimates of clientelism and corruption as the main determinants of my theory and how they interact with different social groups in each case as it provides a testable proxy for each of these outcomes. Clientelism and corruption scores were generated using factor scores based on responses to survey questions from the most recent World Value and Euro Value Surveys. While not a perfect proxy of these theoretical components, by showing that respondents respond differently to public goods and corruptions based on income it provides significant evidence to support the dissertation's theory.

1.2.1. What is the Middle Class?

Growing prosperity in Central and Eastern Europe has not been evenly distributed across all social groups and has contributed to disparate amounts of social inequity in society. I contend that this social inequity stimulates the fragility of middle- and lower-income groups because of the economic transitions which occurred in the 1990s and the resultant collapse of organized labor's political power in most CEE countries. Consequently, middle class vulnerabilities are tied to identifiable, political-economic arrangements that may either heighten or weaken professional labor's dependency on the government to protect and maintain their middle income status and access to resources. Rather than an ideological shift in temperament towards populist parties, voting behavior by the middle class is the resultant conjunction of increased dependency on governments which incentivize political elites to engage in state capture practices. To test the veracity of this claim, I rely on Mill's method of difference and use three CEE cases for comparison: Estonia, Russia, and Poland.

My approach invokes the middle class as a heuristic for middle income households within a given country. This unit, while both sociological and economic in nature, is treated as an autonomous entity with its own unique economic and political interests that is distinct from unskilled labor, higher income earners, and owners of large concentrations of wealth. Furthermore, this dissertation is concerned with how citizens in the middle strata can be bought off rather than the social activism of class consciousness. The middle class has limited access to resources which make them more vulnerable compared to wealthier groups in society. Simultaneously, they are more economically independent than lower income earners (Leventoğlu 2014). In turn, this access to moderate amounts of resources should make these middle income households more likely to turn away from patron-clientelist dependencies and towards anti-personalistic rule of law (Bueno de Mesquita et al. 2003; Diamond and Brun 2014). However, the results of this investigation are counterintuitive to these previously held arguments.

The middle class is a group that is best defined by their professional, and educational status along the lines of identities similar to Moore's (Moore 1993 [1996]) description of the bourgeoisie. However, I do not limit this analysis to strictly the sociological as I mainly emphasize the econometric measurements of meso-level incomes and material wealth in order to better define middle class groups (Levy and Michel 1983). Throughout this dissertation I refer to income and class interchangeably. While it may be the case that such designations are important to distill as unique objects, I do not make such distinctions and treat them as interchangeable. I calculate the sociological trappings of middle class life as a functional proxy of those who are able to attain that middle income status. The predictions of this dissertation emphasize the estimations of material loss or gain as relevant indicators of middle class vulnerability along this behavioral heuristic position. Elite forces may seek to alleviate those vulnerabilities in a given

country by exposing them and using them for political advantage. Such behavioral outcomes amongst the middle class occur even when controlling for other variables such as education, ideology, religion, etc.

1.2.2. A Challenge to Previous Arguments

This dissertation is aimed at filling in the current incompleteness within the literature whose host of arguments have emerged in the wake of populist and autocratic tendencies to explain democratic erosion. For one, the relationship between the middle class and state capture has been largely overlooked. Theoretically, it is estimated that the poorer elements of society make for cheap and cost-effective targets for rulers (Magaloni 2006; Stokes 2005). Other scholars have observed middle class cooptation but have placed their explanations too much on cultural organizations (J. Clark 2004) or economic modalities between rural and urban voters (Berenschot 2018). I emphasize that the middle class represents a trojan horse, so to speak, for parties to go about implementing incumbent state capture and clientelistic practices.

The arguments that have looked at middle class vulnerabilities have tended to emphasize dependence and social mobility as causative. Public sector employment is estimated to impede voting behavior as government employees have a stake in maintaining the status quo (B. Rosenfeld 2021). However, voting behavior is not consistent when looking at the evidence and across cases. For instance, in Russia the evidence suggests that both private and public sector professional workers are still likely to support Putin's party (Ross 2020). Then there is the confounding aspect that public sector employment has largely been eroded in CEE countries. Or should not be thought of in the same terms as what Soviet era dependence for employment implies. Others have argued that social mobility plays a key role in determining when political transitions occur in the middle (Leventoglu 2014; Piketty 1995). These scholars argue that short

term gains are often balanced against long term distribution schemes that align with autocracy and democracy respectively. However, the insinuation with these arguments is that democracy is a means by which to redistribute broadly when vulnerabilities are high rather than the clientelistic inverse.

Perhaps the largest gap in the literature on incumbent state capture and state party fusion is the lack of applied economic explanations. The theoretical implications of political elites expanding their control through the redistribution of rents, that is to say, “sharing with supporters”, as a means of entangling political support and fusing political leadership to the state (Grzymala-Busse 2008, 639). This is fundamental to the state capture discourse (Innes 2014). Yet, the nexus of what side transfers a party can redistribute in exchange for electoral support in relation to the economic arrangements of the state are relatively mute. In order for incumbents to capture the state by redistributing its wealth for political gains there must first be a state that has access to resources for which to offer its clients. For this paper, I have emphasized the levels of state management of the economy (SMotE) as a fundamental feature of, *constituent state capture* and indicate cases where the state is captured by incumbents at the behest of a constituent group. Constituent state capture and democratic outcomes correlate to when high levels of state intervention in the economy collude with a vulnerable middle class who then becomes a cost-effective patron for political support.

Finally, as this paper is an exploration of democratic outcomes and its intersection with political economy, I likewise seek to expand the comparative economic literature. Since the vulnerabilities within the middle class are largely material, I produce an explanation that balances those insecurities with state action. This approach relies heavily on an expanded

Varieties of Capitalism (VoC) approach.⁶ While I do not attempt to produce unifying typologies for political-economic outcomes, I do rely on an interpretation of state, business, and labor relations to better define my theory. My assessment of the state's capacity to manage the economy are in relationship to the three factors studied by VoC scholars. Importantly, organized labor relations have been greatly reduced since the 1990s making their addition to working class vulnerabilities near universal among CEE cases.

1.3. Why Central and Eastern Europe?

The tension and democratic volatility produced by popular support for elite led state capture is not solely the provision of post-Communist societies. Nor are these tensions novel given that the global crises as to the future viability of democracy has long been a hypothesized debate in political science.⁷ However, CEE countries present a methodologically valuable region for investigation. The relatively recent comparable history of political and economic conditions after WWII makes for a more epistemologically sound comparative research design. By focusing on CEE countries, I can more neatly isolate causal relationships from historical happenstance, and other incidental explanations.

Central and Eastern European countries are made up of a collection of former Soviet Union member states as well as those countries that were within the USSR's sphere of influence after WWII. Each of these outsider countries experienced a hostile takeover of their governments by Soviet oriented communist parties which ruled them as one-party states from WWII until the

⁶ The Varieties of Capitalism (VoC) literature provides a theoretical tool for discerning the diversification of capitalist markets after World War II. Initially developed in Andrew Shonfield's *Modern Capitalism* (1965), it was popularized by Peter Hall and David Soskice (Hall et al. 2001) articulated the main themes of capitalism divergence by focusing on several important policy factors, such as vocational training, corporate governance, and labor relations.

⁷ Samuel Huntington, Joji Watanuki, and Michel Crozier released their findings of the Trilateral Commission ((1975) which argued that democratic governance was vulnerable to an "excess of democracy" (113) and advocated a return to the prestige and political authority of national governments.

early 1990s. CEE countries include Poland and the Czech Republic, to its far western extent, and Russia at its most eastern with several European countries in between. While some classifications of Central and Eastern Europe include the former Yugoslavia countries as a part of Central and Eastern Europe, I do not. Although I include the Balkan countries of Romania and Bulgaria in the definition, the former Yugoslavia territories have undergone their own series of transitions which are unique from the second world's experience.⁸ Throughout this paper I often refer to CEE countries by regional associations and groupings. For instance, I use the term Visegrad to refer to the Visegrad pact states that are complemented by Hungary, Poland, and the Czech and Slovak Republics.⁹ A Map of Central and Eastern Europe is presented in Figure 1-2 with those associations demarcated for the reader's benefit.

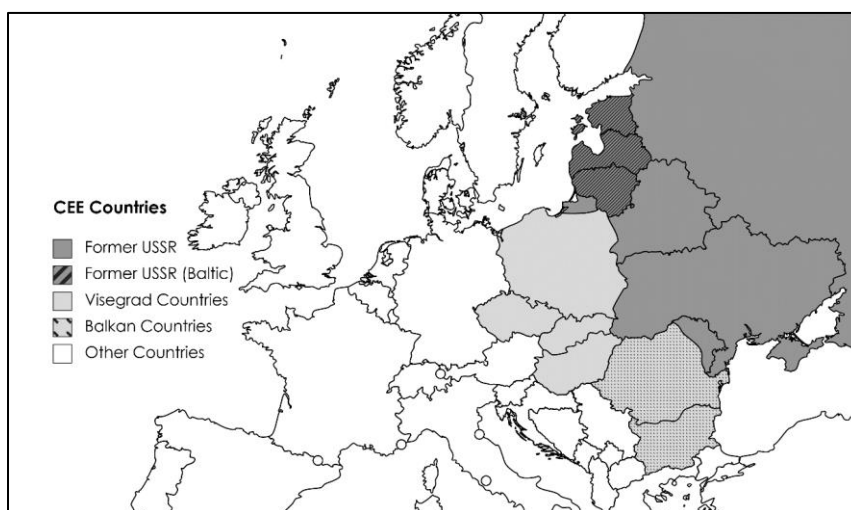


Figure 1-2 Map of Central and Eastern Europe

Due to their similar post-war histories and transitional experiences in the 1990's, CEE countries possess some unique contexts regarding the development of middle class groups within

⁸ The 2nd World was a Cold War classification of socialist, industrialized states tied either directly or closely to the Soviet Union. The term was used to differentiate those states that were aligned with the Western capitalist states (1st World) and those that were nonaligned (3rd World) such as Yugoslavia.

⁹ The Visegrad group or V4 is a formal pact initiated in 1991 between four former socialist countries: Poland, Czech and Slovak Republic, and Hungary for mutual aid and assistance along military, cultural, and economic matters (Pakulski 2016).

these countries. This is because middle class identities emerged from relatively flat, post-communist societies. Throughout the 1990s, the flatness of these societies became much more dynamic. CEE countries underwent similar market and electoral reforms which economically dispersed groups to various degrees over the decades. The region is distinctive in that it transitioned from a hardened, quasi-corporatist structure that managed labor and state-owned government enterprises, emblematic of the socialist system (Pravda 1983), to their current styles of liberal and free market relationships.

There are obvious limitations to this approach given that there are disproportionate sizes of middle class groups throughout Central and Eastern Europe. In Russia, accounting for middle class influence yields somewhat underwhelming results given its small size and difficulty in identifying the Russian middle class. This has forced scholarship to rely more heavily on sociological conceptualizations of the term for that country (Nissanov 2017; B. Rosenfeld 2021; Sibirskaya et al. 2015). The issue becomes much less confounding when moving beyond the Russian context towards the broader CEE states where the middle classes are more easily identifiable and much more robust. However, the transition from a relatively flat, socialist society, to one that is dynamic and socially stratified is a shared occurrence within the CEE region. For these reasons, countries in Central and Eastern Europe are ideally suited for comparison between cases.

1.4. Methodology

For this manuscript, I employ a mixed methodological approach in my research design to rigorously analyze and scrutinize the validity of the state capture thesis in CEE countries. I rely on an inductive design whose outcomes are already known but require explanation. I do so with epistemological tools that emphasize case selection objectivity and detailed comparative

historical research to draw out the explanatory variables of my argument. Within each case, I apply a process-tracing framework which I lay out in *Chapter 3* to best overcome the explanatory obstacles of my argument and focus in on the main causal variables. This process-tracing approach was essential for sketching out democratization, marketization, and crises events which played out over years and required me to link causal inferences with their temporal counterparts. In building my overall methodological approach, I applied a thorough protocol to my case selection method and relied quite extensively on Collier's systematized approach which uses descriptive and process-tracing tests (Collier 2011).¹⁰

My method for case selection was essential given the small number of CEE cases and the variability that existed between each case. My motives for selecting which cases to use were predicated on which countries would provide the strongest challenges to my hypotheses. For this argument, I selected Estonia, Poland, and Russia as the evidence for rival theories and hypotheses were much more potentiated than other cases in the region. I explored each of the selected cases using a deep scraping of descriptive and historical analyses that were further buttressed by qualitative methods of primary source document analysis, and interviews with in-country academic experts and several government and business elites. However, the initial design was obstructed due to the onset of the Covid-19 global pandemic. As such, this project had to rely more discreetly on quantitative methods to further enrich the validity of this dissertation's theory.

¹⁰ See Table 1 in Collier's (2011, 825) *Understanding Process Tracing* for a great example of the process-tracing test through rigorous application of counter theories and case selection.

1.4.1. Research in the Time of Covid

The global Covid-19 pandemic has spared very few from its reach. Drastic, life changing policies and their associated effects have had deleterious costs to travel and face to face interactions. As such, this research program has had to undertake drastic overhauls since its late 2019 inception and the subsequent onset of Covid's stay-at-home orders. Cross border travel was heavily sanctioned and reduced a once relatively easy research opportunity into a more than yearlong impossibility. The original aspects of this research design included a prolonged in-country investigation of Russia other CEE cases along with extensive Slavic language development to gain the necessary linguistic skills to best navigate the region. While in 2019, such ethnographic work would have been readily achievable, by 2020 and 2021 it has presented researchers with novel barriers. In addition, the sidelining of political and social science conferences during the crisis has presented further challenges in building networks and contact opportunities for the researchers beginning such a rigorous investigation.

Covid stifled the timeline of this research design to a modest extent, but recent developments have allowed me to take advantage of ongoing trends. Most academic, and professional access has been pushed online. This has allowed me to conduct interviews both in and out out-of-country with some success. Second, Summer 2021 openings for travel in Europe has alleviated the burdens placed on crossing borders to some extent. In the second half of 2021 I was able to conduct field research throughout Central and Eastern Europe including the Baltic states. Sadly, not all countries in Europe were open for travel for research development with Russia remaining quite difficult to get a visa to travel to. Despite initial limitations, this research program greatly benefited from my travels and the months of in-country investigation that I conducted throughout Central Europe and the Baltic region.

1.4.2. Case Selection

The case selection process was centered around two epistemological principals: comparative methodology and case identification through qualitative comparative analysis (QCA). The nature of the questions being asked in this manuscript leans heavily on between case comparisons which makes comparative methods more useful than other large-N methodologies. The comparative approach is able to emphasize the importance of case selection with limited case numbers and can better isolate the unique and causal relationships between independent and dependent variables. This method gains empirical leverage when differentiating across cases and between similar outcomes with very few variables in common or cases with dissimilar outcomes and near holistically identical cases with one uniquely identifying feature that can be inferred as causal.

I have already iterated the benefits of focusing on Central and Eastern Europe for this study as it provides a relatively uniform area of post-Communist states that underwent huge political, economic, and societal transformations at approximately the same time. Despite the similarities, a deep scan of comparative historical analysis is still needed to draw out post-Cold War histories and provide for a strong enough conclusion which avoids the simplicity of path dependence. A comparative historical approach is especially useful in this regard as it disentangles “divergent theoretical frameworks, for which the tension between structuralism and culturalism is a major example” (Mahoney and Rueschemeyer 2003, 5). The relative similarity across CEE cases allowed me to control for confounding factors that may have preceded my argument as it developed. To build off this approach with more rigor, I utilized QCA set intersection to determine CEE country outcomes and interpreting the necessary and sufficient conditions of my argument.

The benefit of QCA is that it generates ideal types for constructing case-specific arguments while using the context of each case (Saylor 2020). In doing so, the researcher can unlock necessary and sufficient conditions by discovering where these variables intersect in each case. In addition to finding multiple pathways to similar outcomes, QCA is appropriate for an inductive approach of theory building. QCA effectively determines how multiple variables can work in cohesive fashion to generate specific events (Longest and Vaisey 2008). For this dissertation, I have isolated the main variables as being levels of state control and the presence of a vulnerable middle class. Middle class vulnerability is a near universal variable and is shared across all cases and for similar reasons. However, as outcomes are different, variation in state management of the economy reflects on the level of state capture a country may experience. State capture can occur in cases without vulnerability in various regime types but for democracies it is an important aspect that drives outcomes. Higher levels of state investment in the economy are a necessary component of elites embedding into the state and distributing resources for gains.

The other layer of my argument seeks to explain democratic outcomes as they relate to their illative factors. The three democratic outcomes in the context of CEE democracies are also important in the causal framework. *Democracy, retrograded democracy, and constrained democracy* each have associated CEE states with whom I tie back to my QCA of cases and final case selection. To identify which are which, I operationalize each term along a two-dimensional basis using the “liberal democracy index” and overall regime classification from the *Varieties of Democracy* (V-Dem) dataset.¹¹ First, I establish if the V-Dem coding has indicated whether a

¹¹ The V-Dem dataset is time-series that takes a multidimensional and disaggregated approach to interpreting and indexing the components of Democracy: electoral, liberal, participatory, deliberative, and egalitarian (Coppedge, Gerring, and Henrik Knutsen 2021; v-dem.net 2021). From this dataset, limit my coding of democracy to cases after 1990 and to CEE countries.

country has reached “liberal democracy” from 1990 to 2020.¹² I then control for whether their liberal democracy index score is negative or positively sloped.¹³ The results of this analysis is presented in Table 1-1.

Table 1-1 List of Central and Eastern European Countries and Democracy Type

Democracy Type	Country
<i>Democracy</i>	<i>Latvia; Estonia; Slovakia; Lithuania;</i>
<i>Retrograde democracy</i>	<i>Poland; Czech Republic; Hungary</i>
<i>Constrained democracy</i>	<i>Russia; Romania; Belarus; Bulgaria; Ukraine</i>

Table 1-1 provides a categorization of each CEE country based on my operationalization of V-Dem data. The countries termed as “democracies” are countries which have reached a high V-Dem value and maintained that status. There is one outlier in this case, Slovakia. Slovakia has reached liberal democracy status but declined in 2019 back to “electoral democracy”. However, its liberal democracy index does not indicate a negative slope and so I categorize the case as a democracy. I code as “retrograde democracy” those countries that have been indicated as a liberal democracy by V-Dem estimations in the past but have declined to a less democratic regime type. All these cases are universally sloped downwards in their liberal democracy scores

¹² The regime variable indicates a country's status on a 4-level basis (0 to 3) with “liberal democracy” being a 3 and “closed autocracy” being a 0. No CEE states since 1990 have been marked as a “closed autocracy”.

¹³ The liberal democracy variable is an index which indicates a country's level of liberal democracy as “achieved by constitutionally protected civil liberties, strong rule of law, an independent judiciary, and effective checks and balances that, together, limit the exercise of executive power.” (Coppedge, Gerring, and Henrik Knutsen 2021, 44)

indicating a parallel decline in democratic quality. The last grade of “constrained democracy” was given to those countries that V-Dem coders estimated as never attaining liberal democracy status and are categorized as such in Table 1-1. Note that these democracy’s V-Dem scores may be sloped upwards despite their status.

The information gained from QCA set intersection and analysis provided with V-Dem’s identification of democratic outcomes narrowed the cases of this paper along two conditions: the presence of the strength of state control over market forces and the level of state capture. With that in mind, this dissertation relied on the three cases of Estonia, Poland, Russia to make its point. These are laid out in Table 1-2, below which also lists their important identifying variables per the analysis of this dissertation. The comparative economic growth data captures how the three states relate to each other in terms of GDP per capita growth using World Bank data.

Table 1-2 Case Selections and Identifying Features

	Russia	Poland	Estonia
<i>Organized labor</i>	Weak	Weak	Weak
<i>Comparative economic growth</i>	Weakest	Middling	Strongest
<i>Democratic quality</i>	Constrained	Retrograde	Democracy
<i>Middle class size^t</i>	Smallest	Largest	Middling
<i>Middle class status</i>	Vulnerable ¹	Vulnerable ²	Vulnerable ²
<i>SMotE</i>	High	Medium	Low
<i>State capture prediction</i>	Highest	Medium	Lowest

¹ Data on middle class in Russia provided by Svetlana Mareeva, “Socio-Economic Inequalities in Modern Russia and their Perception by the Population” (Mareeva 2020).

² Data on middle class in Estonia and Poland provided by Josephine Ulbrich, “Who are the ‘middle’? – The struggle of the European middle class to improve their living standards”, (Ulbrich 2015).

^t Middle class size is the proportion of the middle class to the rest of the population. These are rank ordered at the time of modeling based on multiple sources.

Per my identified variables, I've selected the Russian case as it is emblematic of strong state influence over its markets with weak interference from independent businesses and firms. Russia is also heavily used by authors to describe state capture and was one of the original cases used by Kaufmann and Hellman in their 2001 article. Researchers like Rosenfeld (2021) have highlighted the autocratic tendencies of its middle class which makes it an interesting case to examine potential directional problems with the theory. For example, if political elites aren't seizing on the vulnerable constituent groups but instead are reacting to an already present feeling in the polity. This case will test the relationship and directionality of the argument to expose how high levels of state involvement begets high level of state-party fusion.

Meanwhile, the Polish case provides the main test of my argument. The Polish scenario possesses a resurgent state that has increased its influence over the market. Middling levels of state control of the economy may be enough to deliver democratic backsliding if political parties attempt to leverage the state's access to rents for political gain. The presence of high amounts of independent companies and firms pushes back on the credibility of my argument to a much further extent than the Russian case. I also rely on Poland, rather than other possible retrograde democracies, like Hungary, because it is not as democratically eroded as. Additionally, its declination in democratic scores is more recent which could favor other confounding factors as explanatory. The effect of a proportionally large control of the economy by the Polish government would go a long way to demonstrate the validity of my thesis.

Finally, the Estonian case is ideally suited as its government lacks a strong, interventionist approach to the market. Estonia's successful maintenance of its democratic status despite being host to ethnic polarization between native Estonians and Russians, its economic dependency on complex technology firms and investment, and middle class fragility makes for

an ideal counterfactual. Its citizens are amongst the CEEs highest earners while simultaneously having the weakest protections for labor. Proof of the absence of elite interest in incumbent state capture in Estonia further strengthens my argument as the null case. Each of the three examples are developed in further detail within the later portions of this manuscript.

Comparative historical examination is not without its limitations. I have undertaken a rigorous process of case selection in an attempt to avoid any excessive biases in building and applying my theory to CEE countries. The small number of instances makes some amount of bias in case selection inevitable but with some positives. The narrow selection of cases provides some defense against exogenous variables by controlling for extreme variations such as large and overriding differences in culture, historical precedents, and economic starting points. These components are largely controlled within the CEE case selection process. Still comparative analysis necessitates that a researcher demonstrates extensive knowledge of the “relevant theories, the relevant research literature and, most important of all, the relevant cases” (Ragin 1987, 121). As a result, comparative and qualitative analysis lends itself quite neatly to area specialization to fill in the relevant epistemological information demanded of such a methodological approach (Easton and Schelling 1991).

1.4.3. Quantitative Analysis

Per the discussion earlier, much of this work is centered around qualitative and comparative analyses of the three cases at hand. While much of the exactitude of my results comes from the interpretation of state capture and possible alternative theories, I also rely extensively on quantitative tools to test the validity of these arguments in order to gain increased confidence over the results. To do so, I drew upon many aggregated datasets and several national surveys to evaluate how clientelism and corruption distinguish themselves in these societies. Throughout

each investigatory chapter, I intersperse quantitative models and figures to assess the validity of my various hypotheses and conclusions. I break these data points into two categories: state level variables, and individual variables.

Previous scholarship on clientelism have used survey data as a methodological tool for explaining clientelistic outcomes (Bobonis et al. 2017; Zeng 2019; Bue, Sen, and Lindberg 2021). While multiple country comparisons lend themselves to clientelism indices, like V-Dem's corruption index, the within country micro analysis allowed me to use survey data to measure responses within the middle class. This provides a fairly accurate measurement of whether or not individuals in this group are being targeted by clientelism, patronage, or participating in corruption. In each case, I analyze clientelism and corruption using factor analysis to create composite scores around specific questions from each survey. These questions include the justification of corrupt behavior (corruption) and the confidence in public goods (clientelism) which I distinguish between. I use confidence in public goods because assessments of confidence and their quality should not be distinguishable across income groups predictably. Instead, any noticeable differences in survey attitudes should reflect the deeper underlying theoretical imposition of this dissertation and represent clientelistic offerings that are distinguishable. Wealthier respondents should be less inclined towards public goods as they tend to gain the least utility and pay more in taxes for them. Meanwhile, lower income respondents should be more likely to indicate higher confidence in public goods per welfare policies or the previous logic of clientelism and poorer constituencies. The use individual survey data to allows me to draw deeper micro analysis conclusions about state capture that other measurements of clientelism may only approximate on the ground level effects (Bue, Sen, and Lindberg 2021).

I drew much of my statistical analysis from a series of survey data collected in Estonia, Poland, and Russia, as well as other CEE and European countries over the course of several decades. Much of the quantitative analysis was done using the European and World Value Survey (Gedeshi, Zulehner, and Rotman 2021; Inglehart et al. 2021). These surveys are implemented typically every five to ten years and takes a random selection of citizens for each country. This should provide a reasonable expectation for a normalized distribution of income groups and responses. Respondents are given a battery of questions that measure demographics, democratic values, and political changes. This data was supplemented by horizontal studies such as the Polish POLPAN, and Russian HSE survey of household data when they are available and useful.

My reliance on the two factor analysis follows Bue et al.'s (2021, 9) methodology of building a clientelism indices whereby public goods can be assessed within populations by way of distinguishing their availability and quality. They distinguish between three levels of measurement: vote buying, bribery, and public goods provisions. In this paper, I rely on two umbrella concepts: corruption and clientelism. I measure confidence in the provision education, social security, health care, civil service, court, and police as provided by the EVS and WVS when available. I am not as interested in the size of offerings, per se, but as to how the perceived quality of the goods are differentiated between income groups. The corruption factor analysis composite score was collected using responses to the justification of bribery, cheating on taxes, skipping a fare, and accepting benefits that are unearned. Corruption scores on an individual basis provide only limited information but they are useful in cases where participation in the system begets corrupt behavior. I expect that when there are economic alternatives for the vulnerable middle income respondent, the corruption score will be lower.

To identify the middle class among survey respondents I had to rely on specifications that correlated with outside data. The EVS and WVS do not provide a direct measurement of respondents by class groupings, but they do provide data on total household incomes in deciles referred to in the surveys as ‘scale of incomes.’ This is a useful technique given that the middle class implies a variegated scale that adjusts with incomes and by country and across surveys. With this in mind, I rely on the OECD standard (Nolan, Roser, and Thewissen 2019; OECD 2019) that estimates the middle class as earners of 75% to 200% of the median monthly income. If we factor that into deciles, with 5 being the approximate the median earner, that estimates middle class as being between 3.75 and 7.5 deciles. I adjusted those values upwards to decile groups 4 and down to 7 respectively as a conservative estimate for middle class respondents.¹⁴ This removes more lower income earners for a much smaller pool of higher income earners and will lower the likelihood of clientelistic responses associated with poorer or wealthier individuals.

This manuscript also draws extensively on the latest versions of the datasets V-Dem and Quality of Governance (QoG) to produce supplemental figures and visualizations. Both datasets are frequently updated (as of late 2021) and provide time-series data covering for all countries with datapoints going back as far as the 1940s, in some cases. The Quality of Governance (Teorell 2022) is an extremely useful tool for running time-series regressions using country-level factors as it compiles over 100 other datasets of various sizes and description. This data includes economic, political, and descriptive variables making it an ideal complimentary to the data I use for longitudinal modeling as the compiled dataset is laid out by country-year.

¹⁴ See Appendix A.1 for coding details.

These data were essential understanding how attitudes within each case's population correlates with preferences for party patronage and corrupt practices. The arguments in this paper benefitted greatly from the application of statistical analyses when necessary to fill in epistemic gaps that were formed by the qualitative comparative analysis. Given the limitations placed on this research design by the emergence of the Covid-19 global pandemic in 2020, this paper's reliance on data helped to validate the more stringent hypotheses which could not be ascertained by using in-country research.

1.5. Scope of the Cases and Argument

While the communist past of CEE countries is an important aspect of the setting with which this dissertation explicates its arguments, it is not a necessary component of the theory. The middle class may be a logical mark for elites who seek to enhance their control over government outside the borders of CEE states. Indeed, as I have stated, the phenomenon of populism, growth of radical parties, and the undermining of institutional constraint is an ongoing global trend. The hesitancy of many states to adopt or maintain democracy in the wake of income inequality and increased country wealth highlights the realities of the 21st century and the decline of the liberal aesthetic on a global scale. It is especially salient when one considers the rising dominance of authoritarian states like China.¹⁵

My thesis of middle class clientelism is applicable beyond the boundaries of post-communist Europe and can, likewise, be expanded against future cases. My intention to focus on CEE cases was spurred by epistemological concerns and the region's continued endorsement of illiberal behaviors despite growing wealth and accession to the liberal European Union order in

¹⁵ For a more detailed analysis of the Liberal aesthetic, please see David Russell's (2013) interpretation of John Stuart Mill's *On Liberty*.

many cases. Still, proximity to early democratizers is not enough to spur democratic consolidation or instigate full committal to democracy and institutions. Beyond the borders of Central and Eastern Europe, the middle class reliance on enterprising elites has been successfully applied by other scholars to China given it hosts a similar tension between rising economic statuses without democratization (Chen and Lu 2011; Miao 2016). Still, there has been no application of this argument to those countries that have already democratized as a theoretical explanation for democratic erosion. Instead, the lack of a systematic investigation of the middle class as a potential fifth column for state capture outcomes assumes that democracies are static and that democratic populations will always prefer liberal democracy once attained.

With the scope of the project in mind, I also wish to iterate that I am not making a normative argument. The changing attitudes in the world and the emotional attachments people have to certain values and ideas create a hazardous ground to maneuver when considering how these changes come about. While some scholars apply a more pessimistic outlook of the future, complete with calamitous prophecies (Kirchick 2017), it is not the purview of this paper to examine what should be and to only explain what is. As clarified by Schmitter (2015) and Lührmann and Lindberg (2019), the experiences of democratic decline must be understood through the structures in which it has occurred and judged against the decision making of its principal components: its voters and elected officials. This dissertation proposes that challenges to our collective understanding of how democracy should be studied and provides a rubric of impartiality and systematic evaluations to be rigorously applied in order to gain the best and least biased results.

1.6. Layout of the Dissertation

This dissertation presents a series of arguments that articulates how political-economic decisions relate to those in the middle class. In doing so I come to several important conclusions regarding the relationship of middle class prosperity and the state's regulation of economic and market forces. Precisely put, the state's control over class mobility, access to socioeconomic status, and the privileges afforded to those groups will create a clientelistic confluence between voters who will become dependent on that access. The growth of wealth observed in CEE countries the past two decades and the 2008 recession has created an interesting admixture of class vulnerabilities and a subsequent political discourse that has emerged to manage those fears. I make this argument over several chapters which I have divided between cases and the extent of the argument that they examine.

In the following chapters, *Chapter 2* and *3*, I review the literature and lay out my argument in full. I spell out the various components of the dissertation and articulate the process tracing aspects of the theory. In conjunction with the specification of my theory of state capture, I also establish the hypotheses of this paper. Likewise, I entertain several alternative arguments and possible hypotheses that derive from those positions. These include ideational and partisan arguments that attest to political affiliation, endogeneity of democratic decline predicting clientelistic attitudes, theories of societal inequality, and dependency on outside economic investment.

The next three chapters are dedicated to applying the theory to each of my three cases: Estonia, Russia, and Poland. In *Chapter 4*, I explore the Russian case as a test of the ideal conditions that created a country defined by total state-party fusion and elite dominance. With little avenues for middle income groups to gain access to wealth or status except through state

sanction, they are more likely to perpetuate those features of the state that benefit them in exchange for United Russia's continued control of Russian politics. I move on to Poland in *Chapter 5*. This makes for a much stronger test case of the arguments in this manuscript. Poland has undergone a successful democratic transition, embraced deregulation of markets, and promoted business interests as a way of feeding middle class success. Recent roll backs in democratic scores and changes to attitudes amongst voters makes for a dynamic case with possible strong alternative explanations. Finally, *Chapter 6* explores what is the arguments null-case, Estonia. This country experienced strong economic growth and has continued to maintain high levels of democratic quality. Likewise, Estonia provides an alternative outcome for a region that has seen extensive of democratic erosion.

I conclude the manuscript with an examination of the overall argument along with a summary of the supporting and contradicting evidence. This chapter also examines the limitations of my argument and how it may be improved beyond geographic specificity. The conclusion is finished with a discussion of how this theory may be broadened beyond Central and Eastern European cases and speculation as to what may be gained by applying a theory of this paper to other declining democracies around the globe. In doing so, I conclude with a sanguine estimation as to what may occur when the state management of the economy collides with globalized middle class frailty.

2. DEMOCRACY IN CRISIS

The global decline of liberal democracies has been an ongoing and consistent trend. However, the extent to which the decline is occurring, what it means for democracy, and whether it constitutes a “third wave of autocracy” is debatable (Lührmann and Lindberg 2019). Some scholars emphasize the changing conditions brought on by capitalism and the appeal of populist demagogues to solve their polity’s withering appetite for competitive politics (Mysíková 2016; Bochsler and Juon 2020). Others suggest that the world is experiencing a crisis of transition rather than an actual decline (Fukuyama et al. 2015; Levitsky and Way 2015). Whether this, indeed, indicates a wave of autocratic fervor, measurable rates of intrastate polarization are on the rise and undergirds a noticeable decline in the quality of democracy across the globe. Nearly thirty years after Fukuyama (Fukuyama 1989) declared the ‘end of history’ and the supremacy of liberalism, scholars are now examining if the transformation in Central and Eastern Europe represented a democratic wave or merely a misinterpretation of the facts.

Fukuyama’s (1989) declaration that the “end of history” was upon the world at the end of Cold War is often critiqued as premature.¹⁶ Historical events have demonstrated that the expectation that history was at a new synthesis following the struggle between capitalist and communist ideologies is decidedly a bit too optimistic. Though ideology had become less of a focus in global conflict, liberalism still had its competitors. Huntington’s (1993) ‘clash of civilizations’ thesis pointed at the struggle between cultures as the new dominant aesthetic, rather than ideology. Other researchers began emphasizing the transitory nature of liberal transitions

¹⁶ The critique of Fukuyama’s assessment is, however, a misattribution of his overall argument. Instead of historical finality, Fukuyama was arguing for a Hegelian interpretation of post-Cold War politics and asked may come next in the vacuum of communism. See Dun Zhang’s analysis in his 2010 article, “The End of History and the Fate of Philosophy of History”.

and pointed out that democratization is not a linear process (Kubas 2020; O'Donnell and Schmitter 1986). Instead, these authors emphasized how emergent alternatives were on the rise.

Democratic stultification and erosion have also been linked to an increase of antipathy for capitalism in societies (Corneo 2017). Political leaders in CEE countries are apt to harness the state to absorb and redistribute societal problems that have emerged as a result of adopting free markets. Along with increased wealth in CEE countries, there have been rising disparities between actual growth and slower growing household incomes (Nolan, Roser, and Thewissen 2019). In many CEE countries, middle income groups are shrinking as society becomes more dynamically stratified. This has prompted political leaders to grab more control over the levers of economic activity in response to the problems presented by “global capitalism” (McNally 2013). But these decisions occur at the cost of individual economic power. In McMann's (2012) analysis of democracy and capitalism, the importance of economic autonomy has been shown to be a crucial component for the maintenance of democracy. Indeed, evidence from CEE countries has shown entrepreneurship to be democratically enhancing, not destructive (Bruton, Sutter, and Lenz 2021). Rather than strictly the result of capitalism, income inequality is more likely to be shaped by local policies, especially protective welfare policies (Auguste 2018, 683).

Growing inequality adds fuel to the democratic crisis by encouraging an ever-widening gap of trust for democratic institutions that outsider political leaders rush in to fill (Algan et al. 2017). Citizens have increasingly focused their electoral hopes on these candidates who promise guarantees of stability and protections against the unequal predations of market forces (Fukuyama 2015). In Poland, Tworzecki (2019) identified this elite driven behavior as a main contributor for the increase in polarization in the country. Polarization being defined as the growing of ideological distances between political groups, parties, and issues and how they

persist over time within a polity (Abramowitz and Saunders 2008). The connection with polarization and the ongoing democratic crisis has been heavily contemplated in recent decades and a host of scholarship has been written that attempts to identify the causal relationships at play and how polarized attitudes undermine democratic principles (McCoy, Rahman, and Somer 2018; Stavrakakis 2018). Such divisions have manifested and expanded throughout Europe, a continent which consistently ranks as one of the most divided regions in the world (Groskopf 2016). Polarization has had a profound effect on the nation's political discourse across European parliaments. Since the 2000s, European outsider parties have steadily gained ground at the expense of older, more centrist parties (Groskopf 2016).

The process of democratic retreat has also been suggested to be an illusion and whose effects are not as impressive as was noted above. Levitsky and Way (2015) point to the relatively few democracies that have broken down since the 1990s when compared to other time periods. Instead, they posit that decline in democracy scores are the result of classification errors by overzealous students of democratization in the 1990s (Levitsky and Way 2015, 45-46). Additionally, increased political polarization cannot be regarded as a novel occurrence given that dramatic attitudinal shifts have occurred in democracies before (Kundnani 2021). In fact, democratic competition between ideas is an essential aspect of democracy whose function is dependent on the free expression of differences of opinions. It is also under evaluated how supposed anti-democratic parties are often legally elected and have attained political power through legitimate means as opposed to illegal powers grabs (Lührmann and Lindberg 2019, 1108). Rather than a decline in democratic quality, Phillippe Schmitter (2015) argues that what is being witnessed is a shift in democratic structures. He argues that democracy has undergone a transition towards stronger executive authority and a devolution of political authority through a

process of decentralization. Lastly, the temporal graduality of democratic erosion has led other scholars to declare that the crisis may be overexaggerated when the overall pacing is considered (Bochsler and Juon 2020).

Despite democratic erosion being gradual, the democratic trajectory of some CEE countries is still pointed towards autocratic crisis. Future reversals of this trend after subsequent electoral cycles remain to be seen, and some scholars are less sanguine about whether democracy will be able to right itself (Kubas 2020). They cite roll backs of constitutional oversight, constitutional redesigns, and the grinding down of the judiciary as being all too pervasive (Coman and Tomini 2014). The ability for corrupt practices and shadowy clientelistic networks to pervade in states that have an elevated command over the economy has been argued to be detrimentally pervasive (Wedel 2011). Others see the situation as even more dire than previously hypothesized. Kirchick (2017) argues that the transitions being experienced in Europe represents a turn towards an irrevocable dark age and goes on to draw some uncanny parallels to the rise of the destructive ideologies of the early 20th century in Europe. Kirchick (2017) writes:

“Nationalist, anti-American, often racist and anti-Semitic, these forces evoke Europe’s foulest traditions. Movements both left and right—to which, in light of their popularity, the qualifier “far” can no longer accurately be appended—promise a return to an idealized past through the efforts of strong men (and women). Discouraged by their governments’ inability to handle a slew of problems, Europeans are questioning the very legitimacy and effectiveness of liberal democracy and turning to the siren calls of firebrands, who, whatever their ostensible political differences, all vow the restoration of a prelapsarian era that supposedly existed before European integration, when life was easier, cheaper, and safe.” (4)

2.1. Democracy and Clientelism

The literature on state capture is emerged in the 2000s and emphasizes the confluence of clientelistic and predatory practices within government (Kitschelt 2000; Magaloni 2006; Stokes 2005). This scholarship has focused on the insufficient quality of institutional standards which

allows for such advantages to be taken by self-motivated government actors. The term was formulated by Hellman and Kaufmann in 2001 in their description of Russia's political evolution in the 1990s. Party leaders, in such instances, seek to replace members of the bureaucracy and administration with partisan elites as a tool of enhancing a single party's dominance over those same institutions. The authors connected state captivity with governance and ultimately economic growth measures. They reported that states with high levels of capture reported much lower levels of growth as a function of bad governance and corrupt practices.

This conceptualization leans heavily on state building theories. Strong emphasis is placed on Weberian concepts of state extractive capacity and how these tools may be commandeered by disingenuous elites or groups that replace the rational-legal state with one of patronage-based authority (Marandici 2021). In other words, the practice of clientelism erodes the state's governance and ultimately its social compact. I rely on a traditional definition of clientelism in this case which is expressed as a dyadic exchange of goods and services between social unequals (Stokes 2011). Typically, it is a state agent (patron) who exchanges access to those goods to gain the political support of a client (Bratton and Walle 1997; Bratton and van de Walle 1994; Eisenstadt and Roniger 1981).

In the incumbent state capture literature, clientelism is the main method by which government operatives gain authority within the exploited system. It can be engaged in by parties who practice vote buying, patronage, or redistributing access to public goods in order to make them more clublike to their constituent clientele (Carlin and Moseley 2015; Scott 1972; Zeng 2019). This process is meant to ensure a dyadic exchange of goods for fealty. But this is not the whole story. Grzymala-Busse (2008, 639) argued that state capture by incumbents is not merely the actions of exploitative elites taking advantage of volatile regimes. Instead, regimes

influenced the kinds of corrupt practices parties and elites will engage in. She distinguishes between types of corrupt practices along competitive political grounds and between exploitative and predatory practices. Grzymala-Busse (2008) goes further stating that the practice is not necessarily institutionally destructive in of itself. State capture represents avenues of exploitation for personal gain that some rulers may legitimately seek. Rulers can enhance the state's welfare contributions and disperse rents to their chosen beneficiaries as deemed necessary for their own political continuity as well as weaken administrative oversight to carve off profitable pieces of the state for themselves.

We should not think of democracies being immune to state capture. Rather, democratic state capture represents a cohesive polarity in the state building process that a nascent country must observe (Innes 2014). The erection of guardrails to monitor party behavior as a means of ensuring electoral competition is thought to be a necessary component of ensuring that political elites do not tread this path. Grzymala-Busse's book, *Rebuilding Leviathan*, criticizes CEE governments for their failure to institute the proper models of party competition and are now reaping the fruits of that failure into the 2010s (Innes 2014, 90). This perspective places a heavy burden on elite commitments for exercising democratic competition and resist the temptation to re-monopolize political power within the state.

State capture points to fragile competitive regimes as the main culprit of its own outcome. Grzymala-Busse (Grzymala-Busse 2008, 668) notes that clientelism doesn't necessarily destroy democracy by itself. However, it is theoretically incompatible to assume that a state that falls into an incumbent state capture spiral could produce the same quality of democracy than if it had not. For one, state capture erodes the competitive components of regimes through party-state fusion whereby the administrative and governmental apparatus is

entrenched under new management that becomes difficult to change out (Innes 2014). It also places the controls of the state's resources and rents under this new personalistic umbrella of supervision which allows state-aligned cadres to undermine the democratic practices by selectively sharing access to these material advantages and networks (Marandici 2021). It allows for the creation of a 'shadow state' or a government that shrouds itself in informal rules (Chipkin and Swilling 2018). As will more become apparent later, voters are often willing to exchange democratic quality for this style of patronage which fundamentally alters the discourse and function of democratic politics in a country.

The theory, as explicated, is incomplete. For one, it fails to ascertain how reform can lead to positive and stable outcomes for an extended amount of time only to eventually fail. The prophetic nature of determining inevitable shortcomings and eventual state capture vulnerabilities for states, ex post, does little to further our understanding of the phenomenon. The proliferation of clientelism within a country is not an indicator of institutional governance shortcomings. Grzymala-Busse (2008, 639) is accurate in her assessment that "although extractive rulers seek to maximize their discretion by weakening regulation and oversight, they also construct rules and durable practices of redistribution, budgeting, and authority." Scholarship should instead draw its attention to how elites manage their access to political institutions as the distinguishing characteristic of state capture within democracies and how they leverage that access. Or, in the ominous words of Russian President Vladimir Putin:

"I only want to draw your attention straightaway to the fact that you have yourselves formed this very state, to a large extent through political and quasi-political structures under your control. So perhaps what one should do least of all is blame the mirror."
(Hoffman 2011)

2.2. State Managed Economies

One of the main fundamental arguments of this dissertation is that state capture potential is relative to the size of state management of the economy. This aspect of clientelism is often overlooked as researchers tend to focus on the extractive or institutional capacity of the state instead. This may be due to the extant variation between economies and levels of state interference that are not always clearly defined. The fingers of nearly all state governments reach into economies to varying degrees across and control the market in indirect ways. A researcher would be hard-pressed to find occasions where the modern state does not manage some aspects of its economy. Welfare states tend to spend large sums of their GDP on social programs. It is much more likely to find an instance where the economy is wholly managed by the state than none at all. A fact that is increasing in frequency as countries turn to state-capitalist solutions to solve economic, social, and political problems in a post Great Recession world (Dolfsma and Grosman 2019; Kozarzewski and Bałtowski 2019; McNally 2013). Nor is it restricted to the realm of the autocrat. Democracies, autocracies, and hybrid regimes all engage in the practice. Levels of state-capitalism does not predict democracy outcomes or its quality.

The state can manage the economy in several direct and indirect way. During the planned economies in communist Eastern Europe the state managed nearly every aspect of the economy. The government settled labor disputes, set demand and production quotas, and owned nearly every piece of capital in the economy (Frye 2010). In the more modern sense, state involvement in the economy is meant to regulate the forces of capitalism through law and less direct means while still relying on the free market to be the lifeline of the economy (Ozsvald 2019).¹⁷ The state can do so by taking on the role of stakeholder in the economy, manipulating companies

¹⁷ This is often referred to as ‘state capitalism’ throughout the literature. I use the term in this dissertation as well.

through carrots and sticks to encourage particular behavior. The use of tax policies is another tool that can be used to gain leverage over free market forces while not directly interfering with economic decision making (Kozarzewski and Bałtowski 2019). Then, of course, the state may interfere with more direct methods of outright state ownership, promote industry champions, and regulate large sections of the labor market to shift advantages.

The more the state manages the economy the more rents and resources elected parties have their disposal. This does not automatically assume state capture as a result, but it provides clarity as to how higher amounts SMotE could imbibe higher levels of state capture. However, the state does not have to be in direct ownership of capital to produce clientelistic outcomes. The state may be captured by administrative and bureaucratic agents who expropriate resources for their own advantages, not just elites (Trantidis and Tsagkroni 2017). Whether the case represents unlawful management of resources for self-interest or the acceptance of a bribe to look the other way while other bad faith actors do likewise, the corrupt practice is a means to an end meant to exchange goods with the implication of reciprocation in some act of loyalty at a future time. What is exchanged for loyalty can vary between groups along with the timelines that are managed by the unspoken expectations that go along with the patron-clientelist relationship (Innes 2014). Repeated acts can create informal cohesion where formal relationships could be lacking. Reiteration of exchange can supplant typical programmatic relationships, associated with party platform, and replace them with clientelistic networks (Trantidis and Tsagkroni 2017).

These theories of clientelist practices presupposes an extractive capacity of the state and a likewise “prior extraction of resources by the state” (Trantidis and Tsagkroni 2017, 266). Rents are extracted by the state and then exploited by enterprising elites for political gain. Grzymala-Busse (Grzymala-Busse 2008, 649) highlights the distributive nature of rents as a tool for both

selective apportionment of goods and to monitor the loyalty of recipients. Which is to say, that when goods are distributed one must ensure that the resultant outcome was as the patron originally desired. State capture is a two-way street in that the ease of which provisions may be provided need to be weighed against the costs of defection by the recipient. The expectation here is that for clientelism to be an effective tool it needs to target supporters accurately with goods and services in order “to generate sufficient support to stay in power without providing public goods to all” (Grzymala-Busse 2008, 642).

This notion requires further explication. The state capture thesis presupposes economic exploitation but no information as to how. The presence of the state seems merely sufficient for such political outcomes to occur. However, a more reasonable perspective to take would be that the extent of state capture is correlated with the reach of the state’s access over extractable resources and distributional networks. Marandici (2021) makes this clear in a recent article about Moldovan state capture by private firms who are managed by the country’s few oligarchs. Anti-authoritarian oligarchs and business leaders in Moldova inevitably replaced the old patronage networks with new clientelistic networks that benefitted themselves. Access to resources and material wealth that could be distributed for political advantage played an important role in organizing this new arrangement.

Lastly, it is important to consider the targets of clientelistic practices. State-capitalists manage their economies in order to keep their constituents placated by politicizing the economy for their own benefit (McNally 2013). The motivations behind state capture are likewise the same. Clientelistic procedures in electoral politics target voting constituents for rent exchanges (Auyero 2001; Stokes 2005). Stokes (2005) identified the poor as likely targets given their material disadvantageous position which makes them cheaper targets for patronage. There are

some issues with this description. First, we should consider if they do represent a cheaper alternative to other groups when in many societies, they make up a large percentage of the population. Second, what manner of monitoring does such exchanges guarantee. Finally, we should seek to scrutinize whether elites view the poorer elements of society as electorally fertile grounds.

I propose a counter thesis and emphasize the middle class as possible targets for these kinds of relationships. When they share an economically vulnerable status, they too can be offered patronage and goods for votes and even participate in corruption. The vulnerability of voters to clientelism has been theorized before by Bobonis et al. (2017) who showed that the presence of water cisterns during droughts made Brazilian voters less susceptible to engage in these kinds of practices. Though the middle class can often represent a large section of the population, rent exchanges do not need to be so large as to provide security to the vulnerable elements of a society. They only need to offer enough as to supplement the different between staying or falling out of the middle class, in this case. Yet by doing so, state capture that uses the middle class produces highly destructive outcomes for democracy.

2.3. The Middle class and Democracy

The destructive potential that coincides with middle class support for state capture practices is inherent in the theoretical underpinnings of what this group provides for democracy. The importance of the middle class and its effect on democratization has been the subject of intense theory building and critique for decades. Early democratization and modernization arguments have alluded to the connection between democracy and increased citizen wealth and the subsequent effects that create new sets of interests which are rooted in property rights protection and the rule of law (Dahl 1971; S. M. Lipset 1959; Milbrath 1981). The propertied middle

classes are tied to democratization in a variety of ways with some going as far to declare it a necessary condition of democracy occurrence. As Barrington Moore (Moore 1993 [1966]) famously proclaimed, “No bourgeoisie, no democracy!”

Scholars have emphasized how changes to values in response to modernity and increased rates of education lead to a proclivity towards egalitarianism and democratic principles (Lerner 1958; Huntington 1968). Others emphasize how new tensions between emergent interests results from material accumulation which requires coordination through constitutional processes to ensure stability and the rule of law (North and Weingast 1989; Ostrom 1993). Then there are those scholars who stress that a variety of interests in the middle class leads to a destabilization of older clientelist networks in favor of public goods access and redistributive welfare (Boix 2003; Bueno de Mesquita et al. 2003; Haggard and Kaufman 2012). Application of these arguments to Central and Eastern Europe present their own ontological dilemmas as these theories stretch to accommodate post-communist societies.

The middle class is theorized to be uniquely disposed to democracy because they are less vulnerable than unskilled workers but possess less resources than the wealthiest members of society (Glassman 1995). They have access to some power of influence over government which they utilize in order to maintain their access to property rights and the lubricants of business for which they are a benefactor (Glassman 1991). Whereas the underclasses of society lack the resources to coordinate and, as a result, are “far too weak to achieve by itself democratic rights” (Bradshaw et al. 1993, 59). Additionally, lower income groups get more marginal utility out of state patronage and welfare which makes them far more likely to be tied into a state’s network of patron-clientelist dependencies to begin with (Stokes 2005).

Class position and access to resources impacts who is more likely to rely on which governance tools. Upper class groups in society will have less need for investing in democratic power sharing and will seek to pay off other groups to maintain their social hegemony (Glassman 1995). The wealthy strata have a more access to resources and prestigious patronage networks which elevates their position in society. Instead, they will rent seek to supplement their own wealth rather than codify it through rule of law (Johnston and Kouzmin 1998).

One logic as to why-middle class groups in society shift towards democracy is due to the changes in values experienced through modernization and education. Modernization acts to disrupt society by unleashing new social forces that obstruct older, more traditional bonds (Lerner 1958; Huntington 1968; Migdal 1988). This argument contends that modernization is an automatic outcome of state policies which seek to consolidate and create a modernized state (Gerschenkron 1962; Kohli 2004). Modernization can also be the result of a societal force for change as the individual gains more autonomy and the resources to express themselves on a larger scale (Inkeles 1969; McMann 2012). These approaches underscore the different elements of societal change in the wake of modernity as being either fixed in redistributive demands or as a moment of state reinvention. The importance of middle income groups is to temper the elements of state expansion and hinder illegitimate practices, such as corruption and clientelism when they do not benefit from them. Throughout this dissertation I distinguish between the two concepts as one being participatory on an individual level (corruption), and the other being the policies and programs of parties to gain more traction over the state (Trantidis and Tsagkroni 2017).

A more potent middle class is expected to undermine clientelistic procedures in several ways. They provide a capable set of professionals to build a competent bureaucracy which

supports the functioning of the modern state (Weber 1964). The lack of a competent bureaucratic administration has the potential to act as a vehicle for state capture and encourage side transfers of goods and services that bypass rule of law norms (Waldner 1999). Professionalization of bureaucratic functions provides stronger oversight along with checks and balances. Growing middle class interests also foster competing values that challenges clientelism and, in democracies and political parties will orient themselves towards those shifts (Acemoglu and Robinson 2006; Meltzer and Richard 1981). This is because as the middle class becomes more numerous than wealthy elites and lower-income groups, the calculus of goods distribution changes. Selective, side transfers and patron-clientelistic goods provisions become less practical and more expensive. Instead, the middle class will want goods and services to be provisioned on a universal level rather than specified (Bueno de Mesquita et al. 2003). However, clientelism, too, has also been argued to be a binding feature of democracy as these relationships connect and fix electorate demands to parties (Kitschelt 2000).

2.3.1. Weaknesses of the Middle class and Democracy

Despite extensive theoretical expectations that middle class societal forces are correlative with democracy, recent challenges have emerged to explain empirical shortcomings that remain. First, modern states create contemporary obstacles that obstruct the middle class from engaging in the democratization of the state. A wave of institutionalized autocracy scholarship has upended the connection between autocratic governments and how they may coopt democratic forces from below. Additionally, the disconnect between professional, white-collar workers from clientelism is not always deterministic. In some CEE countries, bureaucratic professionals and government employees are more directly tied into maintaining status quo equilibria which replicates clientelistic practices. These circumstances leave openings for the advent of state capture at the

behest of the middle class. Especially in the wake of state led modernization practices reinforced by neopatrimonial politics, or a society organized around bureaucracies that ensures patron-clientelist relationships (Erdmann and Engel 2007).

One miscalculation of middle class support for democracy is that successful early adopters of democracy did not have modern governments and their extensive capacity to tax and spend to contend with. In North America and Europe, through the 19th and 20th century, wages began to rise in the professional classes which resulted in a middle income stratification that was invested in their concomitant privileges (Fukuyama 2015). Conversely during the communist era, citizens of CEE countries experienced wage increases but society was kept level due to the socialist state's capacity to extract wealth and redistribute it. Lack of political options and dependence on the state for the most basic commodities and employment produced an extremely flat society with few opportunities outside of that system. To leverage access to private goods and luxuries, a high degree of tolerance was permitted for corruption and abuse (Dawisha 2014; Ledeneva 2013; Vasileva-Dienes 2019).

The subsequent surge of democratization which occurred in the 1990s is argued to be a genuine removal of the old communist elites by their revolting politics (Haggard and Kaufman 2016). It is thought that rising wealth in Eastern Europe decreased the tolerance for illegitimate political practices and ultimately led to the collapse of the old communist regimes beginning in 1989 (Huntington 1991). However, the 'wave' of democratization and market reforms which followed resulted in a muddled collection of regimes with varying degrees of societal reliance on the state rather than a uniform quality of democracy and free markets. Countries can be grouped and separated into two columns: democratizers and failed democratizers. Democratizers were those states that were able to adapt democratic institutions and reform their previous command

economies into ones driven by market forces. These include most of Central Europe and the Baltic states. The failed democracies were those further east, Ukraine, Belarus, and Russia, which were unable to institute full democratic accountability or fully open their markets (Frye 2010).

Importantly, those failed democratizers did not revert to their previous autocratic statuses and instead retained some semblance of electoral politics and the rule of law. The leaderships of these countries have come to rely on the legitimizing processes that are afforded by democratic institutions and elections. Such processes allow authoritarian institutions to take up the slack of democratic pressure from below and coopt any would-be destabilizing agents of change in order to prolong the lifespan of the regime (Gandhi and Lust-Okar 2009; Gandhi and Przeworski 2007; Geddes 1999; Magaloni 2006). This in-between status has prompted scholars to refer to these states as hybrid regimes, or institutionally mixed autocracies. In Russia, institutionalized democratic processes allow for opposition parties to compete at all levels of the government though the United Russia Party has dominated electoral politics since 1999.¹⁸

Hybrid regime theory is unable to contend with all aspects of the continued success experienced by CEE's failed democratizers. The preference to use cooptation through electoral politics has the potential to lead to those same competitive processes which can elevate viable alternatives. Instead, mixed regimes may merely represent symptoms of a specific stage in the transitory process of democratization (Stokke and Aung 2020), and mixed regimes may not be as resistant to political change as previously theorized (Knutsen and Nygård 2015). This is because the cooptation of opposition parties and the creation of rule of law norms has the potential to

¹⁸ Putin's United Russia evolved from the Unity party that was created by Kremlin insiders as a means of challenging Fatherland-All Russia in the 1999 Duma and presidential elections. The party was a merger of Unity with the Fatherland, Our Home, and Russian Agrarian parties and has since dominated Russian electoral politics and has maintained the most seats in the Duma.

gain traction over time. Recent electoral results in Russia support this democratization assertion as opposition candidates have gained in national and local elections in the past few years (Smyth 2019).¹⁹

Additionally, regime theory offers some explanation as to why nondemocratic regimes may adopt democratic institutions but offers little in the way of why a polity will go along with those choices. Likewise, they propose deficient insight as to when a polity will go along with democratically eroding behavior per the recent decline of democratic quality in Central and Eastern Europe. It must be considered if democracy is functioning in these societies as desired. For instance, in a democracy, political elites seek to win elections and so they tap into powerfully salient forces with the interests of middle class groups being one of those forces. The middle class voters of these countries may be affected by a variety of issues that turn them increasingly towards populist and polarizing parties. These issues include their overall size within the polity and how entrenched corruption and clientelism can interfere with societal functions.

The size of middle class affects not only the amount of agency that the middle class can wield in order to coordinate political action but also how their interests relate to democracy. Models have shown that the more numerous the middle class is the stronger a democracy will be (Lu 2005). Yet, the amount of professional and highly educated population differs greatly from country to country in Central and Eastern Europe. Despite emerging from command economies that suppressed social mobility, CEE countries have transitioned from their communist forms as socially dynamic countries and with increasingly stratified socioeconomic classes.

¹⁹ Local Russian election results in 2019 reduced United Russia party's dominance over several key cities. Increased protests and government resistance has led some to contemplate the possibility of future political crises in coming 2021 and 2024 elections. Smyth, Regina. "Moscow's Municipal Elections Illustrate the Growing Political Crisis in Russia."

As stated earlier, it is much more difficult to measure middle class sizes in the failed democratizers of Central and Eastern Europe because they are more likely to be smaller and less cohesive (Nissanov 2017). In Russia, the middle class's relative size to the rest of the population makes its position in the economy much weaker when compared to its CEE neighbors (Begemann 2018). The middle class is not stable in countries where its presence is more easily measured. In the CEE countries that successfully democratized, economic and survey data have some scholars troubled that indicators are showing higher levels of middle class destabilization (Drahokoupil and Piasna 2018; Žičkutė 2013). A lack of mobilization from the polity related to this instability may indicate an increased tolerance for inequality and social stratification. Such tacit support would signal a shift in values away from the egalitarian principles that defined pre-1989 CEE countries (Josifidis, Supic, and Glavaski 2018).

According to some scholars, the shifts in values and the challenges brought on by the diminishment of socioeconomic standards has had several deleterious effects for middle class behavior (Chen and Lu 2011; Ross 2019). Firstly, it is expected that values and education affect the ideological appeal of parties who may be democratically unscrupulous. The evidence is not as clear in Central and Eastern Europe, however. For instance, it is supposed that increased tolerance and cultural openness correlates with expanded cognitive resources (Lipset 1959; Stubager 2008). However, the attractiveness of anti-immigrant and nationalistic parties is even popular amongst the most educated classes who have been theorized to be more resistant to populist rhetoric (van Hauwaert and van Kessel 2018). Higher educated groups in CEE countries are also more likely to turn out to vote which makes it difficult to argue that the political successes of populist parties in Europe are due to educational gaps between voters (Sondheimer and Green 2010).

Why the middle class may support illiberal policies and parties has been the source of some focus in recent decades and has produced some durable results in dysfunctional democracies (e.g., Russia, and China). In China, for instance, rising wealth and a distinguishable middle class has not led to predictions of democratic revolution that many observers may have theorized or hoped for. A logic of cooptation and clientelistic offerings have been proposed as sources that remand Chinese citizens to authoritarian politics (Chen and Lu 2011). Chinese citizens are in a system in which they exchange political voice for financial prosperity. Russia's middle class operates in a similar fashion and often go further in participating in corruption.

It remains to be demonstrated if, and how, democracy could be downgraded in countries that have successfully transitioned. Citizens in autocracies may not possess strong democratic feelings in their regimes but there is little agreeance as to how a polity may backslide from a consolidated democracy. Evidence regarding anti-democratic attitudes is much more contradictory in such instances. A Pew survey of Poland from 2020 showed that seven in ten Poles believed voting gives them a say in government. This result was higher than in France (67%) or Germany (62%) (Mordecai 2020). In that same survey, however, barely less than five out ten Poles felt it was important that opposition parties should be able to operate freely in a democracy. These kinds of inconsistencies are lubricative for democratic decline and certainly do little to reinforce the importance of electoral competition in political discourse. These discrepancies also indicate a possible confusion between attitudes and actual voting behavior that I go into more detail discussing in Chapters 2 and 3.

Some researchers point to populism as the main culprit. The associated rise of populist parties in Europe has produced several descriptions and explications within social and political sciences. Populism, in this dissertation, represents the clash between outsider and insider groups

that signify the “antagonist and purportedly homogenous groups, the pure and the corrupt elite” respectively (Zagórski and Santana 2021, 265). There is a strong relationship between populism and societal polarization as such. The heightened appeal of an outsider candidates may, likewise, indicate failures within democratic polities to include disaffected voters as a part of its political discourse (Kaltwasser 2014). Even after electoral success, populist parties maintain their reliance on a polarized framing of society as they see it as necessary for continued political support (van Kessel 2015). Parties do so by redefining which groups are loyal in society and then selectively rewarding those groups (Zagórski and Santana 2021). It is this reward mechanism that reinforces personalistic and patron-clientelist linkages between enterprising elites and their constituencies. In this paper, I do not discern between populism of a democratic or autocratic variety but only use the term as a viable theme of elite rhetoric and campaign promises. For instance, while Putin’s rule would not be considered populist, the way he appeals himself to Russian voters could be considered as such (Burrett 2020).

Instead of deconstructing corrupt bargains and clientelist networks, middle income groups may become more dependent on them to sustain their privileges and livelihood. The latter point is especially relevant given the mediating relationship that once existed between state and workers under socialism that corrupted principal-agent behavior. The Soviet remnants of the *power-vertical* are still used to describe the ever-present vestiges of Russian political and economic elite and how the population must interact with these phantom institutions through a practice referred to as *systema* (Dawisha 2014; Ledeneva 2013).²⁰ The informality of social systems and required adherence to unwritten rules deteriorates trust and inhibits cooperation

²⁰ Sistema (система) is the description of unwritten rules regarding social and political relationships in Russia that is theorized to underlie personal and public interactions. Ledeneva (2013, 249) states, “Sistema is complex, anonymous, unpredictable and seemingly irrational, but it serves to glue society together, to distribute resources and to mobilize people; it contributes to both stability and change; and it ensures its own reproduction.”

within larger, and more formal systems (Vasileva-Dienes 2019). Even amongst the successful democratizers, personalistic and patron-client relationships are beginning to become more apparent. Van de Walle (2003) characterized these corrupt and clientelistic procedures as intrinsic to the modern state which has a higher capacity to extract wealth and redistribute it for political gain.

Even the modern bureaucratic structures that were once considered quite robust in CEE countries that developed outside of the Soviet Union show signs of feebleness. The formation of a highly trained corps of competent government agents since the 1970's provided an advantage to some CEE countries that had higher levels of autonomy outside of direct Soviet control. During the early stages of democratization, bureaucratic appointments were commiserated with professional development and education rather than totally beholden to patronage or party building (Wasilewski 1990). Recent tensions in CEE countries have given rise to corrupt bargains by the administrative elements of society in the wake of declining trust, and elite-popular polarization. For example, in Hungary, the public's perception of its institutions has become so bad that one-third of polled Hungarians are convinced that high levels of corruption is present in their own country (Makarenko 2020).

2.4. Economic Vulnerability and Democratization

While modernization scholarship points to the evolving nature of values due to middle class development and professionalization, there is an economic dimension that should not go unappreciated. The control of capital and its relationship with the political structures that maintain economic systems has been central to the work of democracy scholars, such as Charles Linblom (1977), who have argued that businesses have a distinct advantage in democracies. Critics of this argument have pointed more towards the sophisticated nature in which capitalism

and democracies coordinate and relate to each another (Dahl 1991). Still, debate abounds as to the necessary or sufficient relationship between capitalism and democracy (McMann 2012). These debates center around the institutionalization of democracy, how those institutions serve capitalist interests, how opportunities within society allow for economic mobility, and the dependencies and vulnerabilities produced by capitalistic systems.

There is a suspicion that capitalist systems are more conducive to the creation of democracy as a bourgeois class is necessary to facilitate interest in capital protections and the rule of law being one of its defining characteristics (Schmitter and Todor 2014). Yet democracy has been shown to not be solely dependent on economic mobility as poor states are not incapable of democratizing themselves. Instead, democratization represents an “equalized power distribution among groups”, which implies a relatively even distribution of resources (Schmitter and Todor 2014, 88). This is necessary as, otherwise, middle class groups may be hesitant to democratize for fear of downward redistribution of their own resources and assets (Bradshaw et al. 1993; Huber and Stephens 2014). The middle class will seek to protect itself from the redistributive lust from society’s masses and design democracy to be that shield. Therefore, the size of the middle class and its disposition amongst the other classes is an important aspect to consider when understanding the relationship between capitalism and democracy.

McMann (2012, 4) contended that the “economically autonomous man” is the most essential aspect of capitalism’s relationship with democratic outcomes. If this is the case, it becomes essential to understand the relationship between state governance over market forces which promote or stifle the economic autonomy of its citizens. Democracies require institutional constraints to flourish but so too must institutions be used to govern free markets. North’s (1990) thesis on the relationship between repeated interactions lays out this fact. Repeated interactions

change the equilibrium of trust in such a system which increases the credibility of those participating. They are more likely to adhere to the rules of that system and legitimately punish defectors.

It is this system of rules promoted by repeated interactions that that make up institutions, according to North. Institutions are constraints that are humanly devised as means of managing social, economic, and political interactions and may be both formal and informal (North 1990). Institutions enhance markets by way of institutional oversight that manages secular transactions. In free market systems, institutions facilitate economic interactions by decreasing unknown information between participants and, therefore, decreasing the transactional costs associated with trade (Ostrom 1993). In capitalistic democracies, institutions function as protections for the material interests of the middle class who advocate against governmental interferences or arbitrary seizures of property and prefer the predictability inherent in rule of law practices (Maravall and Przeworski 2003).

Some scholars promote the presence of a capable state as essential for the functionality of capitalism and democracy which, in turn, rely heavily on the nature and imposition of institutions (Acemoglu and Robinson 2012; Kohli 2004). In multi-class societies, institutions that govern the boundaries of state and market relationships are essential for the developmental state to manage clashing demands within itself. When those institutions are powerful enough to manage both contradicting forces with positive market outcomes the result is a cohesive-capitalist state that fuels growth and prosperity (Kohli 2004, 13). Without secular governance over separating state-market relationships, the state is likely to become neopatrimonial and personalistic as it seeks to generate profit a few enterprising individuals at the expense of the greater whole (Kohli 2004, 15). Acemoglu and Robinson (2012) identified this dichotomy between states as “inclusive” and

“extractive” regimes. These were epitomized by their institutionalized capacity to share access to resources or restrict them to a privileged few who could extract resources for their benefits. Such statuses were likewise used to determine the success of states.

Democracies, while less likely to be extractive, are not immune to clientelistic pressure which emerges between party members and the guarantees they make to their constituents. Wantchekon’s (2003) survey of villages in Benin during an election cycle highlights the enduring connection between party graft and voting behavior. The nature of embedded patron-clientelistic relationships between a polity and their elected representatives are managed by the limitations of what may be offered and how those promises may be implemented. Per Kitschelt and Kselman (2013), the amount of reliance on party platforms for the promise of club-like goods, or ‘programmatic platforms’ rather than clientelism, is contingent on increased levels of development and democratization. This is due to the transactional costs associated with clientelistic goods dispersion and to effectively monitor the political loyalties of their constituents. In democracy, it no longer becomes evidently clear that loyalty can be easily coerced or purchased because of the availability of electoral choices defect to. However, in younger democracies, which lack credibility capital, the connection between party members and constituents is more likely to buttressed by personalistic guarantees (Keefer and Vlaicu 2008).

2.4.1. The Varieties of Capitalism

Just as all democracies are not equal in kind, so too do contradictions between capitalistic systems exist. Some scholars have interpreted the connections between types of capitalism and democratic quality as being more theoretically related (Schmitter and Todor 2014, 89). The convergence between institutional pressures and capitalistic outcomes is made clearer when considering the comparative capitalist approach and the varieties of capitalism’s (VoC)

interpretation of divergent capitalisms around the globe. The VoC approach examines the institutionalized relationships between labor, government, and capital as a means of explaining divergence between market types within the limited scope of the developed European and British/American economies. In this original and narrower framework, divergent capitalist outcomes were the result of variant levels of state involvement in the coordination of market-based interactions between the factors of production (FoP): labor and capital owning firms. This was expressed by Hall and Soskice (2001) as two archetypal economic regimes: *liberal market economies* (LME) and *coordinated market economies* (CME). The relevant distinctions between these capitalist types hinged on how the state manages the FoP interactions either as a hands-on corporatist approach (CME), or a deregulated force in favor of market solutions (LME).

Naturally, VoC types must manage capital relationships within a globalized context. The global reliance on the shuffling of capital between countries as firms seek out comparative advantage in both markets and labor costs has had an increased influence over invoked state-protectionist responses (Pierre 2015). The reaction by some scholars to globalization and the untethering of capital has been to examine the dependent linkages of capital dependent markets and state regulatory practices (Hay and Rosamond 2002; Pierre 2015). This has informed a wave of research which largely critiques these dependencies as deleterious to state development (Nölke and Vliegenthart 2009; Wallerstein 1976). Still, not all associations are negative. The successful development of market economies in CEE has been argued to be the result of outside investment linkages before 1990 (Pula 2018). Contemporarily, economic growth for transitioning economies continues to be tied up in their ability to attract investment dollars with cheap labor and technology transfers via transnational firms or TNCs (Nölke and Vliegenthart 2009, 672). Dunning's (1988) OLI paradigm emphasized that the coordination between foreign direct

investment (FDI) and its influence over the trajectory of state development cannot be easily explained away.²¹

2.4.2. Economic Vulnerability in CEE Countries

Globalized capital not only creates dependencies between developing economies, even in Central and Eastern Europe, but also leads to a decline in social equality and exacerbates income inequality. As a result, there has been a collection of scholarship which has investigated the connection between inequality and democratic backsliding (Drahokoupil and Piasna 2018; Saar and Trumm 2017; Večerník 2012; Wood and Allen 2020). The two political-economy archetypes promoted by VoC have been very incomplete in application to CCE cases. In this regard, a subsequent literature that expands the VoC has been very prolific by expanding comparative capitalism arguments and applying them to wider range of cases and develop more accurate capitalistic archetypes to better explain these transition economies (Nölke and Vliegenthart 2009; Becker and Vasileva 2017; Fainshmidt et al. 2018).

Democratization and free markets may have a tangible association but there remains a constructive debate as to which leads to which. It seems plausible that erecting democracy before the imposition of institutional constraints that allow it to function may act to undermine the success of democracy (Rose and Shin 2001). This has been promoted as sequence theory of electoral and economic development and has been particularly applied to Central and Eastern Europe's democratization in the 1990s. David Olson (1998) argued that, in democratizing CEE countries, the development of parties and nascent legislatures was far more likely to lead to

²¹ John Dunning's eclectic paradigm (1988) is a variation of internalization theory which argues R&D costs are absorbed by firms become public goods in intermediate markets. He expanded the theory to account for how interstate trade flows from a logic of comparative advantage of ownership, location, and internationalization benefits. Developing states make use of FDI through the transfer of technologies which they then use to develop their own markets.

irresponsible leadership outcomes as interest groups and parties had not yet synthesized to counteract elite decision making. Institutions were still far too weak to challenge runaway decision making which left many CEE countries on unstable footing as they transitioned. Still others contend that the sequence of democratization through party development and the imposition of free markets does not matter as much because of the graduality of the democratic transition process will limit hostile takeovers by elites (Carothers 2007).

It is also important to understand what effects democratizing and market deregulation has had in CEE countries. By adopting free markets, nascent CEE democracies were able to court new forms of private ownership and investment. This investment came in both local forms and as outside investment dollars or foreign direct investment (FDI). FDI inflows are theorized to depend heavily on state level policy which may compel countries to acquiesce to globalized capital's demand for fewer regulations on their markets and less protections for labor (Pandya 2010). This has led some scholars in the VoC literature to conclude that CEE countries that have used policies that encouraged FDI inflows have encouraged a cycle of dependency on foreign dollars (Lane 2005; Myant and Drahokoupil 2012; Nölke and Vliegenthart 2009). Nölke and Vliegenthart (2009) were one of the first scholars who pushed the boundaries of the original, dichotomous VoC literature in this direction. They identified a new variety of comparative capitalism in CEE countries as *dependent market economies* (DME) which purposely draws parallels to Dependency Theory developed in the 1970's (Wallerstein 1976) and the theories expansion to account for Latin American dependence on foreign capital (Bollen 1983). In CEE countries, the lynchpin of dependency is centered around converting CEE economies into an assembly point for high value goods using cheaper labor to then export to Western European countries.

The vulnerability of DMEs became more apparent in the aftermath of the Great Recession in 2008 as market uncertainty led to a domino of economic recessions and capital flight (Ban 2013).²² This event shifted CEE governments' appetite and dependence on foreign capital as investment dollars were shown to be footloose in its quest for comparative advantage (Kattel 2010). In response, many of those countries thought of as dependent market economies have switched gears and became more heavily entrenched in managing their own economies through regulation and increased government ownership of domestic firms. The process of re-etatization, or returning to state control, was aimed at gaining better control over market fluctuations and to protect against the social problems that follow economic downturns. Per (Ozsvald (2019), "when it comes to the question of whether state ownership in public companies is justified, many argue that the state's role includes solving and managing broader social issues beyond private corporate interests."

How these seemingly contradictory forces have been able to undergo this union has been debated, albeit unsatisfactorily. Some authors contend that the entrenchment of the economy back into society is 'long over due' (Dolfsma and Grosman 2019, 579). Researchers argue it is the result of higher levels of corruption in the wake of aggressive state consolidation and point towards an increase of state influence over media and a heightened reliance on interpersonal bargaining between the individual and the state (Becker and Vasileva 2017). Other scholars blame the destabilizing forces inherent in deregulated markets and the subsequent effects of increasing inequality across economic groups within society (Acemoglu and Robinson 2006; Auguste 2018; Večerník 2012). To their credit, shrinking middle income populations have

²² The Great Recession was a period of rapid economic decline felt across most developed economies, especially in North America and Europe from 2007 to 2009. Its causes have been linked to a housing bubble in the United States, but quickly emanated outwards to other countries due to the interconnected, global economy that most developed states were tied into. For a detailed analysis, see (Bogetic 2013).

become the norm rather than the exception in CEE societies. As a result, the Great Recession saw greater political pressure from the middle onto elite policy makers who had lost credibility to control economic outcomes (Szanyi 2022).

2.5. Putting the Pieces Together

By exploring the relationship between the economic growth and democratic conditions in Central and Eastern Europe, several key confounding factors have emerged. Firstly, the evolution of economic conditions in CEE countries has led to a counterintuitive outcome. Wealth has generally increased in CEE countries, but the prognosis of democracy is not as certain as it once was in the region. Secondly, the influence of the state in managing the economy has become increasingly apparent in CEE countries which encourages any discourse that treats with political outcomes to entreat with reference to political-economic relationships. Finally, the viability of middle class voters as a constituent source of incumbent state capture has yet to be fully explicated across CEE cases. As I go on to elucidate, these motivating factors go beyond the expectations of education and ideology and instead fall in line with a vulnerable middle class that finds itself structurally deposed between state and market forces.

Middle class vulnerability is a result of two tensions. First, growing economic inequality, and fear of social and material loss have been exacerbated by years of economic crisis and instability. These vulnerabilities expressed by middle class groups lead to societal friction. Social breakdown created by economic growth is not a novel concept within the social sciences and has informed a variety of theories from Karl Marx to Theda Skocpol. Karl Polanyi (1956) famously referred to a similar tension as key to his famous *double movement* which occurs when market capitalism grows, and labor seeks government protections from the predations of market forces. Labor does so by seeking to re-embed markets back within the confines of society. Blythe (2002)

further expounded on this transformational tension by emphasizing the informational asymmetries produced because of uncertainties that change inevitably brings. Uneven economic growth affects most societies, but it is the pervasive feeling of vulnerability that is specific to middle class groups which leads to disruptive outcomes for democracy.

The vulnerability of middle class interests assumes that they are operating in an institutional framework that governs behaviors through rule setting and norm building (North 1990). These institutions act as rationally constraining structures for which all layers of society operate within and to at least maintain their current statuses if not at least to elevate their status. However, the vulnerabilities experienced by a group produces a disequilibrium crisis that can create and legitimize political responses that targets the interests and welfare of that constituency. Institutional frameworks constrain the ways in which political elites may respond to any crisis as well as conditions and obscures rational decision-making regarding material distribution and the maintenance of control by political groups (Boix 2003). Typical notions of institutional change that legitimize policy shifts are thought of in gradual terms of change (James Mahoney and Thelen 2010). However, crisis can have an exponential effect on policy change. It can shift loyalties and create new pathways of legitimate political response. Political elites may elevate competition between social groups and use techniques that create insider and outsider effects tied to incentives for loyal behavior and gain political advantage.

The middle class makes for an ideal constituency for elite attempts at state-capture because of their status and relation to society. Previous theories may have played up poverty and income inequality amongst the poorer segments of society as ideal candidates, but these arguments discount vulnerabilities experienced within the middle class (Weitz-Shapiro 2008). Middle income workers are more likely to rely on credit, spend more of their money, and

consume more which makes any economic instability likely to hurt their status and sift them out of the middle rungs of society (Bussolo et al. 2018). It is not a stretch to assume that enterprising elites can then target rent transfers to these vulnerable elements in society. This is not as costly as it seems because such patronage only needs to make up the material differences produced by middle class insecurity. Furthermore, it encourages a level of dependence on future transfers that ensures future loyalty. Lower income individuals may use welfare to rise to middle income status which may shift their interests, attitudes, and preferences when they change social groups. Welfare targeted at the middle of society is unlikely to push recipients into high earner status which resists the possibility of shifting those dependency preferences.

The second tension of middle class vulnerability has been in response to economic development and growing societal anxieties are structured is by the relationship between the state and the factors of production. More specifically, the vulnerability of the middle class was exacerbated by the systematic weakening of organized labor in CEE countries since the 1990s. The erosion of trade unions, labor coordination, and collective bargaining has been a key component of post-communist marketization with attendant deleterious effects for organized labor (Drahokoupil 2009; Magda 2017; Vanhuysse 2007). In Central and Eastern Europe, only Romania possesses substantial collective bargaining coverage, at approximately 70%. Without labor, collective action costs are much higher as organized unions provide a stable and cheap source of organizational resources (Naidu 2019).²³

Weak organized labor means the middle class is more likely to participate along with the corrupt behavior of parties and permit the state's capture. In addition to their weak bargaining

²³ Collective action represents a coordination dilemma that must be overcome for individuals, groups, or states to coordinate their various interests in a way that they are able to get some, or all their goals met. For more detail see Mancur Olson's *Collective Action* (Olson 1989).

position, the vulnerability of the middle classes and their susceptibility for clientelistic politics is colored by their tenuous position between the state and the interests of private firms. The weakness of labor in CEE countries puts a higher premium on middle class groups to coordinate with those elements of society which determine their access to privileges, income, and status. Unlike Western European precedence, CEE workers have relatively low unionization and labor bargaining protection. This increased the effects of crisis because it can push workers towards more radical demands during such events. They may seek out market protections from responsive parties and elites who will trade class security for political support. Even among middle-class workers, the lack of labor representation adds to their sense of confusion and dissociation when vulnerabilities are introduced.

2.5.1. Redistributing the State for Political Support

In order to clientelize the middle class, elites and parties must have a cost advantage to do so. Organizations and collective action tools are a few ways that can alter these costs; for instance, in the Middle East the middle class are often coopted by political parties who use Islamic organizations to bring voters together and focus their interests (Clark 2004). However, to exchange rents for political support, political elites must have access to a large number of resources. High levels of state management of the economy provide easier access for the state to rely on neopatrimonial and clientelistic networks (Becker and Vasileva 2017).

The more economy managed by the state, then the more state can be theoretically captured and redistributed as a result. That is to say, clientelization of constituencies, like the middle class, allows parties to gain an advantage. Welfare economies that provide a social security net to all citizens, or tax and redistribute are not done so as a nefarious scheme to fuse the party to the state. Nor are the public goods separable from the larger public as obviously as

constituent clientelism cases. Such systems will rely on state-capitalist economic relationships whereby “the state dominates markets primarily for political gain” (Bremmer 2010, 250). The state can own a majority or minority of shares in companies and subsidizes private industry through targeted policies and privileges (Kozarzewski and Bałtowski 2019, 3). Both labor and firms are generally weak and beholden to the ‘grabbing’ hand of the state in these instances. However, this process is not without its problems. Party control over patronage and vote buying will often have a negative effect on further development and future rent procurement (Shchukin and Arbatli 2022).

The middle class makes for an optimum constituency for clientelism because of the unique features of post-communist Europe. These reasons are residual state presence in the economy after reforms, weak organized labor, and a vulnerable middle class. Income stratification, wealth accumulation, and economic crisis have made middle income households a distinguishable target for clientelization and patronage because they are theoretically more open and willing to receive these benefits. Additionally, redistribution in exchange for loyalty is more compelling within the middle class because the calculus for obliging clientelistic parties for resources and goods and then defecting are distinct from lower and higher income groups. Higher income groups are more likely to seize the state for themselves when opportunities align (Marandici 2021). Meanwhile, the lower strata’s size can often make it an unwieldy ally for redistribution and its desire to level off societal inequalities distorts future economic returns and growth (Boix 2003; Huber and Stephens 2014). Middle income households can be aimed at effectively with specific public goods that the group is more likely to take advantage while simultaneously allowing for political parties to appear programmatic in their policies.

As state investment in the economy goes down, so too does the cost effectiveness of clientelistic policies targeted at middle class constituencies. Less access to state resources coupled with an increased cost to monitoring due to more alternatives in the form of opposition parties and a more robust private economy that can redistribute economic gains through employment. The opposite is true when there is a lack of political and economic alternatives other than the state. In these systems, rampant informality and personalistic networks ensures that abuses and corrupt behavior proliferates. This makes defection monitoring cheap as the vulnerable elements of society that promote the dominance of their patrons which is unlikely to falter because loyalty is one of their few tradeable political commodities. I refer to this as *strategic dependence*.

The strategic dependence of the middle class is more ambiguous in systems where state and private capitalism is in play. This raises costs associated with payoffs and lowers costs of defection and disloyalty. However, these costs can be altered by introducing political polarization into the system. For the middle class, the potency of both state and firms over welfare offerings strains their obligations as access to the middle class is *double doored* in this case. Enterprising politicians can take advantage of political polarization by conditioning access to public goods to a narrower group of supporters and loyalists. This type of outcome has become especially apparent after the 2008-2009 financial crisis which undid pitted parties and leaders against the liberal reforms that were undertaken in the 1990s in Central and Eastern Europe. Many states in Central and Eastern Europe increased their power over their economy at the cost of independent businesses and foreign direct investment. This likewise decreased the costs of state capture as the amounts of resources at the disposal of exploitative elites increased as well.

Meanwhile, those states that have very little state intrusion into the economy will be much more market oriented. Market oriented economies proliferate with independent firms and businesses and able to operate without aggressive state interference. The likelihood of state capture is low because the number of resources that can be distributed is much smaller even if demand is still high. These states are not bereft of vulnerable middle class individuals who may seek out parties and elites to promote their social welfare. As with markets, demand outstrips the available supply which drives up the costs inherent in state capture. In this case, elites are unlikely to promote rent transfers to the middle class except as universal public goods. The market is shared amongst a variety of independent players and vested actors with no single interest group or entity controlling the commanding heights of the economy. Political competition will be higher in tandem with the collision of multiple interests and democracy is unlikely to be in jeopardy.

The variation of state or market dominated capitalism within a country interacts with vulnerabilities experienced within society. The middle class provides a furtive constituency for inauspicious elites to apply policies that better position them to capture the state or entrench completely into it. Democratic decline is merely an outgrowth of the collision between clientelistic practices and growing rates of economic inequality. The pro-democratic expectations that are inherent in the center of society are turned on its head in this case. Political behavior like protesting and voting can become absorbed by political interests when those interests are a cheap target for elites (McMann 2012, 1). This becomes especially important to consider when the leadership in a state work to obligate loyalties in exchange for access to limited resources. To borrow the terminology of Albert Hirschman (1970), loyalty, as it is defined within the

conditions of societal associations, becomes a valuable tool to maintain one's socioeconomic status, rather than to voice one's dissent.

3. A THEORY OF CONSTITUENT STATE CAPTURE

What has been presented thus far is a concept of Central and Eastern European democratic decline and a theory that may explain why this phenomenon occurs. In CEE countries, the appeal of populist rhetoric and political parties that do little to promote democracy have created a call to action for researchers to reflect on its occurrence. I have evoked three democratic typologies as being typical of CEE countries: democracy, retrograde democracy, and constrained democracy but I have yet to fully develop as to how these concepts come about. These outcomes are clear and evident when considering the literature and data regarding democracy and how it has shifted in the past decade. However, this clarity becomes less so when discussing the causal mechanisms. There is a large amount of theoretical and empirical ground that needs to be covered in this work to ascertain which variables are associated to which outcomes. In doing so I have produced a theory that explains democratic outcomes as a result of state capture by elites.

In Chapters 1 and 2, I laid out the foundations of what I established as constituent state capture. In this regard, democratic outcomes are manipulated by a process of clientelism that targets the middle class of society. The middle class is comprised of professional, educated, and skilled labor and has access to higher incomes and property that is indicative of their social station. Why this group may be a cost-effective supporter of nondemocratic policies has gone unappreciated. Political agents use clientelism as a method of exchange between themselves and electoral groups within society in order to gain autonomy to act over the government. In this case, it is the middle class that represents a constituent client. By commandeering the institutions of the state, the state's captors can then exploit more resources and re-engineer those institutions to increase the longevity of their own tenure. Scholars who focus on the phenomenon identify porous institutions and poor governance of the state as the main method that guarantees access to

resources (Grzymala-Busse 2008, 640). I, however, have broken down this limited theoretical framework and supplemented it with a parsimonious theory of democratic outcomes in Central and Eastern Europe.

The foundations of my argument have already been given a cursory explanation. In this chapter I elucidate the entirety of the theory, its applicability, and its causal mechanisms in order to dispel any remaining uncertainties. The development of economic state capture is predicted by high levels of state management of the economy (SMotE) and a reaction to socioeconomic destabilization that I've term as *middle class vulnerabilities*. These vulnerabilities interact with elites who rely on institutional-capitalistic conditions to solve these issues in legitimate ways. Political responses and the amount of state-capitalism overlap to create the three levels of democracy outcomes. Throughout this chapter I lay out what these variables are, how they are operationalized, and what the circumstance of each particular instance may lead to

This chapter presents the theory in a series of steps that articulate its various component parts. I introduce several rival hypotheses and explanations that challenge this dissertation's argument and set these up as possible counter arguments over the course of the book. Once these have been laid out, I go about setting up my theory in several stages. I lay out the social vulnerabilities experienced by the middle class and how its engages with elites. Uneven economic growth and crises in CEE countries has produced an appetite for state-capitalist solutions in reaction to the liberal reforms of the 1990s. These inequalities exacerbate the vulnerabilities of middle class groups, which are spelled out in the following sections. Lastly, I express how various levels of control by the state and firms over market conditions allow governments to respond to the vulnerable middle class in ways that censor or deregulate that same market. Each of these outcomes are accompanied by formalized hypotheses.

3.1. The Theory

Constituent clientelism relies on a logic of supply and demand. Clientelistic networks must be cost effective in the first place for parties to then be able to redistribute rents to voters. Middle class vulnerabilities ensure that there is a ready and available demand for patronage, but it doesn't determine the number of resources available to be redistributed. In other words, it doesn't determine clientelistic supply that must first be available. To this end, the amount of control over the economy the state can exert ensures the availability of resources that can be offered in exchange for going along with state capture. The liberalization process of the 1990s led to the various capitalistic systems that citizens found themselves a part of. Where the state never fully liberalized and maintained stable access to a percentage of the economy, parties similarly could use those large tracts of resources and clientelize the middle class. Constituents may permit incumbents to capture the state in exchange for goods, services, and privileges.

The importance of the state's access to wealth cannot be underestimated. Access to revenues is often conflated as a state's defining characteristic. As Edmund Burke (1909, 14) famously wrote, "the revenue of the state is the state." With that in mind, it is important to weigh the state's resources with the propensity for state capture. The size of SMotE is important to consider as its effect is multiplicative with constituent vulnerabilities. I evaluate this as the prevalence of state capitalist policy and institutional make up. In the contemporaneous sense, state capitalism is a political-economic arrangement indicated by a bureaucratic free market system which is "particular to each government that practices it" (Bremmer 2010, 23). This definition requires further explanation. State management of the economy reflects a particular level of domestic state involvement in the free and regulated market. Assets do not have to be directly owned by the state, though often times countries will partially or completely own large

firms and enterprises. Policy tools are market-oriented and mercantile in character. These policies seek to protect domestic industry and promote national champions while not necessarily undermining the private economy. Put another way, “market forces are good, as long as state control over key economic aspects remains intact” (McNally 2013, 39). In this dissertation, I estimate SMotE as the state’s share of the overall economy and its contribution to production.

The more the state controls, the more goods elites can offer or limit in exchange for support. They can increase public good distribution or narrow it down as incentives to loyal supporters. This changes the calculus for state capture in several ways. First, it raises the payoff for state capture as there are more resources to risk the gamble if a party should fail to capture the state successfully or when voters renege. Candidates are often defeated by lack of resources, either to offer or to finance their campaign.

The calculus for elites who target the middle class therefore changes the more that resources are available because more expenditures can balance against the overhead of clientelizing voters who have more resources to begin with. Figure 3-1 presents a 2x3 matrix of when the middle class is an affordable target for clientelism and patronage. Only when this group experiences crises and the availability of resources to be distributed is increased should we see the calculus shift towards the middle as an efficient source of clientelism. The highest levels of state managed resources are likewise to be the most cost-efficient arrangement. When access to state assets is not as robust, distribution for loyalty must be more selective. When the state has low SMotE, demand from the middle class outstrips the supply of patronage.

		State Management of the Economy		
		Low	Medium	High
Middle-Class	Not Vulnerable	Cost Prohibitive	Cost Prohibitive	Cost Prohibitive
	Vulnerable	Cost Prohibitive	Selectively Cost Efficient	Cost Efficient

Figure 3-1 Elite Calculus for Middle class Clientelism

3.1.1. Strategic Dependence and the Middle Class

The cost effectiveness of the middle class for side transfers is incumbent on their status in society. Vulnerability occurs when their status is no longer secure or future prospects begin to deteriorate. Economic reforms, financial crises, and unequal distribution of resources all serve to lower the costs for middle income voters to support parties in exchange for patronage. If this group is not vulnerable, then the costs of buying off the group is too cost prohibitive. It would be more effective for parties to engage in large scale welfare programs and programmatic policies rather than clientelism. This is because the middle class has its own particular agenda and preferences which they wish to electorally activate. When they are vulnerable, they must actively switch their loyalty to whichever economic force may benefit them. These forces often have primacy over economic production. I refer to this as *strategic dependence*. It emphasizes the dependent nature of voters in a country due to the relative disposition of market and state economic status.

Vulnerabilities can be attached to the fallibility of organized labor in CEE societies which give middle class workers very little protection against market forces and are unlikely to be able

to coordinate efficiently. When parties can use the state as the supreme force for securing middle class fortunes, middle income voters will likewise vote for parties to secure the state. These incumbents can offer state-capitalist solutions that are likely to resonate with middle class preferences which further elevates their dependence on the state.

The state is not always dominant in the market though. Various degrees of state involvement in economic outcomes means that we should expect changes to the strategic dependence of voters and the cost efficiency of building middle class clientelistic networks. When markets dominate in a country, private businesses and independent firms can be seen as strategically optimum for the middle class. In these instances, vulnerability is not enough to make groups cost-effective targets of clientelism. Levels of SMotE will be low as the private sector is relied upon to generate profits and wealth for society. Instead, we should expect to find higher levels of political competition as elites and parties can't directly trade off of middle class support to stack the deck in their favor.

Clientelism in countries with a moderate amount of state control presents more of a puzzle. For one, voters can see either markets or the state as a solution to the hardships they are experiencing. This challenges the assumptions of the voter's strategic dependence and provides multiple exits for voters in the middle class to renege on received payoffs. We should expect that these voters will be too expensive for elites to buy off. However, variations alter this cost calculus. The vulnerability of the middle class in these cases makes it so *some* voters are cost effective instruments for state capture. When parties can identify, and selectively target those individuals likely to remain loyal after such exchanges as well as heighten their dependence on further payoffs then the cost of doing so will equilibrate. These systems are likely to be politically polarized given that such targeting alienates group dynamics (Kinowska-Mazaraki

2021). Democracy will undergo challenges depending on which parties are able to gain political ground and utilize rent distribution to their favor.

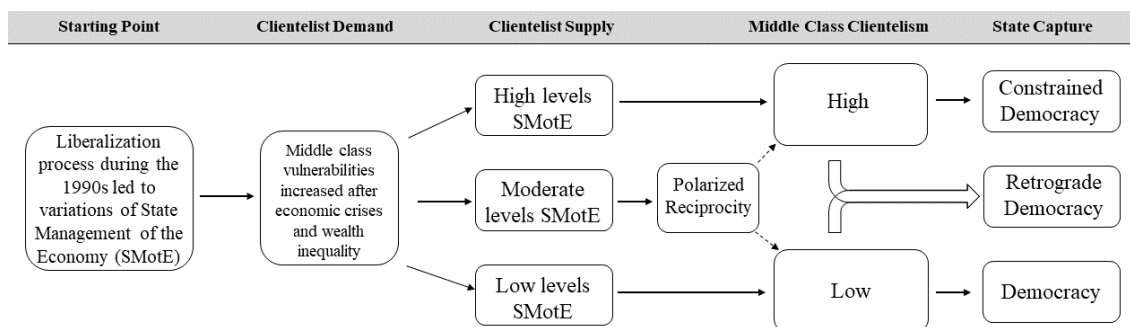


Figure 3-2 Process Tracing Model of Incumbent State Capture

I present the process tracing model in full in Figure 3-2. The final point of the figure shows the state capture outcomes as being constrained, retrograde, or nominal democracies. In CEE countries, the starting point emerged during the liberalization process in the 1990s which led to variation between how much the state was extracted from the economy. Where high levels of SMotE remained, so too do parties have access to those resources. I distinguish this as clientelist supply, or the amount that could be offered through the state by parties and elites intent on controlling more of the government. Meanwhile, clientelist demand is represented by the vulnerable middle class who have experienced insecurities in terms of economic crises, constraints on organized labor, and wealth inequality. When these forces interact, it is more likely to lead to stronger middle class clientelism and eventual incumbent state capture. Parties who operate in a system of high clientelist supply and demand have a higher chance of middle class clientelism as compared to the inverse. In the presence of moderate SMotE, however, reciprocity becomes polarized. The potential for constituent clients to renege from their obligations is much higher leading to thinner clientelistic relationships. Expectations of incumbent state capture will also be weaker. Instead, democratic outcomes depend on

competitive elections and will shift based on whether clientelistic parties and leaders gain the advantage.

3.1.2. Why Middle class, and Not Lower and Upper?

The middle class is uniquely disposed to undermine democracy when clientelized despite the presence of strong institutions that promote electoral politics. Is that a feature that is unique to this group? In short, yes and no. Clientelism is often used as a tool of state capture that targets the lower and upper rungs of society. Poorer citizens are cheaper to pay off because they are more often ready to sell their votes because they experience a marginal utility of the benefits gained (Weitz-Shapiro 2008)). However, lower income households may be too large in number to buy off in any cost effective way. Wealthy individuals are typically fewer in number but more expensive which makes selectivity and partiality important. Elites must be fiscally prudent when redistributing rents to any group. The question becomes as to whether such policies would undermine democracy if it was present.

I argue that political elites seeking to capture the state can, and do, target the middle class and that, by doing so, democracies can face severe impediments. Clientelism represents a corrupt bargain between government elites and some proportion of the population that transfers loyalty for resources or access to resources. As a result, it is correlated with lower rates of democratization regardless of who is targeted (Keefer and Vlaicu 2008; Kitschelt and Kselman 2013; S. Stokes 2005). Wealthy constituents may provide a useful material advantage for incumbents, but they are ultimately rivalrous. They may likewise seek to capture institutions for their own benefits or attempt to obstruct if their material position is threatened (Marandici 2021). Additionally, these wealthy citizens often pay more in taxes and receive less in return which makes public goods less appealing and prefer particularistic and club-like goods instead. Elites

and parties are also motivated to cast a wide net in democracies to gain as many votes as possible (Keefer and Vlaicu 2008). It is no wonder then that there is a well-regarded expectation that the poor make effective targets for clientelistic politics. While they make for cheap votes, they are often seen as the losers of clientelistic bargains between themselves and political elites which makes their use only as effective as when they are unaware of their losses. Awareness can induce them to switch parties when a better benefactor comes along (Bue, Sen, and Lindberg 2021; Weitz-Shapiro 2008).

Past interpretations of clientelism were aimed at explaining how different classes of people may explain the failure of democratization or the weakness of institutions but it does little to explain our current predicament. The rise of wealth is a generalizable phenomenon and one that should decrease the likelihood of clientelism and state capture as a result. Yet democracy falters in Central and Eastern Europe in spite of this fact. Rather than focus on oligarchs and poverty, the economically vulnerable in the middle are conditioning the kinds of outcomes being examined in this paper. Russia, Poland, and Estonia possess high shares of oligarchic elites and impoverished citizens between them and yet this fails to explain the variation of outcomes.

It's not that state capture using the middle is more effective but rather that the outcome may be more destructive for democracy. Resistance to clientelism is often placed at the lap of middle income groups because they both have the advantages to resist but also make for overall weak targets (Berenschot 2018). The ability to overcome clientelistic corruption and the forces of state capture can be placed on the shoulders of those who are best suited to resist such incursions (Alence and Pitcher 2019, 7). When civil society gives in, it could be expected that there would be less resistance to state capture overall. As a result, cooptation in the middle will gain increased traction overtime as it falls to dependency-building strategies by elites.

3.1.3. *Middle class Assumptions*

This dependence can be incentivized and encouraged because the middle class, as a concept, will be oriented towards its own preferences. These preferences are rooted in the psychological attachment to its status, and it will likewise seek to protect itself against any psychic vulnerabilities or losses (Walsh, Jennings, and Stoker 2004). However, material definitions of the middle class are used extensively in this manuscript as a calibrated tool to measure who is in middle class. I employ a statistical measurement of socioeconomic factors that define the middle class by their education, income, and employment statuses. The middle class will similarly be attached to their material status and be invested in protecting themselves from any deteriorating effects.

The material assumption of the middle class also assumes that the middle class will have a “labor” component. Older sociological scholarship under Marx, Moore, and Weber have identified the entrepreneurial and capital owning status of the bourgeois as middle class.²⁴ However, the modern middle class of Central and Eastern Europe is more likely to be identified as professional white-collar groups of educated workers rather than the capital owners from the industrial era. Despite the penumbra surrounding middle class definitions, its modern form is often associated by economists and social scientists with how close one is to the medium income or by occupational status (Vaughan-Whitehead 2016) rather than a sociological status like bourgeois or *meshchane*, to use the CEE terminology (Mironov 2017).

Kivinen’s (1989) study of Finnish society argued that any analysis of the modern middle class must also include the more marginal groups of that social band and not just higher income

²⁴ The bourgeois could likewise be expanded from middle class downwards to the *petite bourgeois* or lower caste of tradesmen and merchants. However, this paper makes no distinction within middle class specification (Kocka 1995).

earners. Per this logic, the middle class exists as a convergence of working class and bourgeois social features. Meanwhile, the modern bourgeois is constructed of owners of capital and is more relevant to business owners, entrepreneurs, and a wide range of property managers. As such, they are more likely to be identified with the upper strata in CEE societies (van Apeldoorn 2014).²⁵ The modern bourgeois could be more closely identified with Marx's notions of capital concentration and ownership rather than those citizens of the contemporary middle of society. Therefore, I distinguish the middle class in CEE countries as a component of labor that is differentiated by their income and occupational standing.

Another theoretical assumption to be taken into consideration is the unique effect that middle class attitudes may have on democracy. Scholarship, much of which has been presented here, points out the important role that the middle class plays in supporting democratic principles and commitments. There is a commiserate effect when the middle class turns towards supporting elite state capture behavior with democratic quality that is more evocative than lower- or upper class sentiments. A middle class dominated society, while still possessing inequality, will more likely be oriented towards income and status mobility based on education and occupational achievement (Lu 2005). Meanwhile, upper class groups are likely to lean towards maintaining their elite position in society and be much more resistant to distributive welfare, and entrepreneurial competition (Boix 2003). Lower-income groups, sometimes archaically referred to as the 'working class', have their interests in short term economic gain and trying to meet their basic needs. In this case, it is expected that corrupt bargains, like clientelism, is more functional to lower waged workers. For these reasons, low-income workers and the capital owning classes

²⁵ Early sociologists identified small scale capital owners as the *petite bourgeoisie* who were distinct from their more prosperous counterparts. This group likewise identify with the bourgeois culture and seek to gain similar levels of success. The differences between the bourgeois and petite bourgeois were material, not psychological affinity. See Bechhofer and Elliott (Bechhofer and Elliott 1985).

are more likely to embrace clientelism and fall into state capture traps regardless of democratic status and be sympathetic to organized clientelist states and rent seeking behavior. Moore (Moore 1993 [1966]) noted that the coordination that can arise from the highest and lowest levels of society is likely to produce totalitarian regimes oriented towards rigid class preservation (fascism) or class destruction (communism).

While the middle class is essential to the preservation of democratic norms and institutions, so too does the interplay between who is coopted by parties in their clientelistic schemes. The presence of clientelistic bargains with the middle class does not preclude democratic existence, but it does work to undermine it. This is to say, that a middle class who feels vulnerable to status decay can potentially experience preferences for parties and elites who promote democratic erosion. Attitudes for this behavior will shift under the weight of different structures which may harness or stifle middle class prospects. When tensions within that structure pull on middle class loyalties, the size and scope of constituent clientelism becomes more important to consider.

3.2. Alternative Explanations

This theory emphasizes certain political behavior as a response to economic and political conditions. State capture and middle class clientelism provides an articulate explanation to the quality of democracy experienced in contemporary CEE countries but there are several alternative hypotheses that must be explored. For one, institutional quality might be influencing elite behavior rather than the inverse. Clientelism is theorized to prey on weak systems that lack constraint or competitive electoral protections. To solve this problem, I use examples of constrained and retrograde democracies provide opportunities to place the onus of causality on elite behavior that can influence the decision making of the middle class.

Theories of democratic erosion would also be important to include in this regard. State capture provides for some theoretical explanations, but a more thorough scraping is required. Additionally, I explore how CEE democratic outcomes may be reflective of societal and historical antecedences. Namely, the perseverance of *Homo Sovieticus* and decades of command economy that can serve to explain levels of state involvement in the economy. Lastly, I explore how CEE countries may be more dependent on outside investments and foreign direct investments. Such a factor has been theorized to create an environment that contributes to institutional decline and a source of cheap rents that can be easily distributed. For example, external capital can provide a cheap source of jobs that can be politicized for party gain by determining where, when, and who gets to apply for access.

3.2.1. Behavioral Explanations

The middle class becomes an economical source of support when the state has enough resources to exploit, and the middle class is in a receptive position. While elites may poke and prod in order to leverage political gains to possibly capture more of the state, this argument places much of the causal logic on middle income to bargain with parties who will exploit their vulnerable position in society. However, there are serious contentions that the middle class electorate will often have diffuse interests that makes them difficult to capture (Cianetti, Dawson, and Hanley 2018; Markowski 2016; Tworzecki 2019). These arguments downplay the reciprocal relationship between electorate and representative. Instead, the degeneration of democracy is directed by exploitative political elites who are only inclined towards growing their state capture without electoral support. This debate is identified as supply-sided, state capture rather than observing and moving party platforms to meet the demands of changing constituencies. If this were

accurate, democratic outcomes would be the result of only a small portion of the electorate (Markowski 2016).

Certainly, this argument has some validity for explaining the perseverance of illiberal parties in constrained democracies and the rise of populist parties, more broadly. Yet, it fails to grapple with the more important aspects of voter-party relationships. It assumes the electorate has no agency and will simply go along with the decision making of its representatives no matter the cost. Yet, as the theory of middle class clientelism points out, it is quite expensive to attempt to nudge the middle class into a receptive position for vote buying or patronage. Something must first alter the calculus between party and voter that allows such platforms to then be successful. There are relevant segments of society that are invested in supporting these illiberal parties and politicians as they will produce favorable political and economic outcomes for themselves. These supply side arguments are relatively quiet as to why clientelistic salience with certain strands of the voting public exists.

Favorable outcomes for the middle class are ones that not only reproduce their material advantages but their status advantages as well. This argument should also consider when state capture outcomes are not motivated by economic features but are influenced by affect and psychology. Ideation and partisan feelings can play an important role in determining political outcomes (Abramowitz and Saunders 2008). Elites rely on ideational compatibilities to support their programs when considering elite led behavior in relation to the destruction of democratic norms. In CEE countries, elites are known to invest in narratives that invigorate traditional roles in society and emphasize historical victimhood to motivate voters (Enyedi 2020). Though the reach of these cultural platforms and the likelihood of them influencing political behavior is yet to be fully understood (Algan et al. 2017).

Party affiliation is also rather weak in Central and Eastern Europe with legislatures often dominated by coalitional governments (Ibenskas 2020; Olson 1998). The relatively short time horizon of political parties and the parliamentary structures in which they compete may serve to reinforce clientelistic solutions in order to build credibility (Keefer and Vlaicu 2008). The parliamentary systems of Central and Eastern Europe heavily lends itself towards multiple parties with a wide spread of competing ideologies which create unique party combinations when forming government rather than ideologically unified (Olson 1998). Nor are these ideological differences always as they seem. The ideological drift between voters tends to take on a libertarian/authoritarian dimension in CEE countries, rather than being expressed as socio-economic values (Walczak and van der Brug 2010). Public spending, for example, does not often conform to party-ideological expectations when discussing Central and Eastern Europe (Bursac 2021).

3.2.2. Institutional Explanations

The perseverance of autocratic institutions and devolution of democracy in the region also presents challenges to the directionality of my argument. It should be considered whether the cooptation of the middle class by clientelistic elites is merely a response to structural changes that have been preceded by state capture in the first place. The perpetuation of democracy has been theorized to hinge on a set of ever-changing winners and losers who agree to serially compete within the context that the loser will consent in an honest competition. This has led to a phenomenon described as “institutional uncertainty” whereby winners and losers in democracy are relative unknowns but the structure in which they compete is defined and specified (Przeworski 2005). Yet, illiberal parties and political leaders are oriented towards eroding the

same rules they will compete under. A decision which “...can hardly be attributed to an alleged political demand by the people” (Markowski 2019).

State capture could be an ongoing occurrence before the middle class is tapped for support. The process itself typically ends up being that “under the guise of state reform... regulatory, budget management, and audit agencies are brought under partisan control, increasing access to state resources and their distribution” (Grzymala-Busse 2008, 650). The more resources captured the more that parties have to offer to their more affluent middle class voters.

I do not deny that there is a sense of circular logic to this argument. While clientelism could predate middle class vulnerability, it is this switch to cater to those insecurities that I emphasize as being deterministic to outcomes. To rearrange the government’s resources in partisan fashion assumes that there are resources being managed in the first place. I take this endogeneity concern seriously by using historical process tracing to better alleviate the problem. This also helped me to avoid democratization theories that may explain democratization failure by tracing the moments when the middle class was activated by unscrupulous elites. According to Huntington’s (1991) description of regime transition, regimes will transition by way of exit, political infrastructure, and consolidation. Liberal democracies in Central and Eastern Europe could therefore have experienced a corruption of this transition (Stokke and Aung 2020). Historical analysis of the liberalization process in CEE countries is the most effective way to separate out these preconditions as alternative possibilities.

Failed democratic transitions may also be the result of the failure to adopt democratic values and norms which can corrupt into a processes of clientelism. Antidemocratic outcomes could be the resultant participation of only a minority of voters or a select group of sophisticated

parties who seek to increase their political control. Markowski (2016) specifically makes this claim for Poland's shift towards illiberalism since 2015. The success of populist parties in Poland, he argues, is due to relatively low voter participation rates and a small plurality of voters who have been able to maximize their voting power in order to achieve majoritarian outcomes. In fact, low voter turnout is indicative of most CEE elections. However, even with low participation rates, scholars have estimated that the value spread of those who vote is not significantly different than the values of those who don't (Kostelka 2014). Nor could such an argument overcome the longevity of support that would be required to ensure clientelism and the loyalty of patrons would be secure. We can't chalk democratic failures to outliers when such outcomes are so systemic in the region.

The dependent nature of middle class clientelism in CEE countries must be tempered on how the state may meet those expectations with patronage and direct transfers. One way the state may do this is through outside investment. Throughout the empirical chapters, I apply a critical eye towards global capital and the effect it may be generating within each case. I expect that foreign direct investment (FDI) should invoke state reactions in both policy and institutional preferences. Insalubrious democracies who attract FDI potentially may use investment dollars as a form of cheap patronage through taxed rents and job proliferation. This also means that these same states can be incentivized by foreign firms to curtail their democratic quality to satisfy potentially labor repressive demands of FDI (Li and Resnick 2003).

I counter argue that dependency does not create the kinds of democratically eroding behavior that has been witnessed in Central and Eastern Europe. For one, FDI tends to be relatively low in autocracies and higher in democratic states because FDI favors the kinds of rule of law provisions that will protect their investments from expropriation (Li, Cui, and Lu 2014).

Exploitative parties that seek to capture more of the state do so at the cost of foreign investment potential. Russia and Poland's turn towards this behavior is evidence of this because state managed economies may expropriate FDI by increasing taxes and regulations as a function of gaining electoral appeal or to placate popular demands. Investors may ignore the warning signals of weak institutional protections when the reward-to-risk ratio is favorable, but they are unlikely to put much of their production in the host country out of fear of expropriation (Drabek 2002). The ability to exploit cheaply extracted resources that are in high demand also factors for whether a firm might invest, even, in an institutionally bunk country.²⁶

3.2.3. Cultural Explanations

One must also consider the aspects of soviet legacies of CEE states which possessed an anti-civic culture and informally operated a shadow society underneath the state. Civic values in CEE may be undermined by the lingering remnants of the Soviet man, homo sovieticus, who's pre-1990 life was dominated by the Communist Party that fused the entirety of the state with society (Sharafutdinova 2019). The state pervasively dominated all aspects of society and economy right down to the individual's identity, their personal goals, and their ideals and values. Each core component of the individual was, instead, held in deference to the state and its goals (Sharafutdinova 2019). Dramatic changes and reforms which undid the formal institutions of communist control thirty years ago should be weighed against whatever lingering effects remain.

Another theoretical explanation that must be considered are other societal forces within Central and Eastern Europe such as education and religion. Religious influence over individual preferences and behavior is highly variable between CEE countries. While the religiosity of CEE

²⁶ The rentier, or resource curse literature explicates the effects of resource endowments as detrimental to democracy and democracy transformation. The logic behind this inhibiting force is how the state can use its resources (especially energy resources) to buy off the population and opposition groups cheaply and effectively. See (Dunning 1988; Ross 2015) for further explanation.

populations was suppressed in large degree by their respective communist parties, there were widespread revivals after the 1990 reforms (Mojzes 2020). This has led to the presence of both high and low levels of religiosity in CEE countries but not in any discernable pattern of predictability in terms of democratic quality. Within country, religiosity in society has been shown to be negatively correlated with aspects of social capital, such as trust in institutions and voting (Algan et al. 2017; Markowski 2016).

Education, along with religion, is often touted as another heuristic by scholars to predict societal openness or hostility to out groups. Throughout this manuscript, I actively demonstrate that this is not the case. I control for the effects of religion and education with quantitative regressions and present significantly underwhelming effects for education and religion in relation to clientelism. This makes sense on the qualitative level within the cases as well. For example, the presence of pre-communist middle class in Russia has been shown to correlate with post-communist educational and democratic values rather than a result of communistic influence or a religious awakening in the 1990s (Lankina and Libman 2021). In Poland, religiosity is nearly universal which makes any differentiation in democratic outcomes noncorrelative to religious identification. Although, there is a much higher degree of contention between secularization and social liberalism in Poland (Arnold 2012).

There are also aspects of preceding corruption within post-communist societies to be accounted for. While I do not dispute its varying presence within CEE countries, there is a matter of causal directionality that must be considered. Authors who emphasize the fundamental nature of corruption on macro level outcomes imply that the counterfactual ‘removal’ of corruption would allow CEE states to function as if they were normal democracies (Dawisha 2014; Ledeneva 2013). Instead, governments are inhibited by corrupt practices at all levels in

society or are increasingly succumbing to this type of behavior. My thesis countermands this argument. I emphasize that corruption is the resultant nexus of dependencies between state patronage and the elements of society that feed off it. It should be examined as an effect, not a cause. The results of which emphasize patron-clientelistic practices. Clientelism is often associated with weak democracies or economically poorer states, but it also exists when there is a large gap of trust within civil society and the government's capacity to deliver public goods (Berenschot 2018; Weitz-Shapiro 2008). In these instances, private transfers of resources become more economically efficient and valuable to the middle class (Sánchez and Senderowitsch 2012).

3.3. Marketization and Inequality

The marketization and liberalization reforms initiated in CEE countries after 1989 produced a capitulation of the old communist guard to liberal reformers and free markets along with all of their attendant hazards. The dramatic struggle between an increasingly infirm command economy and an agitated citizenry trapped in that system had reached its breaking point. Soviet influence retracted at a rate of collapse that not only undid the communist parties of its satellite states, but it brought down the entirety of the USSR along with it. This led to a profusion of new countries, and the reemergence of some old ones. Each of which embraced liberalization of markets and democratic institutions to various degrees.

New experiences, like inequality, crept into CEE countries which undermined the democratization process along with economic reformation (Haggard and Kaufman 2012, 2016). It was little understood what kind of impact that a dramatic upheaval within the social strata of previously flat societies would have on burgeoning inequalities in CEE countries. Recent economic crises in Central and Eastern Europe have led to a reassessment of marketization and a

reinterpretation of the liberalization events of the 1990s. The outcomes of this transformational process has even led some scholars to reapply the principles of Polanyi's Great Transformation ((1956)) and the presence of *double movement* due to marketization and reform (Davis 2020; Özgür and Özel 2013).

A discussion of Polanyi's transformation of free markets and subsequent social response expresses two key components that are critical to the interpretation of middle class clientelism and constituent vulnerability. First, that the process of liberalization has invoked a societal response as a reaction to the excesses of free markets. Second, such an invocation, or double movement, creates a political call to action in which elites can attend to in order to balance countervailing forces. According to Polanyi, double movement is the societal response to when markets become "disembedded" from the community. Markets will seek out their own protections from the disciplining hand of society and influence government to create laws and institutions that allows it to proliferate. Polanyi saw the function of markets as antagonistic to humanity's communal nature as it exploits the atomization of individuals and redistributes the gains unevenly. The dislocation of social groups under market conditions creates a counter movement to reharness economic powers and embed them back within society, hence double movement. After the end of the Cold War, Polanyi's articulation of market expansion and societal response has provided a useful critique of the Washington Consensus and the neoliberal paradigm, more generally.²⁷

Polanyi's work falls short in several regards. His discussion centered around an interpretation of laissez-faire markets and did not consider how capitalistic relationships may

²⁷ The Washington Consensus was a program of economic and political reforms that were often recommended to liberalizing states after the end of the Cold War. It promoted institutional oversight, rule of law, private property, and free markets as being most productive to economic growth and development. This typically came at the cost of welfare and redistributive programs exercised by the reforming state. See Easterly (2019).

vary from country to country. Yet these systems still function with markets and may induce their own set of double movement responses. Polanyi also assumes that labor, as a collective social force, will respond to the coercions of business in Marxist fashion. This abstract conceptualization of the personified society who knows how and when to protect itself from the predations of the market has been critiqued previously (Block 2008). I interpret a more nuanced approach which balances these shortcomings. For one, it is more appropriate to assume a disconnect between middle and lower waged labor in terms of their interests and ability to challenge market forces. I likewise impose a comparative capitalism to interpret which states already socialize their markets to varying.

It is important to consider the implications of double movement when studying how vulnerable constituents may avail themselves to state capture in exchange for alleviating market problems. It provides room for economic re-etatization that may have likewise been missing. Crisis fuels systemic uncertainties that Blyth (2002) argued obscured critical information under the long shadow of an uncertain future. Winners and losers become less identifiable or certain, and it becomes less clear which groups will become the dominant forces in society after change. There is no “a priori way of predicting the new equilibrium” once a disequilibrium has been achieved (Blyth 2002, 8). This creates a slew of commitment problems between societal groups who seek to advance their own relative position and interests. Blyth’s (2002) solution was that ideas act as a cohesive glue that binds likeminded groups together. In such instances, simpler identities, such as religion, nationality, and class, become more functional as they are more compelling and significant within populations adrift in instability.

This occurred in CEE countries when they reordered their societies after their post-communist transformations in the 1990s (Saar and Trumm 2017). The outcome of this

reshuffling was a process of social stratification as groups transitioned out of their flat, pretransition societies in a polarized fashion. The extremity of the bifurcation of economic success and failure in Central and Eastern Europe has attributed in some part to how liberal reforms were introduced and whether those reforms had any staying power (Frye 2010). Up until the 2000s, the divergence between democratizers and those countries unable to do so correlated with better middle class prospects during a wave of economic growth (Pressman 2010). However, the effects of the global recession (Özgür and Özel 2013; Roy-Mukherjee and Udeogu 2021), and the deregulation of financial markets (Munir and Bukhari 2020) had produced a wide gap in middle class prosperity. Incomes have become polarized between wealthier and poorer strata with the middle class is gradually being sifted out (Derndorfer and Kranzinger 2021). The effect of globalization was especially profound in the CEE countries who are tied to global production chains and foreign investment dollars (Večerník 2012).

The impact of increased inequality had the impetus to set the middle class in a responsive mode that is more likely to be oriented towards political leaders who seek to redress those grievances. But there are a variety of ways middle income workers could seek to promote their own interests in electoral systems. Piven (2008) identifies the term “interdependent power” to describe how groups in society may effectuate change as divisions emerge between governing elites during crisis and uncertainty. These instances give labor groups more room to express their own interests and gain concessions. Members may seek to constrain the market, but they may also seek to harness it for their own purposes because the effects of market displacement are also unevenly distributed across social groups. Importantly, groups will seek out interest-specific alliance rather than a unified or grand social response.

In CEE countries, growing income inequality has indicated a change in values and increased tolerance for social inequality in society with a psychological gap forming between citizens who see social inequality as legitimate or otherwise (Josifidis, Supic, and Glavaski 2018). As such, interests regarding the economy are not common between low, middle, and high wage individuals and those interests often clash. For instance, lower class labor is often in competition with foreign, migrant labor that drives down the price of unskilled local wages (Petrova and Inglot 2020). Meanwhile, members of the middle class are often more vulnerable to the destabilizing effects of market fluctuations. They are much more likely to be plugged into the market but lack the resources to weather large downturns (Pressman and Scott 2009). For instance, these individuals are far more likely to be dependent on credit and are much more sensitive to market swings that can inflict deteriorations of their status (Pressman and Scott 2009). Many in the vulnerable middle class are only one crisis away from becoming lower income citizens (Vaughan-Whitehead 2016).

With these factors in mind, my theoretical expectations for middle class clientelism gain more traction within the social vulnerability hypothesis. It is beyond refute that the middle class in Central and Eastern Europe has undergone striking changes (Vaughan-Whitehead 2016; Žičkutė 2013). The OECD (2019) estimates that the middle class has been eroded and squeezed in the race between lifestyles and incomes. Fewer opportunities for prosperity indicate a reverberating crisis rather than a passing phenomenon. A crisis which places lower middle income families especially at risk (OECD 2019).

I visualize data from the European Value Survey which asks respondents to identify themselves by household income deciles. Using the method described in the first chapter, I

distinguish these households by proportion of middle income respondents per EVS waves.²⁸

These waves ranged from 1990 to 2020 and provide compelling evidence as to what the middle-class is experiencing in Central and Eastern Europe. The charts in Figure 3-3 include nine countries from the region and an overall trend line reference purposes. The downward trend in the proportion of middle-income respondents is quite apparent in most cases except Russia. It is also worth noting that individuals from these household incomes may be sorting upwards as well as down. This would still decrease the overall proportion middle income households per survey, but we should assume the effect should be different.²⁹ Either way, middle income households have experienced decline in the past several decades in Central and Eastern Europe.

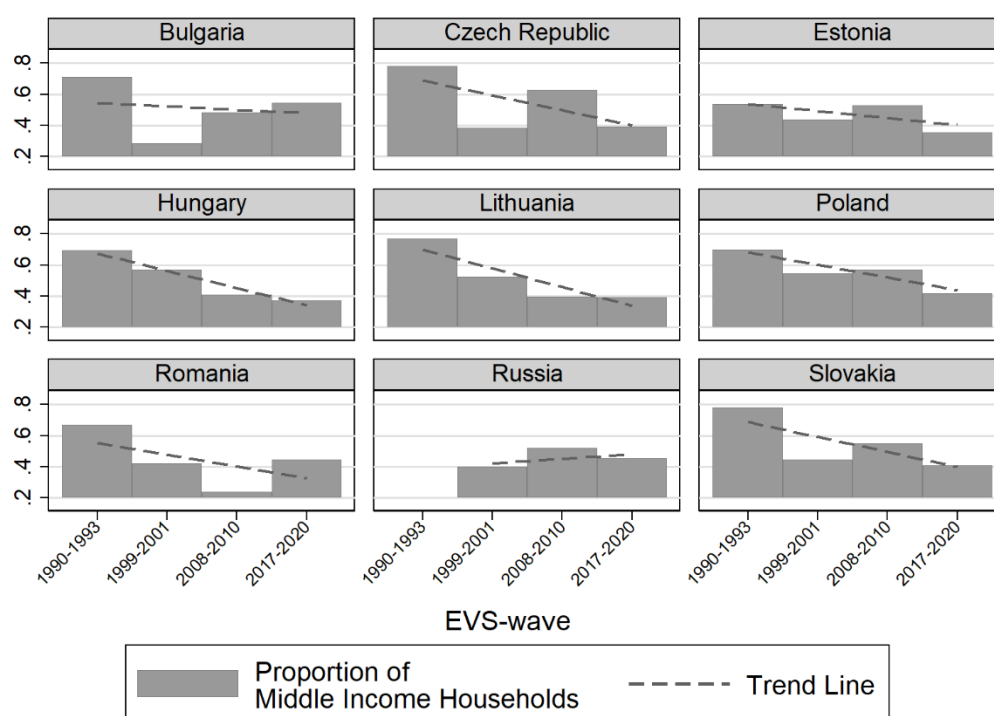


Figure 3-3 Respondents Who Identify as Middle Income

²⁸ Throughout this paper I often refer to the middle-class by their economic standing and association with 75%-200% of the median income. See Appendix A.1 for details of coding.

²⁹ See Appendix B.1 for Figure 3-3 Supplemental with lower and upper income household proportions.

Economic inequality is becoming more normalized as well in the region. The transformations in the 1990's that allowed states to emerge from mass poverty is no longer producing the kinds of middle class prosperity (Mareeva 2020,4). Initial gains of prosperity that were commonplace in the 2000s are especially out of reach for younger generations who must navigate a transformed labor market with fewer resources at their disposal (Petrova and Inglot 2020). All of this makes for compelling fodder for enterprising politicians to exploit. With higher levels of state management of the economy comes a capacity to distribute and transfer resources as an exchange for political support. Loyalty in no uncertain terms. With the expressed understanding that those politicians and parties can transform the state into a tool of the party at the behest of their vulnerable constituents. In other words, a middle class constituency employs the state for their own interests for better social and economic conditions. for As Block (2008, 2) describes it:

“Polanyi suggests that the exercise of state power fundamentally shapes the relative strength of different social actors, so he broadened his analytic lens to encompass battles over government regulation, over the provision of public goods and services, and over international flows of labor, goods, and money. It is implicit in his analysis that these conflicts ultimately influence the balance of forces on the shop floor.”

However, Brock and Polanyi underestimated that political forces may be bargaining with societal forces as a means of gaining their own political advantage. Nor did they take seriously that workers may align with firms rather than seek out state-capitalist solutions. I make this distinction clear between those middle class interests that are aligned with the state's capacity to “re-embed” the market under societal control and those who see the market as the better option. The particularity of middle class needs for prosperity drives them to seek greater access to influence government action, employment mobility, and to protect their wealth. So too, then, can markets and firms satisfy middle class appetite for status and material wealth. Polanyi's focus

was too heavily centered on a laissez-faire interpretation of free markets and did not envision how states could variably arrange the relationships between firm, labor, and themselves.

3.4. Middle class Vulnerability

Societal responses to marketization and its disparities have helped inure the tensions and dependencies within the middle class and the parties that invest in them for political gain. This had led to a profusion of populist parties in CEE countries. To quote Ann Davis (2020, 398), populist parties are successful because of the “...increasing inequality... automation, declining labor share, increasing indebtedness financialization; and erosion of protective labor market institutions, such as welfare and unionization.” Populism, however, is merely a platform in which politicians may package their goods and offerings. The unequal spread of market gains and political exploitation of the middle class’s vulnerabilities are indicative of an inability to influence policy rather than be influenced by it. I express this shortcoming as a fragility inherent in middle class inequality in tandem with the systemic reduction of organized labor representation in CEE economies that prohibits collective action solutions.

Economic vulnerabilities can be measured in a variety of ways. There is a series of scholarship that focuses in on the material losses or even the threat of loss as motivating factors for citizens (Ranci et al. 2021). Osberg (2015, 5) identifies economic vulnerability as the inherent potential of downside risk that plagues an individual’s future which they cannot ignore or avert. To this end it is important to operationalize insecurity under the consideration of future prospects as an incentivization to act commiserate with those imminent pressures. Ranci et al. (2021, 542) identify three aspects of insecurity as “(1) exposure to temporary poverty as result of income downward volatility; (2) financial strain of the households; and (3) incapacity of

households to meet their financial obligations and consequent their over-indebtedness.” I use a similar definition and measure middle class vulnerability in this dissertation.

The vulnerability expressed in middle class feelings reflects the current dynamics of formal and informal relationships within society. In CEE countries, attitudes of economic displacement and uncertainty are pervasive with middle income individuals. Figure 3-4 presents data from the 2019 EU Election Survey and shows the percentages of those who identify as middle class. I estimate percentages of those that appraised the economic conditions of their country as worse compared to 12 months ago and if they think the economy will be worse 12 months into the future against respondents who identified as middle class.³⁰ The results indicate that a large percentage of the middle class population have a negative perspective about the economic conditions of their country.³¹ Unsurprisingly, the two reported values are often evaluated at similar levels and similar across cases.

³⁰ See Appendix B.2 for survey question coding.

³¹ It is important to note that this data was collected before the onset of Covid-19 economic recessions. These evaluations would have likely been much bleaker if the results included data from 2020 or 2021. Also worthy of note is that there is no correlation between democratic quality and economic satisfaction in the middle class. Those democracies which are in retrograde report similar levels of negative economic appraisal that is on par with their democratic counterparts.

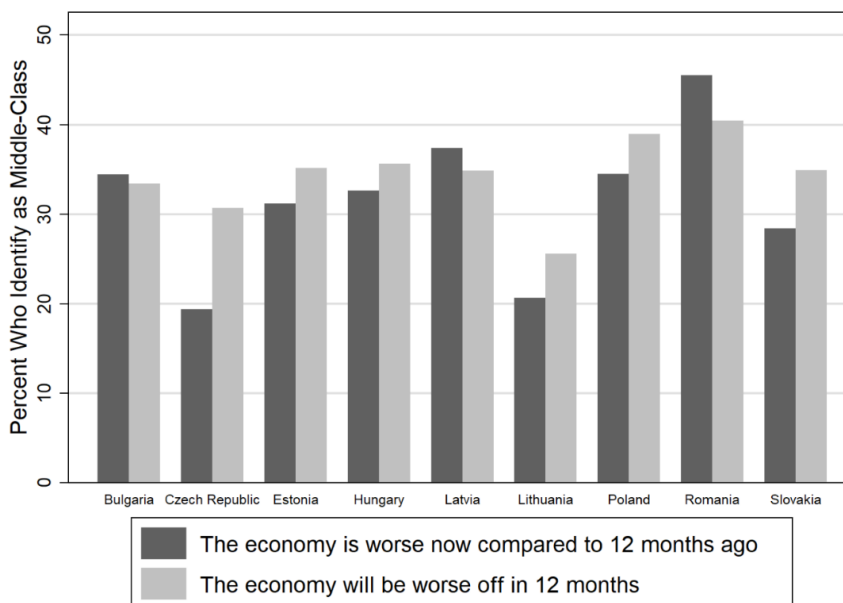


Figure 3-4 Middle Class Perceptions of the Economy

The lesson taken from Figure 3-4 is that there is a tangible proportion of the middle class that feels the economy is not serving their interests in these countries. Some researchers have reported that these economic outlooks have only gotten worse since the onset of Covid-19 and the concomitant globalized shutdown of global trade and industry production (Ranci et al. 2021). Exposure to temporary poverty, financial strain, and incapacity are increasing with middle income groups. Over indebtedness and financial strain were especially salient for middle class groups who were more likely to be affected by any changes that exacerbated those issues.

Middle class insecurity had its start in the 1990's. Welfare in CEE countries was extremely limited then due to a lack of capital or a robust class system to redistribute gains from winners to losers (Karger 2007). The widening of economic disparities between economic gainers after the capitalist transition meant higher demands from lower- and middle income citizens for welfare and government services. Where public services weren't as prolific, private services stepped up to take up the slack. For instance, decreased returns on public education in

Poland and Ukraine have been adapted to by the middle class with an increased reliance on private tutoring programs (Długosz 2016).

Political parties in Central and Eastern Europe are more responsive to wary middle class constituents. Often at the cost of lower income citizens. In CEE countries “only a small elite have opted out of public services, with the middle class still tending to both utilise (sic), and vote for, public services” (Cerami and Stubbs 2011, 20). Although the neoliberal process of marketization in the 1990’s led to a decline in services and quality, the re-etatization of capitalist economies has given politicians more leeway to promise and obligate themselves to welfare spending and social support (Karger 2007). This produces a corrupt bargain between dependent groups and elites who have access to the redistributive process.

Beyond redistributive demands, extralegal behavior is not out of the ordinary in Central and Eastern Europe either to make up for insecure statuses. Its history of communist elite-centered politics known as *nomenklatura* is quite definitive (Karklins 2002).³² The flatness of communist CEE societies encouraged clientelistic linkages, both formal and informal, in order to provide access to specialized goods and services that were unavailable in a non-market system. Even after ascension to the EU in the 2000s, the corrupt relationship of quid-pro-quo exchanges has remained. In fact, the process may have been amplified as CEE governments will often contract with firms along partisan lines to manage public administration processes in order to meet EU standards (Miklos Szanyi 2019).

³² Nomenklatura were the group of elite agents within the bureaucracy and administration of Soviet and Eastern Bloc countries. Exclusive access to this group was controlled by communist party elites. As a result of their extant control over economic, social, and political functions they had power over both public and private resources that the common citizen did not. See Pipes (2000).

3.4.1. The Downfall of Organized Labor

The reduction of labor institutions since the 1990's in Central and Eastern Europe is one of the more relevant factors of middle class vulnerabilities. Weak labor is also a pertinent component of separating CEE cases from other possible cases that experience large welfare states, or state-capitalism mixtures and don't have problems with their democracy. The estimated presence and articulation of labor as a political-economic force is also integral for interpreting comparative economic systems. In Hall and Soskice's (Hall et al. 2001) two typologies of capitalism, labor is either identified as highly organized or greatly decentralized and disorganized. Comparative advantages are associated with each type in terms of educational standards, sectoral transportability, cooperative or adversarial relationships with management, and wage coordination. This approach is incomplete and incoherent in Central and Eastern Europe but has been enhanced by scholarship in recent years.

In this dissertation, I define labor as the organized or disorganized management of contractual obligations between workers and firms as coordinated by the government using informal or formal regulations. As such, organized labor in CEE countries has become a shadow of its once universal status. The command economies before 1990 placed labor at a critical juncture for managing worker interests and coordinating with the state and its state-owned enterprises (SOEs). These once high levels of labor coverage and coordination has drawn some noted comparisons to the coordinated market economies of Central Europe due to labor's strong presence and its influence over politics and policy (Pravda 1983).

Labor was also integral in undermining the communist authoritarian states in Central and Eastern Europe as it was able to activate various interests and coordinate them through powerful unions and trade groups that represented nearly every worker in the country. The Solidarity movement in Poland during the 1980's was one such springboard which helped to undermine the

strength of the Polish Communist Party and was ultimately successful in bringing about much needed liberal reforms. It is ironic then that labor in Central and Eastern Europe has seen such a sharp decline since the 1990's (Magda 2017).

I demonstrate the decline of organized labor with data from the OECD's ICTWSS dataset (Visser 2019). This data estimates the levels of labor coverage and union membership per country from the 1990s to the mid-2000s. The data in Table 3-1 presents this information with proportion of the working population that is covered by unions and bargaining. I also include the first and year a datapoint is available in parentheses. Bargaining coverage is the amount of working population covered by collective bargaining for wages. Union density indicates the proportion of the population that is in a trade union. The values for each country plummeted after 1990. The collapse of coverage and union density is stark considering how these values were near 100% during the communist era.

Table 3-1 Bargaining Coverage and Union Density

country	Bargaining Coverage		Union Density	
	Earliest (year)	Latest (year)	Earliest (year)	Latest (year)
<i>Bulgaria</i>	36.4 (2002)	23.4 (2018)	27.3 (2000)	15.3 (2016)
<i>Czech Republic</i>	47.5 (1994)	32.9 (2019)	67.2 (1993)	11.4 (2008)
<i>Estonia</i>	14.5 (2006)	6.1 (2018)	93.9 (1992)	4.2 (2019)
<i>Hungary</i>	45.1 (1993)	21.8 (2019)	88.6 (1990)	8.3 (2018)
<i>Latvia</i>	-	-	28 (1995)	11.6 (2018)
<i>Lithuania</i>	12.5 (2000)	7.9 (2019)	33.3 (1995)	7.4 (2019)
<i>Poland</i>	25 (2000)	13.4 (2020)	63.6 (1990)	13.4 (2017)
<i>Romania</i>	100 (2000)	15 (2017)	45.4 (1998)	21.4 (2018)
<i>Russia</i>	28.3 (2007)	22.8 (2013)	84.3 (1992)	27.5 (2017)
<i>Slovak Republic</i>	52 (2000)	24.4 (2015)	59.8 (1995)	11.3 (2018)

The reduction of labor's capacity in CEE countries has been an ongoing and systematic trend as CEE governments have embarked on a campaign of deregulation in favor of market-oriented solutions to labor. Despite initial attempts to build tripartite relationships like that in continental Europe, much of these institutions were eroded by reform (David Ost 1996). High

levels of union membership during the reform process were unable to counter mobilize to stop this trend. In fact, scholars argue that the presence of unions undid labor's importance in the long run. They point to the prevalence of labor-protecting institutions which limited the amounts of reactionary protests that could have occurred during the reforms (Hethy 1994; Iankova 1998). In this instance, researchers believe that weakened labor organizations syphoned off dissatisfied workers whose energies could have been directed more coherently. However, these same scholars are unable to fully explain the degeneration of organized labor's appeal throughout the region that experienced similar tones of reform.

The political and social weakness of labor may also have been the result of labor's flexibility to move between industries, and the decline of labor union's legitimacy whose legacy was closely linked to the communist party (Crowley 2004). Some scholars have argued that the reduction of labor's power has been a positive development for transitioning CEE economies (Åslund 2006; Greskovits and Bohle 2001). Reform was a value generating process that was designed to increase investment appeal to foreign firms, to align with EU values to make accession more likely, and to invigorate economic growth during uncertain and dynamic times. This procedure depressed labor costs and encouraged development to reach deeper into Eastern Europe. As a result, unemployment was greatly reduced which made labor organization even less appealing. Private and state-owned firms would become reliant on non-standardized employment which pushed back against bargaining and restricted labor organizations to the firm level and public sector.

Myant and Drahokoupil (2012) are less sanguine about the decline of labor. Over the years, decreases in labor costs have added to the woes of wage dependent workers who rely on export-oriented firms who are motivated to keep wages low (Wiliński 2012). The systemic

weakening of labor has also had the effect of making workers less resistant to some of the more destructive aspects of marketization (Bohle and Greskovits 2007; D. Ost 2001). According to Ost (Ost 2001, 47), a convincing parallel of weak labor and strong economic development has not been drawn in Central and Eastern Europe. The continued proliferation of wage bargaining in the public sector has increased disparities between private and public workers and private wages lag behind in some cases due to the dynamism in the labor market (Socha and Weisberg 2002). The exogenous shock of the Great Recession in 2008 has further pushed the state to intervene and grab more control over the reins of the economy.

The middle class possesses more influence over government policy and firm bargaining when integrated into organized labor (Northrup 1948). It is estimated that middle class interests, along with lower waged workers, benefit from the collective bargaining power because it provides wage protection, access to benefits, and decreases income inequality (Shierholz 2020). The middle class is further connected to labor protections as it creates professional organizations that may coordinate to overcome collective action hurdles to better express their interests. Northrup (1948, 163) identified these organizations as “collective bargaining groups”, as opposed to unions. The effect and style are the same.

The impact of diminished labor in Central and Eastern Europe have materialized in middle- and lower class groups in disproportionate fashion. The loss of organization capacity by middle class labor is unlikely to be shared by lower skilled workers and vice versa. For one, diminished bargaining over wages is likely to trickle down to benefit lower skilled workers by increasing hourly and minimum wages. Lower class groups are also more likely to experience different negative aspects. Lower income earners are more vulnerable to temporary poverty and the lack of in-depth benefits coverage makes them more inclined to seek welfare and unemployment

policies from the government. On the other hand, middle income groups are more likely to be vulnerable to issues that affect their material status, such as inflation, and be more oriented towards policies of debt relief. These inequalities coupled with the distinct divisions between labor in the public and private sector has created a centrifugal force which has pushed out the more fragile groups from the middle class's core constituent body (Kivinen 1989).

The bargaining power of labor is theorized to help induce responsivity by the government as it reduces the collective action costs to influence favorable policies (M. Olson 1989). In times of weakened labor, labor's capacity to influence policy is especially damaged. In fact, weakened labor may face more rollbacks and cuts to their preferred policies when crises and reforms are introduced that favor of business interests and their preferences. For instance, the Great Recession saw labor's power and organizational capabilities in CEE countries curtailed further to maintain business growth and political stability for government leadership (Glassner and Keune 2010, 8). One way CEE states responded was to create new regulations that established positions for labor representation outside the direct control of unions. This increases non-associated worker's bargaining positions which undercut union representation. The result of these regulations in CEE countries was higher levels of labor localization that further reduced worker's overall collective bargaining power because it atomized labor and made it more sensitive to state and firm level patronage. As such, modern CEE organized labor is more tightly interwoven with political parties and elites compared to the collective bargaining of other European countries (Kahancova 2015).

In functional terms, decreased organization capacity for labor has intercepted with the economic disparities and uncertainties that have occurred in the middle class. The consequences of which have induced middle class workers to become increasingly attendant to parties and

politicians who develop platforms that attempt remedy their grievances (Vanhuyse 2007). Responsive elites become more vigorous and animated in managing their constituent's economic insecurities (Becker and Vasileva 2017; Kozarzewski and Bałtowski 2019). In some cases, they've increased the shares of state ownership of state-owned enterprises (SOEs). These companies are a valuable aspect for wealth generation and a modernized rent seeking tool for capitalist minded elites can use those revenues to generate patron-client relationships.

3.5. Middle class Loyalties

Disparities from market effects lead to alternative pathways for various class-based interests for political elites and parties. When labor is weak, so too, should we expect, that middle class labor will be hamstrung and unable to effectively influence policy towards their preferences independent of other working class groups. Hence middle class vulnerability may lead to dependence on the support from the other factors of production via the actions of firms or government. Dependence for the middle class goes beyond these factors and can also be traced to two more important aspects. First, we should consider if the vulnerable middle class have alternatives to choose between state-capitalism or private enterprise. Second, do those alternatives interfere with clientelist principles of exchanging political support for goods and the follow through of exchange. I describe these dependencies as call and response actions that can be summed up using the logic of voice or exit within those structures akin to Hirschman's 1970 book, *Exit, Voice, and Loyalty*.

Vulnerable groups are not always stuck within a single system of decision making. Hirschman (Hirschman 1970, 3) identified "alternatives" that exist within different groups that allow individuals to express their displeasure on the inefficient allocation of resources. In the case of this paper, the middle class has two avenues to express its interests and allow it to

coordinate: voice or exit. Voice has been described as kinetic political action such as voting or protest whereas exit is the act of resisting participation such as abstention from voting or leaving a political party (Zagórski and Santana 2021). Such activities are meant to enhance decision making and provide clearer information to politicians and businesses when systems are not in equilibrium. However, when information becomes less clear, say due to the presence of vulnerabilities and crisis, exit and voice are influenced by a third component: loyalty.

Loyalty changes the calculations of participants by decreasing the chance of exit and increasing the costs associated with voice. In essence, it's a functional influencer over exit and voice (Hirschman 1970, 78). Loyalty's effect is not as coherent when the divisions of quality for services, both economic and political, are widely understood and clear. It is only in the absence of informational clarity that loyalty becomes critical because it "raises the cost of exit" (Hirschman 1970, 80). This factor is also compounded when exit for a polity may not be an option either as tangible or credible. In those cases where the state or market has monopolistic control over socio-economic conditions, actors will be limited in who may credibly exit that system because of limited choices. As a side effect, it will also amplify supportive voice as a reliable signal of loyalty.

Loyalty changes the payoff incentives for systems that suffer from information asymmetries (W. R. Clark, Golder, and Golder 2017; A. O. Hirschman 1980). Hirschman's interpretation of exit and voice also assumes a certain level of autonomy or dependence within a given system which will influence the value of voice or exit. It is here that many issues begin to arise when considering the practical applicability of middle class clientelism and support for political actors who seek state capture. Exit and voice may be limited in such exchanges when there is a reinforced linkage between monopolistic forces and social groups. As I argue in the

case of middle class clientelism, the costs of buying off the middle class vote goes down in relation to experienced vulnerabilities and the number of resources a political party has at their disposal. However, this calculus changes along with the credibility to potentially exit from clientelistic deals when the state-economy or free markets are the only available options this. Loyalty becomes a valuable tool for obtaining group and individual level rewards from patrons. Whether it is the state or from firms.

According to Rosenfeld (2021), the entrenched dependencies of the middle class on the state for public sector employment makes them less likely to vote against Putin's regime. Russia's state-capitalist network not only allows Putin's party to dominate the state completely but also limits access to welfare and patronage. The private sector can't compete because skilled workers prefer jobs in the public sector, despite potentially higher wages, owed to the non-wage incentives that compliment working for the government (Klepikova 2016). Goods and services create loyalties that stifles the potential risks of exit or voicing negative opinions. Hybrid mixtures of statism and marketization enforces higher levels of costs for loyalty considerations. The encroachment into business by the state has created systems of party selection over executive leadership which induces firms to operate in lockstep with the government agencies and complements state capture by those same parties. As a result, workers are less apt to challenge firm policy when they view it as an extension of the ruling party.

Lack of credible routes for exit or even the threat of exit is just one way that ensures that corrupt and predatory behavior can be successful and achieves the same results every time (Clark, Golder, and Golder 2017). In such systems, especially those that are highly contested, loyalty can be exchanged through mutual acts of services for services. Reciprocal acts of exchange need not be limited to the material but can be reflective of status as well. Reciprocity

can manifest itself as thin conveyances of contractual exchange or in communal forms.

Reciprocity, as noted by Mauss (1990), can be either thick or thin with thicker reciprocity best able to explain exchanges in a nonmarket context. Social trades are typically unequal, nondyadic, and obligates reciprocity to multiple agents and not just the giver. In other words, these clientelistic bargains are ultimately one-sided against the client which makes exit a likely occurrence.

When the state or market holds a monopolistic control over access and dispersion of resources, political discourse becomes entirely susceptible to corrupt participation rather than exit or abstention (Stokes 2011). In such systems, corruption, or the participation within informal and illicit actions, can be a method to ensure loyalty, and reciprocity as well as monitor against those who would defect against the original vote buying agreement. To tighten up these relationships and ensure proper coordination, elites need to be sure that costly clientelism and patronage handouts procure the outcomes they were wanted to produce. While the constrained democracies of Eastern Europe have always struggled with this relationship, the recent roll backs to the rule of law and the expansion of party reach in the retrograde democracies have demonstrated that susceptibility is a dynamic proposition. It is here that the functional aspects government and firm level solutions better explains the Janus-faced actions of middle class voters. Responses by political elites that have elevate modernized state capitalism have grown beyond single party state control and has reconciled itself with democracy and free markets (Kurlantzick 2016).

3.5.1. The Costs of Middle class Support

Previous theory has emphasized that the nature of the middle class should make it more resistant to clientelism in general as graft reduces in efficacy with a large and prosperous middle income

society. Yet, the supportive data is not necessarily locked in on this conclusion. Berenschot (2018) noted that clientelist bargains deepened the more that middle class groups were dependent on the state for rents and transfers. I concur with this assessment and extrapolate further by arguing that the middle class is likely to accede to party clientelism and corrupt bargains for public services and goods when the state management of the economy is high. This makes buying off the middle class more affordable but so do the lack of alternatives which inhibit the credibility of options for voters to exit from the deal or voice their displeasure.

This is not a standalone factor. Taken together with the vulnerabilities experienced by CEE middle class groups and their lack of organizational capacity, it becomes more apparent why some political options might produce an underwhelming effect or even be punished. In such instances, the middle class may turn their preferences towards those who advocate for monopolistic control rather than those who advocate for political competition. As Hirschman argues (Hirschman 1970,), when exit has decreased in expediency or effectiveness, further reliance on market competition may only deliver lower quality services. By regarding democracy as an open and competitive market, middle class voters may in turn sell their votes for illiberal solutions because they may view competition as an inefficient method for delivering the policies they want. For instance, in 2021 the Prime Minister of Poland's promised "a middle class for all" along with selective tax schemes in their favor and did so in conjunction with constitutional reforms that better secured his party's future dominance (Reuters Staff 2021).

Paternalistic elites who link themselves to the plight of the middle class often take on an anti-ideational quality and express a more personalistic approach instead. In CEE countries clientelizing elites are typically aligned towards anti-communist stances and motivated by short term economic goals. These types of parties gain political support when the more traditional

programmatic parties lose popular appeal when levels of corruption exceed their traditional levels (Engler 2016). Populist parties avail themselves to social groups who feel dispossessed and vulnerable. In extreme cases, the linkages from demand-side populism and elite response have been a cultural backlash and rejection of liberal norms and attitudes (Owczarek 2017). The demand for illiberal politics has been shown to be quite potent among CEE voters when controlling for policies regarding anti-immigrant attitudes and Euroscepticism (Zagórski and Santana 2021).

Loyalty motivates and organizes groups in relation to the goods and services that can be offered by parties offering such payouts. Per this argument, I establish a stream of loyalties which run from the middle class to the main determinants of the economy which are exchanged by political parties for votes. Even when markets and the state offer alternative potential paths, middle class groups are coerced to opt-in when access to public services and goods can be artificially limited. Such systems are likely to be polarized between firm- or state-loyal middle class groups with much lower costs for joining and defecting between organizations. In these cases, support can be used to reward or punish by issuing goods and services or by withholding them. The cost of purchasing loyalty is also driven down by polarization because the entire group's loyalty is unavailable to be bargained for. Instead, only a section of the population is likely to be coerced into supporting a political organization's predatory behavior (Clark, Golder, and Golder 2017). Vulnerability to a loss of access to goods and resources is especially salient in scenarios of possible exit choice and polarization.

We should assess seams of loyalty by the thickness of reciprocity within clientelistic relationships. Where there is competition between parties or even between the state and markets then reciprocity and obligations will be thinner. Opportunities to renege on obligations will be

too plentiful in these systems and clientelistic practices will change as well. When those opportunities are neutralized, either because of historical or institutional events, the likelihood of defection decreases, and reciprocity relationships will be much thicker and more personalistic. Clientelism along with corrupt behavior are more likely to pay off in these systems because relationships are more likely to be transfixed and hardened to nonmarket contexts.

Finally, one must consider the credibility of exit threats by loyalist groups when such threats are credible in the absence of class vulnerability. The threat of exit by supporters is estimated to have an effect on tempering the actions of an organization and reshaping them to better fit the needs of the client (A. Hirschman 1970, 82). The response of the organization is to change or continue its behavior. This is likewise linked to how dependent that organization is on that group's loyalty (Clark, Golder, and Golder 2017). If the middle class is a potent tool for state capture, then so too could party dependence on that support be exploited. Central and Eastern European parties play into this discourse and orient their policies towards middle class issues which indicates some measure of loyalty dependence. For example, these parties often attempt to elevate the status of families, educational resources, and tax breaks centered around middle class constituents (Szántó 2021).

3.6. Between the Market...

The vulnerability of constituent groups has allowed for political parties and elites to exploit their access to state resources in order to lower the cost of engaging in clientelism with the middle class. The power of the state has been in ascendancy since the 2000s as CEE parties gain more authority and subsequently more control over the economy. The growth of institutional control over the economy has been in proportion to the politicization of capitalism for electoral gain (Dolfsma and Grosman 2019). The analysis here is that state-capitalism and state capture work

hand in glove when clientelizing a middle class constituency. However, private firms have also come into a particular status in some Central and Eastern European countries that provides access to resources and status through private employment opportunities.

In CEE countries, there has been two overarching themes for firms when considering a comparative capitalist framework. The first is that firms are largely dependent on external capital (Nölke and Vliegenthart 2009). Their dependency on foreign capital has been described in vigorous terms by scholars who advocate that dependent capitalism as a valid archetype for understanding Central and Eastern Europe. CEE countries lack capital and their labor-intensive economies have made them an ideal location for export-oriented investment since the late 1990s. This trend should shift over time as CEE countries lose their investment edge but the continued reliance on foreign capital has made economic prosperity increasingly inconsistent (Wiliński 2012). Government management of the economy has gained traction as an alternative to dependent capitalism instead.

Beyond international firm dependencies, scholars have also identified a general weakening in the organizational capacity of firms in Central and Eastern Europe (Feldmann and Morgan 2021). Rapid deregulation and the dispersion of capital during the collapse of communism and the subsequent liberal transformations undid much of the potency of local interfirm coordination and their mechanisms. The attention paid to the neoliberal organization of markets and the imposition rule of law institutions has decreased the need for firms to organize against the state (Kurlantzick 2016) For one, the reduction of the state's regulatory capacity to oversee market functions meant there was very little to bargain over as a result. The increased focus on short term gains and maximization of shareholder value has created a collective action problem for interfirm cooperation (Feldmann and Morgan 2021, 4). This dispersion of the

organized firm and their weakened capacity to challenge state encroachment has become a central theme in the re-etatization of state capitalism in Central and Eastern Europe.

The evolution of markets outside of society's control and the problems that go along with it are argued to be one of the main triggers of crisis and vulnerability (Dolfsma and Grosman 2019). Firms will try to harness their full market potential while simultaneously using the government as a tool to secure that position. This has the potential to generate corporatist feedback loops. As I have argued, the middle class have responded to the crisis associated with deregulated market capitalism to exchange votes for rents and resource that are within a party's sphere to trade. When firms are a powerful enough force in the economy, the amount of management over the economy is likewise diminished.

The exertion of political monopoly over the forces of the market have allowed some CEE governments to subjugate more political authority to their parties and the leadership who wield regulatory and fiscal policy to shape market outcomes (Szanyi 2019, 8). I argue that the state's domination of the economic is the main determinant of the middle class clientelism because it trades the independence of middle income earners for corrupt side transfers. To borrow a phrase from McMann (McMann 2012, 28), it destroys the 'personal economic autonomy' of the citizen. It allows parties to buy off voters with the largesse of the state and encourages them to punish those who challenge their authority with economic reprisals.

3.6.1. ...And the State

The spread of neoliberal liberal policy in Central and Eastern Europe saw the balance of the economy tip towards firms as the main arbiter of prosperity in the 1990s. This was theorized to be a supporting bulwark for economic growth and societal modernization. Neoliberals have argued business interests act as a kind of glue between prosperity and society without interfering

directly with government function (Barnes and Hall 2013). This is in contravening expectation to those arguments by scholars, like Miliband (Miliband 1969), who proposed that the extended reach of business's resources and influence makes them a more potent threat to democratic processes. Nonetheless, the retreat of the state in the early 1990s shared a similar fate to that of labor power as international and domestic firms became more influential at the cost of national sovereignty (Barnes and Hall 2013). In CEE countries, the initial process of liberalization underwent a reversion in some instances as the state expanded its governmental authority over the levers of economic power.

The status of government in comparative political economy is typically restricted to the function of institutions and regulatory control. The reduction of state interference in the market after the collapse of communism was considered to be the beginning of a regulatory race to the bottom in order to influence capital and investment decisions (Cerny 1994; Strange 1996). The VoC's firm-centric approach likewise emphasized government's invalidity. Business relationships would now be the main manager of market and non-market coordination. In coordinated market economies, the government involves itself as the enforcer of compliance and rule building between businesses and labor demands rather than manager of the economy. Schmidt (2009) rightly pointed out the fallacy of consigning government's potential to influence markets to the background of economic theory. Government's influence over their own capitalist systems in Latin America, East Asia, and Eastern and Central Europe has reaffirmed the utility of 'bringing the state back in' was necessary to the discussion of capitalist typologies (Schmidt 2009, 12).

The estimation of the state's management of economic matters in CEE countries had been described as neo-corporatist since the late 1990s (Iankova 1998). The presence of the state

in economic functions is a hold-out from the communist era when the commanding heights of the economy was managed exclusively by the Communist Party (Szanyi 2019). Rapid deregulation and divestment by the state from its economic responsibilities fell into increase tension with firms whose motivations were focused on maintaining the deregulatory state in Central and Eastern Europe. In constrained democracies, the reversion back to state domination of the economy was swifter. This has been argued to be a function of the continued unequal distribution of capital in those societies that have produced a higher demand for state interference in the economy (Becker and Vasileva 2017). Meanwhile, democracies in decline have experienced a resurgence of state-capitalism in competition with the continued presence of competitive firms. As such, a hybridization of economic deregulation and close state management of the economy has occurred in these countries.

In hybridized economies there is less informational certainty for societal actors to make decisions. State-capitalism selects economic winners and losers as a solution to this discrepancy, but private companies are less able to. This creates countervailing pressure in the shadow of crisis as the uncertainty of the market bleeds over onto middle class workers. In this case, uncertainty presses both present and future economic concerns for the middle class. I argue that in such instances, polarization is likely to occur between groups who compete to gain access to resources and to maintain their status as the ‘winners’ of that society. Personalistic and populist parties are both the cause and consequence of this feature whose presence creates an environment of noisy politics. Parties seek to harness the economy for their own constituent’s benefit against the counter forces who wish to untether it (Feldmann and Morgan 2021).

3.7. The Primacy of State Control

State encroachment on the modes of capitalism is a puzzling occurrence. Capitalist systems reflect their propensity to protect property and freedom on a contractual basis within a rational-legal system of laws and institutions. Yet, the expansion of free market ideology into Central and Eastern Europe has brought about an acceleration of state dominion over their own markets. Changes towards state-centered capitalism is a function of a political landscape that makes transformative-market processes much more likely to be captured by neopatrimonial elites. These individuals will then insulate themselves within the institutions that they've hijacked via state capture. The condition of constrained democracy reflects a nature of state of capitalism in which the government dominates all aspects of the economy while firms and labor have very little room to strategize or organize in opposition. High levels of state management of the economy will be the result. I refer to these as state primacy economic systems. The costs to coopt the electorate is comparably less than reward of state capture that is on offer which makes incumbent neopatrimonial and clientelistic relationships with constituencies like the middle class more cost effective to procure.

Becker and Vasileva (2017) conceptualized an expansion of capitalist typologies that placed state managed capitalism front and center in their analysis. They refer to this system as 'patrimonial capitalism' as it is dominated by neopatrimonial systems. The word neopatrimonial purposefully calls to mind Weber's (1972) classifications of authority.³³ It adapts these classifications to better reflect the mutated amalgamation of modern governments who use personalistic ties and close networks of affiliation to ascribe clientelistic rewards for those

³³ Weber's (1972) classification of authority evoked the manners of accepted power and could compel consent by all elements of a society. The three forms of leadership he argued were rational-legal, traditional, and charismatic and personalistic. Weber theorized that legal-rational authority was the outgrowth of the modern state who derived its authority from law, bureaucracy, and the power of the office.

deemed as loyal subjects. The term gained increased traction in the development literature as a way of referring to states that relied on traditional and paternalistic connections while using a rational-legal authority as a means to gain legitimacy (Eisenstadt 1973). This type of functional legitimacy is a façade for its corrupt practices. Neopatrimonialism has gained a negative connotation over the years of scholarship as it has been associated with the modern notion of the predatory state or the failed developmental country (Bach 2011; Kohli 2004).

The emergence of the neopatrimonial state in post-communist societies has produced some debate amongst scholars. The coercive power of the government was a relic of the communist era and so any development and reform during the 1990s had to contend with an already strong state which did not want to relieve itself of its economic responsibilities (Becker and Vasileva 2017). This led to a less profound distribution of resources during marketization and an even more skewed society with a new set of dominant elites on top and very little society left in the middle. However, this argument leaves out further scrutiny of the state capture process and implies that strong states are all it takes for parties to seize power. The divergent quality of democracy in Central and Eastern Europe confounds this argument as all CEE countries had similarly strong states going into their liberal transition. Instead, I argue that the state's coercive power over the economy was a result of the weakened status of labor and the failure of firms to emerge as a potential counterbalance. This gave elites an opening to pave the way for party-fusion with the state by way of middle class constituent support.

Firms may fail to emerge as a viable alternative in these economies due to the chain of events in how liberalization occurs. In cases where high polarization is present, information asymmetries prevailed (Frye 2010). This leads to a highly politicized reform processes and a higher likelihood that reform will be captured by self-interested elites because the costs for

winning and losing are debilitatingly high (Frye 2002; Rodrik 1996). In accordance with the theory, the middle class voters remain quiescent and even supportive of those elites who corrupt the process because their options are also limited. Exit and voice offer very low payoffs in this system unless there are alternatives to rally behind. Furthermore, voicing one's support for an alternative candidate is dangerous because winners and losers are not yet been determined. Lastly, low organized labor capacity keeps collective action costs high for those with less political resources at their disposal.

The state's primacy over society allows it to control most aspects of the economy and their network of clientelistic goods and services creates stronger bonds of loyalty amongst their cadre of supporters. Even the middle class, who should be a bulwark against the corrupt practices of selective patronage, will buy into this system when it supports their position in a social hierarchy. As such, economic dependence on the state will encourage further state capture and lead to a dependent relationship which makes challenging this new status quo difficult. The risk of losing one's livelihood overcomes any sense of voting or protesting for liberal freedoms or policies. Instead, it is more likely to induce workers and businesses to signal their loyalty and maintain their good relations with the government (Feldmann and Morgan 2021). Participation in corruption is one way of signaling loyalty in this case as dyadic reciprocity will be much thicker given its dependent structure. Parties do not have to control all aspects of the economy, just enough to overcome the costs of vote buying and lower the odds of defection. However, this may be a double-edged sword as it can impair future rents and drive up clientelism costs in the long run (Shchukin and Arbatli 2022). In this case, it becomes important to keep middle income patrons depressed, receptive, and cheap.

A state driven market economy reflects an equilibrium of weak labor and weak firm organizational capacity. Instead, the economy is monopolized by the government. The government has access to control firms through regulation, corruption and patronage, financial controls, and industry dominating state owned enterprises (SOEs). This results in a coercive control of capital which produces an environment wherein private competitors are entirely restricted by both formal and informal obligations (Kurlantzick 2016). The limited options for exit and voice are conducive for the middle class as an option for vote buying without fear of party switching or reneging on the state capture bargain. I expect that these arrangements will make the middle class much cheaper to buy off and allow parties and elites to coordinate state capture effectively. Democracy will be highly constrained as lack of alternatives will prevent defection to other political alternatives.

3.8. The Hybridized State-Market Control

When the state has a monopoly of economic coercion within a country, a vulnerable middle class can be a useful survival weapon for parties to enlarge their control over the machinations of the government. However, a much less destructive response occurs when neither states nor firms have a dominant position in society. In CEE countries that experienced full transition to democracy in the 1990s, independent firms had a much more significant role in promoting the future of markets. The recent re-etatization of markets within the market has challenged this position and strengthened governments coercive power over and firms. It has also given elites and parties more to bargain with for power. However, the state's management of the economy may not be as fully potentiated in all cases. In some cases, private companies and corporations provide a valid alternative and counterbalance. I refer to these systems as hybrids as they possess both strong market and state-capitalist institutions and represent mid-level SMotE.

Hybrid market economies represent a blend of “small private local firms co-existing with large state-owned enterprises in the dominant command economy environment” (Rapacki et al. 2020, 582). In these systems there is a balance of liberal market coordination with an increased mixture of state command of the economy. The fragile balance between the two implies an ongoing oscillation between the private and public economy with neither able to gain total dominance. This fluctuation follows patterns electoral outcomes and party preferences. Those parties that promote the state do so as an inside challenger as it does not seek to supplant neo-liberal markets but, rather, to gain influence over it (McNally 2013). Politicians do not seek to undermine private property rights or the modes of neo-liberal prosperity but only to apply enough pressure to make it work for their constituents (Szanyi 2019).

Economies that combine statism and liberal markets often do so inefficiently (Baboš 2010; Iankova 1998). Despite the intentions of CEE politicians to angle for more power of the economy to benefit their prospects, additional infringement creates more tension because using the state to coordinate more aspects of the economy comes at a steep cost to private businesses (H. Schneider 2012). What emerges is a conflict over interests and resources. Firms are pressed with their own decisions to either support or exit the system. Local businesses are more likely to be subjected and constrained to act as they lack a viable exit strategy while multinational firms will be much more resistant. This tension will also likely create loyalty challenges for domestic businesses with attendant spillover effects onto their workforce (Feldmann and Morgan 2021).

The conflict between private firms and governments has compelled some scholars to rethink the nature of the state’s position in deciding market outcomes and how it may affect vulnerable constituencies (Dolfsma and Grosman 2019). For instance, governments can use fiscal policy as a limited coercion tool to balance their rule of law obligations with popular demands for more

redistribution. When a party seeks to bypass this function of the state and go straight to popular redistributive demands democratic conditions will begin to suffer. Parties engage in corrupt practices like welfare capture as a means to reward political loyalties and bypass institutional constraints (Cerami and Stubbs 2011).

The strain to decipher winners and losers as the public and private economic spheres clash will create a polarization effect. While international firms may have the luxury of exiting from these systems, exit does not necessarily rebalance the disequilibrium that compels the conflict (Hirschman 1970). In some instances, it may make the matter worse by encouraging polarization in the electorate when there are fewer countervailing voices. The middle class will be split in their loyalties between political actors who promote state-capitalism and those politicians who may promote private firms as both have potential to generate status and material advantage. Reciprocity will be much thinner, and corruption will have less utility in this system. However, governments have a monopoly on several keyways to gain support for their causes. They can use welfare, political patronage, and speak directly to the masses. Political access to SOE boards and executive positions gives political leaders leverage over employees within the realm of state-managed businesses which further exacerbates private-public competition.

Political parties that have capitalized on the state's moderate access to resources and management of its economic affairs are able to target the middle class for support. However, without total access and a potentially adversarial relationship with private enterprise the costs to coopt the middle class remains higher than if parties had complete access to the complete treasury. Voters can, likewise, defect quite easily between alternative parties that can meet their interests without leading to destructive state capture outcomes. Therefore, political parties that offer clientelistic packages must be more discriminating to lower the overall costs associated

with capturing middle class voters. High costs produced by exit (alternatives) and voice (competition) makes for a less democratically fraught environment. Democracy will not be constrained in this case but erode when parties are able to activate clientelistic linkages to their advantage by finding ideal constituencies in the middle class. Moderate amounts of party control over the economy are likely to produce more polarization which could then invoke higher levels of state capture, increase SMotE, and heighten strategic dependence between patron and clients even further.

3.9. The Primacy of Market Control

Most CEE countries embraced neoliberal policies and reform in the aftermath of the Soviet Union's collapse, but few were able to fully develop firm-centered solutions to the problems that may be incurred by free markets (Feldmann 2006). These systems represent the least amount of SMotE although they are not completely bereft of governmental oversight. I refer to these countries as market primacy systems. They are noted by their deconstruction of the regulatory state and how they embraced foreign firm investments as essential to economic success. As a result, these market-oriented states tend to respond to crisis by favoring further deregulation and fiscal incentives in order to maintain economic growth (Feldmann 2017). Low levels of government access to the economy produce very few clientelistic offers from parties and elites who may seek to capitalize on vulnerabilities in their constituencies. Instead, parties are more likely to promote market-based solutions to social problems like employment and wages.

Due to their preference for attracting foreign investments by making themselves more appealing to international industry, these market economies are closely associated with FDI and dependent market economies (Fainshmidt et al. 2018). Such attachments make them vulnerable to the problems associated with globalization and social inequalities. For one, there is a stronger

propensity for unequal distributions of gains and wealth due to their over reliance on the market which enhances the middle class's fragile position. Despite this weaker position, these states still offer welfare packages akin to their hybrid neighbors. However, the guarantee of welfare promises contained in their social pacts are also more exposed as social spending is more likely to suffer from austerity measures during times of crisis (Feldmann 2017).

Therefore, the middle class is not immune in these economies which has developed vulnerabilities in the wake of state abdication of market responsibilities in favor of private business coordination. Yet, popular demands for patronage due to deregulation, even in the aftermath of crisis, is underwhelming. During the Great Recession, the market-centered economies in Central and Eastern Europe promoted some of the steepest austerity measures on the continent. The Baltic governments were especially aggressive and cut wages and welfare payments at extreme rates. The reduction prompted many citizens in these countries to accuse their governments of reneging on their social commitments and obligations (Feldmann 2017). However, their dependence on foreign financing and investment meant that there was a likewise dearth of domestic bailouts and countercyclical management of the economy.

Despite some vocal reactions, such policies did not generate much in the way of counter mobilization. In Estonia, for instance, the parties most associated with austerity won more seats in the next election cycle. The mobilizations that did occur, came from state sector employees. These were middle class workers like teachers who had suffered from the cutbacks. The destruction of Estonian's dependency on the government for economic solutions had clearly tempered the effects political parties, competition, and clientelism. However, it is not from a lack of agency on the part of Estonian citizens. The Estonians who mobilized in the teacher's strike in 2012 were able to gain a round of concessions from the government in the form of wage

increases for 2013. Overall, however, Estonia's market primacy economy did not falter throughout the crisis.

Countries with little SMotE provide very few resources that parties, and elites can use to elongate their tenure through corrupt side transfers. Crisis may provide openings for political leaders in other countries to abuse vulnerable constituencies, but it is very cost prohibitive to clientelize the middle class in market primacy systems. In Estonia's case, politicians upon firms more responsibility over the market while demoting the government's own obligations. This affords business interests a fair amount of leverage over the economy and the directions it may go. A fact that even financial crisis could not deter.

Middle class workers promote voice in politics and exit between individual firms and sectors as a viable strategy for maintaining their economic standing in society. The lack of state involvement in the economy is a result of the institutional oversight and good governance procedures that act as a counterbalance against the weight of foreign and domestic firms. I hypothesize that when state management of the economy is low, state capture will be low. This is the case even when crisis destabilizes the middle class and creates a possible voting block to patronize. Parties will be unable to capitalize on such groups as the cost to coopt will be beyond the capture capacity of the state's resources.

3.10. Conclusion

I have presented a theory of middle class clientelism that explains democratic outcomes in Central and Eastern Europe. I theorize that the clientelization of the middle class is predicted by the capture capacity of the state and constituent vulnerabilities of that group. The state's capture capacity is determined by the level of state management of the economy which ranges from minimal to maximal levels. Middle class vulnerability is reflected in their material losses in the

aftermath of financial crises and growing rates of inequality. The destruction of organized labor also adds to their vulnerability status and places them in a constrained state of strategic dependence whereby the state's resources become a useful shield against. State capture can occur when parties and enterprising elites take advantage of middle class vulnerabilities by clientelizing them as a group and redistributing resources of the state to secure their loyalty and support. The availability of alternatives for middle class patrons alters this calculus by making defection more or less of a possibility.

These arrangements are grouped with the outcomes of constrained, retrograde, and functional democracies. The failure of democracy in Central and Eastern Europe is due to state capture by parties who have coopted the middle class. When SMotE is high along with a vulnerable middle class then state capture and middle class clientelism is likely to be the outcome. The lack of alternatives lowers the costs of clientelizing the middle class and ensures future support for the party. Consistent party domination ensures state capture is thorough and complete to the point that competition both electorally and economically is constrained. Moderate levels of SMotE produces a polarization effect as the costs of buying off the middle class are lower but there are fewer resources for parties to redistribute. Targeted clientelism will be the most effective tool in this case which increases polarization and contestation between private companies and the government.

The presence of alternatives cannot prevent state capture by dominant parties unless consistently challenged during each election cycle. However, this prospect declines over time. When parties gain more control over the state in exchange for patronizing middle income citizens, democracy will erode. Finally, when the state has very little control over the economy political parties cannot target the middle class because it becomes cost prohibitive to do so.

Instead, they will engage in institutional provisions that ensure competition and politically counterbalance against prolific interests in the electorate and a competitive marketplace.

From this point, the dissertation delves into the empirical elements that test the hypotheses of this paper. When SMotE is a monopoly, we should see middle class coordination with political elites and state capture as a result. It will disassociate with democratic ideals and become dependent on their patron's government for their own social wellbeing. In this case, I examine how Russia emerged from its democratic and liberal market transition into the statist and neopatrimonial economy it is today. The corruption of its transformation as it dealt with crises, vulnerable constituent groups, and clientelistic practices explains why it continues to persist as a constrained democracy.

Next, I explore how the confluence of highly organized firms and state-capitalism leads to an environment rife with polarized contestation and challenges. The middle class is less cost effective to buy off in this case as there are alternative opportunities for status maintenance and elevation which will raise the cost of buying loyalty. In this case, parties must effectively target patronage to prospective buyers. I utilize the Polish case to uncover the relationships between economic and political polarization that occurs when parties attempt to patronize the middle class. The result is a clash between state-capitalism and corporate interests. This competitive inconsistency has given rise to retrograde democracy with the recent domination and proliferation of populist parties.

Finally, I use Estonia to elaborate how state-capitalism is not the only dominant aesthetic present in Central and Eastern Europe. This emergent liberal economy has maintained its democratic status and possesses very little in the way of economically motivated polarization. The state has given way, even in the face of crisis and vulnerability, to market solutions and

high-capacity, private companies. Estonia's social cleavages are represented by tensions between ethnolinguistic minorities and ethnic Estonians rather than as an economic clash.

4. RUSSIA

The emergence of state primacy capitalism in Russia was a graduated process that occurred over the span of twenty years. In this time, the country transformed from a socialistic command economy to one driven by governmental oversight of quasi free markets. A cyclical revolution from state control back to state control. Over the course of several crises, political leadership in the Russian government was able to gain more and more control over the whims of the economy by satisfying key constituent needs. In conjunction with this, the Russian middle class's dependence on the state's management of the economy would become more deeply entrenched. Elite political corruption fed into those dependence by deepening its clientelistic reach into the middle class. As a result, Russia emerged from its liberal revolution in 1993 as a country that never fully embraced the core tenets liberalism.³⁴ Along with these momentous events in Russia's history, middle class clientelism coevolved with the rise of Russian political parties who used their access to the government's ever-increasing control over the market for their own political gain.

Russia represents a tale of two transformations. Its first transformation was the initial neoliberal reform processes undertaken even while the communist party was still in power. The communist government's embrace of outside party competition would be its undoing in the end, but it would not immediately dissolve away. During this transformation, Russia experienced a complete collapse of its GDP and monetary stability. Many citizens lost wages, and their savings as consumer goods prices skyrocketed. Through a series of reforms, the government was able to gain more leverage to right the economic downturn and what emerged was a corrupt bargain between a new set of business elites and an ideologically polarized government. Despite this,

³⁴ Those tenets of liberalism being strong support for individually driven free market and the legal protections of private property.

Russia entered a decade of prosperity after the unexpected electoral victory of Vladimir Putin and the emergence of a new political party bloc, the United Russia Party, which dominates to this day.

Despite gains for the middle class in the 2000s, high levels of economic and social inequality emerged as wealth became more unevenly distributed. Greater pressure was placed on Russia's government to interfere more in market activities leading to more restrictions on firms and more middle class dependence. Today, Russians are left with few alternatives for market solutions outside of working with, or for, the government. The affordability of clientelizing the middle class has led to a reciprocal dependency effect on the continued domination of United Russia and weak democratic attitudes in the country. This dependence is not just a tale of state sector employment, but one of loyalty and lack of credible strategic choices for voters.

Throughout this chapter, I emphasize the escalating nature of a narrow set of Russian political actors whose control over economic forces has widened and hardened throughout the years. I demonstrate this with the use of economic data and several primary and secondary source analysis which shows the influence Russia's government has gained over their economy through the promotion of clientelism and corruption. Such gains came at the cost of private firms and business capacity who lost a great deal of autonomy alongside organized labor in the 1990s. Putin's policies in the 2000s led to an ever-increasing nexus of loyalty between the middle class and support for his party's illiberal rulership. I place a heavy emphasis on the use of polling data from several sources to show how middle class attitudes developed and how they conform to the middle class clientelism thesis. Furthermore, I show how state capture has entrenched over the years which has given way to a neopatrimonial economy that has the support of compensated middle class voters.

4.1. Russia: A Tale of Two Transformations

The transformation of Russia after communism was quite dynamic. While many CEE countries experienced variable rates of transition towards liberalism, Russia's liberal path was less direct and led indirectly towards state capture. This is because Russia went through a series of reforms, financial and economic destabilizations, and eventual economic re-etatization. These processes were nearly always dominated by elite leadership and the promotion of patron-clientelism. The results of this transition took nearly twenty years to codify into its current political system.

During this time, organized labor was largely deconstructed, managerial elites formed the new basis of patron-clientelism that would function as the heart of Russia's economy, and the state was able to reabsorb the commanding heights of commerce while still maintaining the illusion of free market capitalism. I determine that Russia, starting in 1990, experienced two transformations. One of attempted liberalism and one of state capture through state-capitalism that shut out alternative economic influencers. What resulted was the dominance of the state in economic matters and a middle class whose interests were beholden to the new status quo.

Russia's exit from communism produced a legitimate attempt to democratize and open up its economy (Carothers 1997). Despite this honest attempt, the process was largely captured by elites as a result of the methods used to liberalize. High levels of polarization in society and the country's legislature created moments of contradiction and confusion which was exploited by enterprising elites. Reformers in the legislature were motivated to ensure that the changes to the economy would be permanent while the lingering presence of the communist party threatened to roll back those changes after every election. The collateral damage of this collision between liberals and old guard communists was an economic collapse due to aggressive marketization

and a new set of business owning elite that became increasingly reliant on the state to confirm their new status.

The manner in which liberalization proceeded was tied to state assurances that were often contradictory. The ruling government would continue to offer support to its new economic and political elites while likewise promising to elevate the living standards of the middle class. Russian political leadership often did not differentiate between the two. In fact, they often tied their survival together in both legal policy and corrupt insider deals with multiple tiers of the population (Cook and Dimitrov 2017). One way this was done was through privatization or selling off state assets. A procedure that led to asset appropriation by a few wealthy individuals (Becker and Vasileva 2017, 89).

The second Russian transformation was the result of the close associations between regime insiders and inflamed corrupt patron-clientelistic practices. These practices had continued largely unabated from the communist system and were aggravated when free markets were introduced. The domination of the United Russia Party and Putin's electoral victories diminished much of the legislative and mass polarization of the 90s. In its place was a more unified government that was focused on stability and enhanced state coercive power through state-party fusion. The government-business pipeline was further reinforced as Russian leadership embraced state-capitalism throughout the 2000s and 2010s. What resulted was a system in which business and government were near indistinguishable and entrepreneurial alternatives were crushed.

During these two transformations, the middle class experienced existential crises, twice. First, during the decline of Russia's living standards that hit the middle class considerably hard. During this time of heightened polarization, however, middle class voters put themselves behind then President Boris Yeltsin's and his restructuring programs. The next crisis occurred after the

Great Recession in 2008 as President Putin's promises went unfulfilled and middle class futures began to rapidly diminish. However, Russia had become too entrenched in its neopatrimonial market economy and its system of patron-clientelism for any alternative parties to come along and sweep away United Russia. The destruction of organized labor and the embeddedness of unions into the party apparatus of United Russia made collective action and protest quite impossible for the majority of Russian workers. Since the 2000s the middle class sees its fortunes now with maintaining the neopatrimonial system with Putin at the head of the state.

4.2. The End of Communist Russia

The end of communist rule was as abrupt as it was dramatic. Communists had proliferated Central and Eastern Europe since World War II and had come to define the majority of post war politics in the region. In the case of Russia, or the Russian Soviet Federative Soviet Republic as it was known at the time, the process of liberalization, market reform, and competitive politics had its start in the 1980s. Growing dissatisfaction in the USSR's ability to keep up with persistent Western economic growth had entreated a host of liberalizing reforms from the newly appointed General Secretary Mikhail Gorbachev. What followed was a series of events that unraveled all of the Socialist Republics and the catalyst for a proliferation of new governments in its wake.

Mikhail Gorbachev was a proponent for much needed reforms within the Soviet Union. Indeed, Gorbachev's rise to fame in the Soviet Union was centered around his support for the destalinization process that occurred after Stalin's death in 1953 when the new General Secretary, Nikita Khrushchev's, rolled back the communist party's more violent and coercive excesses. In 1985, Gorbachev sought to implement greater personal freedoms, allow political parties to organize, and abandoned large tracts of the old soviet economic model (Evans 2011,

44). The most famous of his policies were perestroika (“reconstruction”) and glasnost (“openness and clarity”). With these policies Gorbachev set in motion a demand for liberalization and the political room to enable it. While there were several other exogenous effects that spurred the decline of the Soviet Union, Gorbachev’s policies were noted for providing the political space for these forces to undermine the capacity of the soviet system.³⁵

Events came to a head by 1990 for Russia. Gorbachev’s tolerance of organized informal groups around non-communist interests had given rise to a formidable liberal movement known as Democratic Russia.³⁶ One of the main figureheads of the Democratic Russia movement was a former Communist Party member Boris Yeltsin. Yeltsin, like Gorbachev, was a reformer. He had risen through the ranks of Communist party in support of Gorbachev’s perestroika reforms but quickly became disillusioned with the gradualist scale of their implementation. Instead, Yeltsin staunchly advocated for nothing short of multiparty representative democracy (Carothers 1997). His popularity surged with his role as critic to the Gorbachev regime. However, he gained premier dominance in Russian politics when he became the first member in history to resign from the Politburo in protest in the late 80s.³⁷

By 1990, events were now beyond the control of the Politburo. Russia had declared itself sovereign and beyond the dictates of the USSR and was joined by the Baltic states, Ukraine, and Armenia. Yeltsin’s protest movement had gained him the seat as chairman of the Supreme Soviet of the Russian SFR. He then won the election to become the first president of the Russian

³⁵ There is an extensive literature that seeks to identify and explain the main causes of the USSR’s collapse. For more detail as to some of these causes, I recommend: Strayer, Robert. 1998. *Why did the USSR Collapse: Understanding Historical Change*. Oxfordshire: Routledge.

³⁶ Democratic Russia was a collection of liberal activist groups in the Soviet Union that advocated for the liberalization of Soviet politics, specifically in the Russian SFR.

³⁷ The Politburo or the “Политическое бюро” was the Soviet Union’s main governing and policy making apparatus since the October Revolution in 1917. While it was formally subordinate to the Central Committee, the executive authority, by the 1980’s it was the de facto authority of the Communist Party of the Soviet Union.

Federation in 1991. He won with 57% of the popular vote against the Communist Party's pick Nikolai Ryzhkov. Despite his strong showing at the polls, scholars have contended that Yeltsin's base support was hollow and never fully materialized after the election in 1991 (Evans 2011). Nor was Yeltsin's liberal reformist platform all that revolutionary at the time. Evans (Evans 2011) would go on to argue that the changes to the Soviet Union were inevitable given the situation on the ground. He writes:

"...those who had specialized in the study of communist regimes warned that the post-communist states would need to carry out radical economic and social changes as well as sweeping political transformation" (44)

Despite the inevitability sentiment expressed by Evans, Russia's headlong dive into liberal reform could not appropriately be described as a simple march towards independence and radical reforms. In 1991, economic collapse pressed hard across the Soviet Union with food and goods quickly disappearing off of store shelves. The crisis came to a head with a coup in August led by Communist Party hardliners who attempted to re-exert control over the breakaway republics.³⁸ The coup collapsed within days and with it, the entirety of the Soviet Union. Each Socialist Republic was re-constitutionalized as an independent country and Russia becoming the Russian Federation. However, that would not be the end of crisis, reform, or contestation for political and economic power in Russia. Instead, it represented its transition towards liberalization and the first stages of patron-clientelistic entrenchment.

³⁸ The August Coup was an attempt by hardliners of the CPSU to recapture the breakaway territories of the Soviet Union and wrestle control of power from Mikhail Gorbachev who was viewed by regime insiders as inept and incapable of stopping the current crisis. An emergency committee was created, and several military units were deployed in Moscow, but the coup gained little traction or popular support and was quickly dismantled in several days.

4.2.1. *Russia's Liberal Transformation*

The process of liberalization in Russia can be described as corrupted from the start. Instead of forging a new, economically independent society that marginalized state or business predation and control, Russia's transition rewarded a new set of enterprising elites while much of the citizenry saw a substantial decline in their status and lifestyles. Reforms forged along by shoring up of patron-clientelistic ties despite popular backlash. The Russian middle class, in the capitalistic sense, had yet to be fully formed but there was already the beginnings of rumblings and popular discontent split along nascent class lines. In spite of this, Yeltsin moved ahead with his sweeping reforms.

Despite the mounting popular sentiment for change since the 1980s, the policies that were implemented were essentially organized in top-down fashion with an eye towards effectuating asset capture by a new set of economic elites. Russian *oligarchs*, as they came to be identified, were able to eke out more and more control over state owned assets as the boundaries of Soviet control withdrew.³⁹ They were composed mostly of those in managerial positions which gave them leverage and insider access for asset purchases and also gave them connections to political elites. While the behavior was encouraged by the vestiges of Soviet corruption, this new economic class was able to use their insider knowledge on the changes in policies and access to state-owned firms to secure more resources in tandem with state action rather than in spite of it.

The emergence of these new economic elites was not the sole invention of Yeltsin, either. They had been an ongoing and quickly ascendant phenomenon since Gorbachev had

³⁹ David Hoffman (Hoffman 2011) makes the argument of the rise of the Russian oligarchs as predicated on the collapse of soviet control and its turn towards "rapacious capitalism". However, the use of the word oligarch implies rule by the few and, yet the Russian case was replete with extended asset grants and fire sales of entire sectors targeted large swaths of the general population. The oligarchs, while powerful and influential, were still dependent on state action to one, secure those new property rights, and two, guarantee that they wouldn't be lost.

implemented his initial reform policies. Economic reforms had allowed managerial elites to procure deeper levels of control of the assets they were managing and allowed their economic consolidation to reach new levels by the 1980s. This was especially the case as the oversight of the Politburo had been aggressively curbed and allowed managers to operate more independently during that period (Åslund 2006). In essence, Soviet managers in the 1980s had gained access to insider ownership over state-owned firms without having to purchase them or own them directly.

The new class of oligarchs were not a continuation of the former old guard of Communist Party leadership although they often operated within the same circles. Instead, they represented a break from the old world of communist economics but with an eye towards maintaining privileged accesses afforded by their nomenklatura rank. Yeltsin did not attempt to bridge his reform policies with the old elite. Instead, he pushed for a break entirely with the old system and its old masters. By breaking with the old guard, the reform process advocated for by Yeltsin could push ahead without alternative inputs but at a serious cost. The old guard of the Communist Party would eventually push back to reassert control and maintain their hegemony in the Russian Federation. To not do so would see their once prosperous position in society be perpetually reduced.

The resultant backlash of Yeltsin's relentless reform pressure produced an environment of intense polarization between the divesting communist elites and the newly invested reformists. The level of polarization that existed between these two groups is important when considering the next phase of liberal transformation and crisis that occurred in 1993. Coming just two years after the 1991 dissolution of the Soviet Union, a constitutional crisis had erupted on the streets of Moscow which ended with over 100 people dead, and the last remnants of the soviet system extirpated. In response to the economic reforms in 1992, financial instability had led the

communist dominated legislature to try and oust, then president, Boris Yeltsin one last time. In a historical turnabout, the Russian military backed Yeltsin and the remnants of the Soviet system were swept away by a new, federal constitution. The elections that followed produced the beginnings of Russia's trudge towards democracy (Evans 2011).

The motivation to attack Yeltsin's presidency was fueled by the loss of communist hegemony and Yeltsin's approach to marketisation. His over reliance on "shock therapy" policies had induced a sharp and swift change to the old Soviet hierarchy, but it also destabilized the economy. The economy shrank rapidly along with the livelihoods of most Russians. Tangible capital and highly skilled workers began to flee abroad as a result of Russia's now open economy. Assets that did remain were stripped of valuables by their new owners during the first round of voucher privatization. As privatization of Russia's SOEs began to increase apace, firm workers and managers were offered a dichotomous choice: seek outside purchasers or distribute the shares of state-owned assets to workers and managers. Some 51%, chose the latter (Åslund 2006).

The effect of this process was extreme. Figure 4-1 presents a picture of the Russian economy in the 1990s by considering of SOE percentages and GDP growth for the decade.⁴⁰ The share of state-owned enterprises went from nearly 90% in 1990 and quickly plummeted. Large tracts of industry were sold off using the voucher system between 1992 and 1994 and again during the Loan for Shares program in 1996. The voucher program was thought to be ideal by leadership as open auctions were seen by the public as corrupt bargains between politicians

⁴⁰ GDP Annual percent growth was provided by World Development Indicators and the World Bank (World Bank 2022). SOE percent ownership data was provided by di Bella, Dynnikova, and Slavov (2019, 22) that estimates SOE ownership using European Bank of Reconstruction and Development data. See their article for more information on their methodology and approach.

and the new Russian business elites. The retrenchment of state-owned assets finally led to positive growth rates for Russia in 1999.

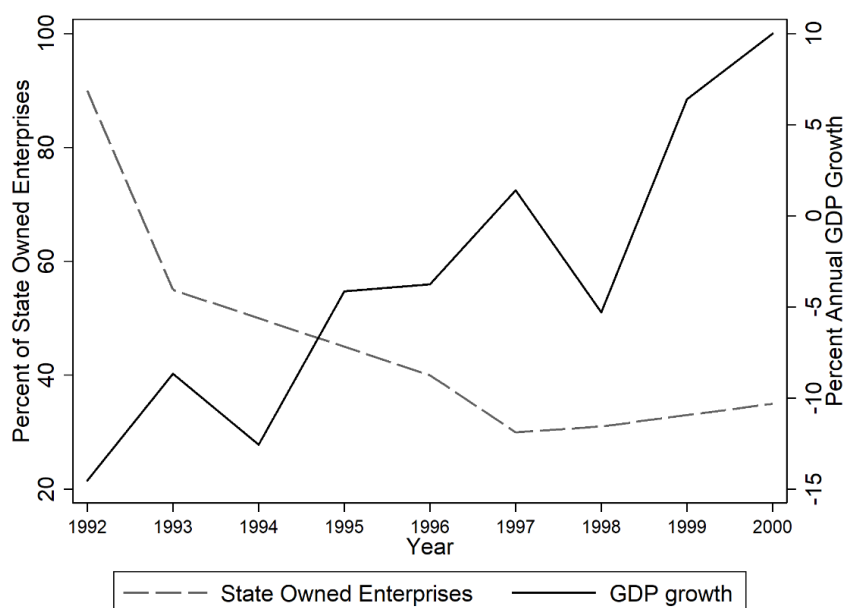


Figure 4-1 Russian GDP Growth and Share of SOEs

Vouchers acted as proxies for shares of Russia's national wealth and were distributed equally amongst the population. Yet the problems of wealth concentration persisted as the managers of businesses found ways to pry away vouchers from workers. Workers were hindered by misinformation, insider trading amongst elites, and the fungibility of the vouchers that made them easily tradeable. To add to their troubles, Russia had entered a devastating depression and had experienced a negative percent GDP growth since 1992. Desperate workers were more motivated by short term survival rather than long term equity accrual and sold their voucher shares in order to make ends meet. The end result was capital and firm ownership had collapsed around a new set of business owners which were comprised of the former managerial class and nomenklatura, nonetheless (Becker and Vasileva 2017).

In the midst of growing dissatisfaction with the Yeltsin's shock therapy policies and its attendant depression Russian politics remained highly competitive. The legislative election in 1993, just months after the constitutional crisis, brought more contention to Russian politics. The Russian legislature, or the State Duma and, to a lesser extent, the Federal Council, did not produce parliamentary majorities for the liberal bloc. The increasingly unpopularity of rapid privatization was beginning to challenge the consistency of Yeltsin's reforms. The extent of Russian political and social polarization emboldened opposition party leaders to act increasingly intransigent and hostile towards Yeltsin's reforms. Shock therapy was causing economic instability and the Communist Party of Russia (CPRF) was able to capitalize on this uncertainty. The CPRF was able to maintain a large 30 to 40 percent presence in the Duma throughout the 1990s with a platform in outright opposition to Yeltsin's new policies (Frye 2010).

The events of the first wave of liberalization in Russia formed two effects. First, it produced a corrupt exchange of state-owned firms between a small group of entrepreneurial, exploitive elites and the reformist government led by Yeltsin. These new elites did not attempt to foster a new business climate where firm competition was encouraged or attempt to disentangle their codependence on Yeltsin's government. Instead, events further encouraged their mutual codependence. As will be seen below, the presidential election of 1996 and the Loans for Shares program exacerbated the issue. Second, liberalization heightened distrust in the fledgling Russian Federation and increased levels of polarization within the population and between politicians. Destabilization will play an important role when analyzing popular and middle class responses from the Russian citizenry moving forward. The stage was set for an economic system with weak corporate independence from government authority. On top of that the decline of organized labor

and a devastating economic depression led to a complicit middle class in Russian politics in the 1990s and 2000s.

4.3. The Decline of Organized Labor

Western academia was fairly convinced that Russia had begun a transition towards democracy in the 1990s and the presidential election in 1996 marked the turning point for the country's democratic future (Evans 2011, 42). Elections had become the primary vehicle for distributing political positions in the government and the rule of law was increasingly normalized in the country (McFaul 2002). Although obvious flaws and inconsistencies persisted. A lack of consensus between elites and the population on what Russia's transformation should include drove confusion and polarization (Bunce 2004). Within this nexus of confusion and polarized hostility was the early machinations of a middle class that never truly materialized as independent from government support. Even in the wake of crisis caused by one of the worst depressions in the industrialized world, middle class Russians continued to vote for Yeltsin until he resigned in 1999.

Positive accounts of Russia's democratization have to be considered in tandem with Russia's economic decline. Many in the government and the population viewed the economy's tailspin with apprehension. Some went as far to term the destruction of the economy as "economic genocide" of the Russian people (Bohlen 1992). In conjunction with the collapse of Russian wages and their purchasing power, organized labor was also undone quite extensively. What remained of the trade union movement in the Soviet Union fragmented and left workers to suffer from currency deflation of currency and missing wages without collective recourse. In comparison, Christensen (2017) estimates that industrial production in Russia fell by 60 percent and light industry production fell by as much as 90 percent compared to pre-1991 levels. An

obsolete Russian workforce was now exposed to external market pressures for the first time, and they could not keep up.

The economic inequality created by the Yeltsin's shock therapy was just as extensive. Up until the 1990s, the Soviet Union was composed almost exclusively of 'middle income' workers although Soviet citizens were unlike the middle class characterized by the market economies (Alexeev and Gaddy 1993). They lacked access to goods and services outside of the government's distribution networks and they had little opportunity to rise to higher income brackets because incomes were leveled off. In 1985, middle income workers in the Soviet Union comprised over 70 percent of incomes in Russia and represented wages between 75 and 200 rubles a month. An additional 18 percent were below this threshold and represented itinerant workers and pensioners. It was also estimated that less than 0.01% of the population earned over 400 rubles per month, or \$356 in 1980's US dollars (Department of Treasury 1985).

The earnings of Soviet citizens were highly structured which made the effects of economic disenfranchisement and the "monstrous stratification" of Russian incomes in 1990s all the more sensational (Grinberg 2012, 61). By 1992, the "the incomes of 10% of the population... exceeded those of the least well off 10% by eight times" (Bodrunov 2017, 222). The seismic shift over from public sector employment to the private sector was abrasive and rife with abuse and infirmity. In short, Russian workers became "victims of the Washington Consensus" for liberal reform and policy (Siegelbaum 2004). Labor protection that could have provided some organizational support against such predations, but organized unions had melted away by this point (Siegelbaum 2004). Payments for wages were often in the arrears and inconsistent. Only 18 percent of workers reported being paid on time and 57 percent indicated that they had not been paid at all for the year of 1998 (Siegelbaum 2004, 645). What remained of the former strength of

collectivization and organized trade unions was highly polarized and fractionated between support or detraction from Yeltsin's policies.

During the Soviet era, all labor organizations were organized under the powerful All Union Central Council of Trade Unions (VTsSPS).⁴¹ This council worked in tandem with the Communist Party and emphasized near universal membership for all employees in the USSR. Trade unions under the VTsSPS networked with the Communist Party and acted as an official tool for collective labor to organize but only on behalf of the Communist Party (C. Chen and Sil 2006). The VTsSPS was eventually replaced by the Federation of Independent Trade Unions of Russia (FNPR) in the early 1990s but was able to keep many of the same functions. Despite this, trade union membership dropped precipitously. While membership had become a given during the communist system, very few workers were actually motivated by collectivist ideologies to remain as members during Russia's transition (Siegelbaum 2004). As organized labor became confederated, more and more fractures began to appear between pro-decentralization and pro-centralization forces.

The tripartite relationship between businesses, labor, and the government also became highly contentious and muddled. For instance, the FNPR was typically organized in opposition to Yeltsin's reforms and was motivated to regain their loss of position in their association between the state and labor. These organizations were highly disorganized as well as they were pulled in many directions by agents who schemed for their own interests. The main forum for negotiating labor-firm agreements was the Commission on the Regulation of Social and Labor Relations (RTK) and this organization was split between pro and anti-reformer groups. The deep

⁴¹ The organization VTsSPS is the latinized abbreviation of "Всесоюзный центральный совет профессиональных союзов" which was founded in 1918 and represented all the separate unions and workshops within the Soviet Union until 1991.

cracks of fragmentation within organized labor allowed Yeltsin's government to gain even more of an advantage in the ongoing negotiations for reform. As a result, Yeltsin was able to convert his stronger position with the FNPR in order to gain several concessions. The FNPR would retain much of its inherited resources from the VTsSPS in exchange for pledging fealty to Yeltsin's reform programs and also act to minimize worker protestations.

Society was not just divided in terms of which forces that organized labor should support but was also highly fractionated along political lines. This political breakdown played out between supporters for Yeltsin's reforms and advocates for a return to communism. Support for a return to communism seemed to be on the rise. Evidence for this was reflected in the legislature at the time which had increased the size of communist bloc parties in the Russian parliament after the 1995 legislative elections. The result of this increased polarization within both the polity and the legislature added to the confusion and uncertainty surrounding the liberal reforms. The winners in the business community that had gained the most from the reforms had grown increasingly worried that the reforms that had given them access to the coveted resources of the state could be undone in the future (Frye 2010). Yeltsin, for his part, was determined to institute a reform process that could not be realtered once started. This led to continuous clashes between reformers and anti-reformers in the communist bloc during the mid-1990s that boiled over during the 1996 presidential election.

Economic destitution combined with uncertainty over which ideologies would overcome the other had placed workers in a very tenuous position. Disagreements were found on nearly every level. There was a lack of consensus within the population over what, if any, a new economic system in Russia should even be or if the new system should reflect market capitalism. All the while, the economic situation deteriorated. Despite an estimated 17 percent increase to

salaries by 1990 due to the shift towards legal private companies and cooperatives, inflation had far outpaced those gains at 230 percent by 1995. Unemployment was near 9 percent as well (Mason and Sidorenko-Stephenson 1997). Along with the economic collapse came the destruction of living standards as prices skyrocketed and supply dwindled.

Yeltsin spoke out that he was still hopeful in the development of a new, independent middle class but the reality did not seem to reflect his words. The economic transformation that was supposed to grow the middle class by creating millions of new property owners had instead created a condensed cadre of elite owners of capital and the rest of the population mired in economic collapse. The effects of the downturned economy were not uniform as the economic reforms were leading to larger levels of social stratification within Russian society. Optimism for the economy was stratified along these lines as well. Using the data from the 1996 Russian Election Study by Colton and Zimmerman (2002), I broke down reported monthly income data by quartiles to analyze which earners self-reported their experiences as the worsening or improving after Yeltsin's reforms. The charted lines in Figure 4-2 shows the probability an individual's ranking their family's material condition in the past year as either "improved a lot", "improved a little", "remained the same", "worsened a little", or "worsened a lot" by income quartiles.⁴² The likelihood of low-income earners having a negative experience from the economy is much higher than the inverse proposition. Only the highest quartile earners were likely to declare that they saw economic improvements. Most telling was a 10% likelihood increase for respondents who noted that their economic conditions did not change when moving between income quartiles.

⁴² See Appendix C.1 for questions and coding.

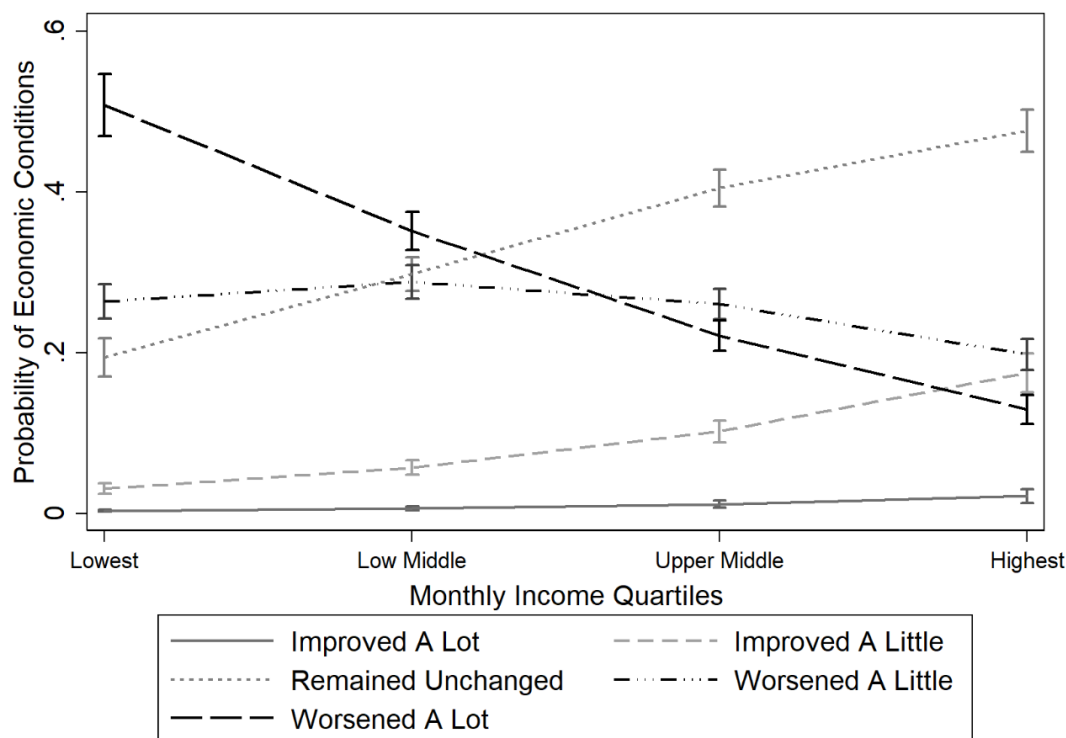


Figure 4-2 Family's Material Improvements Over a Year by Monthly Income Quartiles

What this data demonstrates is that there were very few positive experiences for the economy in the year leading up to the election, yet lower income workers were clearly most affected. They had the lowest experience of economic change that year. Meanwhile, higher income earners were more likely to report that the economy “improved a little” but very few stated the economy “improved a lot”. All aspects of Russian society were experiencing the negative effects of an economic downturn. Still, the electoral prospects of Yeltsin would not bare out the kinds of consequences one should expect from these results.

4.3.1. The 1996 Election

Support for Yeltsin had him trailing in the polls during the 1996 election campaign against his communist rival, Gennady Zyuganov. Zyuganov and the Communist Party of Russia had not made any attempts to bridge the divides that remained between reformers and hardliners and

political polarization was high as a result of collaborative failures in the Duma (Frye 2010, 172). The depressed economic conditions along with other shortcomings, like the failed Chechen War, led many observers to discount Yeltsin's prospects.

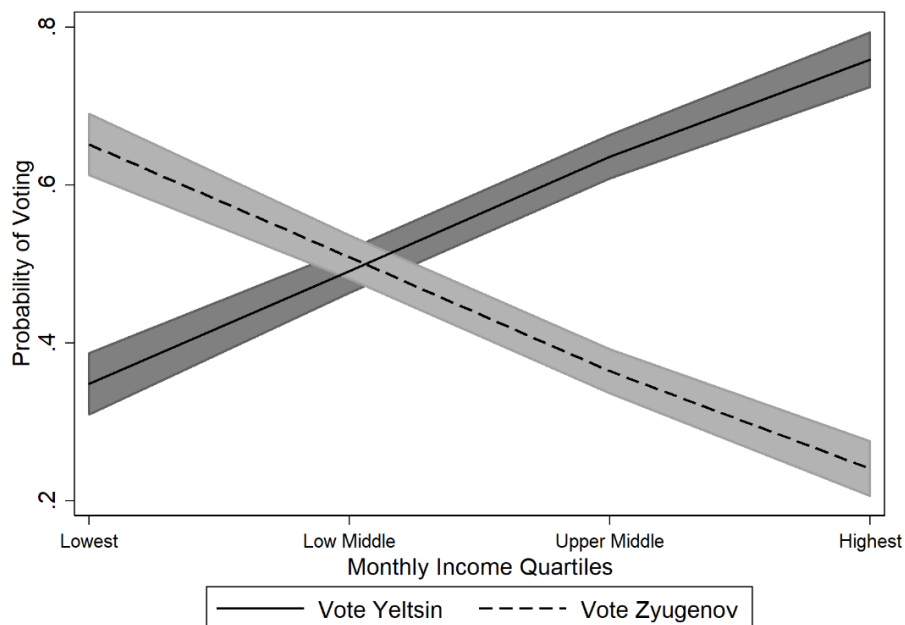


Figure 4-3 Second Round Vote Choice by Monthly Income Quartiles

The results from the 1996 presidential election astounded observers. Not only did Yeltsin win after a second round of voting but received fourteen more points than Zyuganov in a turnout of nearly 70% of eligible citizens. Breaking down the vote across incomes, Figure 4-3 shows the probability of voters by income group. Much of Yeltsin's vote support was centered in the new middle and upper income earners.⁴³ This data is from the 1996 Election Survey of Russia, and it estimates the probabilities of which quartiles would vote for Yeltsin. At the low middle income level, the vote split was approximately even. However, the upper middle and highest income

⁴³ See Appendix C.2 for questions and coding.

earners were more likely to vote for Yeltsin in the second round of the election by a multitude .68 and .78 times than for Zyuganov

Despite the downcast economic conditions, Yeltsin was able to capitalize on several important electoral aspects within the middle class to gain an edge in the election. Mason and Sidorenko-Stephensen (1997) explained that his success may have been the result of a disconnect between real versus perceived decline by Russian voters at the time. The decline of trust in communist institutions had placed Zyuganov's communist ticket at a serious disadvantage despite nostalgia for the past. As the authors pointed out, reminiscence of the "good old days" is not unique to post-Soviet Russia and may have led to a false impression about Russian's desires to go back in time (Mason and Sidorenko-Stephenson 1997, 701).

While there were very few in post-reform Russia that saw their situation as improved, only a minority were interested in returning to socialism and saw capitalism as the better alternative. Data taken in 1991 and 1996 showed that over 50 percent of Russians agreed to strongly agreed that free markets were essential to development compared to 20 percent in 1991. A similar poll found that 33 percent of polled Russians 1996 advocated for a return to socialism (Mason and Sidorenko-Stephenson 1997, 708). In fact, Brudny (Brudny 1997) touched on this very point stating that Yeltsin was able to cobble together an anti-communism coalition within the middle class more efficiently than the Communist Party's anti-capitalism platform could reach. Fear of a return to the illiberal past, complete with Stalinist repression and censorship, drove many Russians to the polls in favor of Yeltsin.

Economic instability in Russia is causally linked to Yeltsin's victory as well. The mass appeal of informal money-making practices and an increased distrust for institutions acted as a dissuasion mechanism for Russians to participate more aggressively in politics (Ledeneva 2013).

The tenuous economic ground that most Russian families were on pushed many to retreat inwards into their family units as a matter of survival which made them much less interested in engaging with politics. Indeed, reduced political activism in terms of donations has been noted but very little could have been given in the first place (Evans 2011).

These arguments fail to really grapple with the stratification that was being experienced across all of Russian society in terms of earners and economic losers during the reform process. Nor does it take seriously the massive electoral response and support Yeltsin received when the results were totaled up. The wage-earning classes of Russia, while activated by economic depression, were not motivated by the crisis to re-embed the market back into society. Instead, the decline of organized labor and the huge levels of distrust in the former Soviet System lent credibility to Yeltsin's reforms and changes. Furthermore, middle class workers had very little in the way of alternative options to turn to. The fractious nature of organized labor under the FNPR and independent unions, who were more loyal to Yeltsin's reforms anyways, made mobilization unlikely (Siegelbaum 2004).

Mobilization labor was depressed by agents within the trade unions themselves. Firm level power remained highly capable of going around the dictates of organized labor as well. Labor organizers were more dependent on management for concessions and bargaining which often took the forms of subsidies and clientelistic kickbacks (Siegelbaum 2004). The weak capacity of the government allowed firms to effectively circumvent labor laws which further drove worker dependence to the beneficence of their employers for social protection. What organizational capacity labor still possessed was only activated in order to maintain status quo bargains rather than challenge the losses that labor had incurred (Siegelbaum 2004, 657).

Weak labor was unable to organize effectively in the aftermath of crisis against either collaborative firms or the government. Instead, Russian voters were effectively forced to choose between Yeltsin's government or a return to communist politics. Those in the middle and upper class saw their best outcome with Yeltsin. A return to distrusted Communist Party control was highly unpalatable despite the shambolic state of the economy. In addition, middle class workers viewed a coalition with Yeltsin as a better opportunity to share in the economic spoils that the Russian oligarchs had experienced a few years earlier. Yeltsin was elected by "people who wanted to raise both the floors and the ceiling" with regards to incomes and wealth (Mason and Sidorenko-Stephensen 1997, 712). In other words, Russians wanted the social protections of the past to work with the limitless potential of a prosperous economy unbounded by communist wage setting.

The evidence for this in worker compliance with Yeltsin's reforms in the 1990s. Rather than striking, workers embraced an increasingly clientelistic and informal system which reinforced their dependence on businesses for non-wage goods and services (Siegelbaum 2004). There was little room to maneuver outside of the patron-clientelistic system. The FNPR, which remains the premier labor organizing body in Russia today, became increasingly dedicated towards government interests rather than its own members. Unions are motivated towards maintaining order and social harmony through the issuances of social services and to placate the mobilization capacity of their own members. Worker's grievances are largely ignored and undercut as a result and the FNPR has become ubiquitous with the Russian government (Christensen 2017; Cook and Dimitrov 2017). While it was possible for pressure from below to activate in order to keep Russia's transitional process on track, Evans (2011) writes:

"That did not happen in Russia when the Yeltsin administration allowed the privatization of state assets to be hijacked by avaricious insiders, and when the oligarchs achieved

dominance of political parties, the media, and the government. Perhaps surprisingly, in the face of sharply declining economic security during the 1990s, most of the population of Russia withdrew from political life and became cynical about parties and politicians.” (46)

4.4. The Seeds of the Neopatrimonial Clientelism

The transformational process undergone by Russia in the 1990s was successful in reducing the effectiveness of organized labor, but it also tied state-firm relationships closer than ever. Despite the collapse of living standards, what remained of Russia's middle class mostly stayed aligned with Yeltsin and supported his successful reelection campaign in 1996. The new business elites, however, had less opportunities to choose from. When faced with the prospects of a return of the communist party in the 1996 presidential election, Russian oligarchs feared losing the economic status they had achieved some five years earlier. The response by the new business owning class was to aggressively invest in Yeltsin's reelection campaign but at the cost to their autonomy. In a move to fund his campaign, Yeltsin took the future of Russian business hostage in a suicide pact known as the “loan for shares” program.

As Frye (2010, 69) notes, Yeltsin wasn't motivated merely by the economic gains of what liberal reform could induce. Yeltsin was very aware of how reform could be used to keep the communist party from regaining the upper hand in the government or halting his efforts for reform. As such, he set about ensuring that his economic reforms would be permanent. Whatever the costs may have been to the economy or political system. However, the highly contentious political environment increased fears of policy reversals amongst the new business minded elites. The communist party's control over the legislature and the polling data suggested Zyuganov would win in 1996 had yanked Yeltsin's expectations back to reality.

This reality “blunted incentives for businesses to invest or restructure” and instead, most opted to buy into safer ventures and fixed assets (Frye 2010, 172). Insecurities in the market and political environment reinforced the New Russian's, as the oligarchs came to be known as,

codependence on the Russian government. They relied heavily on government credits, and tax breaks in order to maintain their bottom-line which Yeltsin continued to provide as long as they would remain loyal to his policies (Frye 2010). As a result, neopatrimonial processes were becoming baked into the new system as a factor of Yeltsin's reform process.

Corrupt social pacts were nothing new to Russia. Russia had been dependent on patrimonialism and crony elite corruption since its imperial days which was carried into communist rule. The all-dominant Politburo's effect on individual behavior was so dramatic that it kept nearly all aspects of society below a certain threshold of wealth in an attempt to equalize prosperity. Single party dominance had left no room for legal opportunities by individuals to work or earn outside of what the state could provide. These excessive restrictions only allowed for selective remittances and transfers to be allotted to the most loyal of agents and societal actors. Such access and privilege gave some citizens unique advantages while simultaneously playing up clientelistic linkages. In imperial Russia, the system was known as "*kormlenie*" and it had been effectively carried over after the communist revolution.⁴⁴ In this system, agents with access were nearly always incentivized to engorge themselves on patronage networks and syphon off as many resources as possible (Pipes 2000).

During the Soviet era, the lack of a monetized market system for exchange meant elite networks were especially crucial. Building trust through elite networks was essential for converting resources into useful goods and services (Becker and Vasileva 2017; Vasileva-Dienes 2019). The state's total domination of property and resources meant access was restricted to only a selection of insiders and apparatchiks whose very appointment was dictated by the communist

⁴⁴ Kormlenie - "feeding" was a system in which tsarist rulers granted land in exchange for loyalty and taxes. Under communism, this system was exacerbated due to most property being controlled by the state and doled out to supporters at the Communist Party's discretion. See Richard Pipes work (2000) for a more detailed account of this system and its effects.

party. Loyalty, therefore, was fed rewards and begot future loyalty. After the Soviet Union, it was these same insiders who had privileged access and valuable information which gave them an upper hand in the privatization process. The political-economic connections to Russia's elite cadre gave these entrepreneurs unfettered access to the highest profit-making enterprises. Even within the new Russian bureaucracy there was high levels of elite continuity with former communist bureaucrats which allowed for many corrupt practices to be carried over. The New Russians weren't always part of the original nomenklatura, but they typically did have deep linkages to the former ruling groups either through youth organizations like *Komsomol* or other networks (Dawisha 2014).

Access to state resources for exploitation during Yeltsin's reforms allowed private industry to be captured in the clientelism net because political elites in the government could control who gained these privileges in the first place. The Russian leadership had ensnared society in a state capture trap and the costs of buying out its constituent parts was cheaper than the alternative. No cost would be too little if it meant the communists would return to power. This thinking spread all the way through the bureaucracy which fomented interpersonal guarantees rather than public allotments of resources (Becker and Vasileva 2017). As Becker and Vasileva claim (2017, 86), the patrimonial aspects of Russia are not incidental, they are structural and defined at nearly all levels of societal interaction.

4.4.1. The New Business Class and the State

Throughout the 1990s, rent seeking elites were able to funnel more and more resources into smaller and smaller hands under the watchful eye of government. Building on its patrimonial traditions, the reforms in 1996 pushed Russia closer towards a market economy with high levels of clientelistic linkages. The failure to grow an independent business sector, and the failure to

build strong business associations that could coordinate against government policy all served to hamper the creation of an independent business sector in Russia. While economic reforms came at a price in terms of pressure for companies to align closer to Yeltsin's regime, they did very little to inhibit informal practices that were used as an advantageous shortcut for admission to wealth and newly marketed state assets (Valieva-Dienes 2019). The 1996 presidential campaign and the "Loans for Shares" scheme pushed firm-state relations closer than ever.

As stated earlier, in 1996 the Russian economy had drastically shrunk and consumer prices had skyrocketed. By the time of the 1996 presidential election, it seemed as if political winds were blowing in favor of Zyuganov and the new Russian Communist Party. Yeltsin, who had initially taken ill, tore back into the campaign with massive spending to promote his campaign. To gain more support, Yeltsin needed to seek out business support. In exchange for their support and investment in his reelection, Yeltsin instituted the "Loans for Shares" program to give his donors more buy in to his reforms.

The marriage between Yeltsin's plan and the New Russians was not a foregone conclusion. While the average Russian citizen had experienced a fusion of nationalism and liberalism since 1991, the new and old elites of Russia were more heavily divided. As stated in the previous section, many Russian voters found the cause of national liberation from the old communist regime to be more appealing (Bunce 2004). In that sense, they were driven against a return to their communist past or the support of the old communist party and a Zyuganov presidency. There was a large disconnect compared to the business class of Russia. A large body of Russian leadership felt that Yeltsin's policies represented a repudiation of the past and that he had embraced European liberalism in rejection of Russia's core identity (Appel 2004).

Yeltsin's electoral success hinged on ensuring that the New Russian elite understood that an ascendent communist party would reverse their invested gains. This fear compelled business elites to tie their lot in with Yeltsin's government with the incentive of short-term profits in case the gamble failed. Yeltsin understood this bargain and structured the Loans for Shares program as a supplemental vehicle to finance his own reelection prospects. In the program, managerial shares in valuable state assets, like Russia's coveted oil and gas firms, were auctioned out to the highest bidders. To sweeten the deal, the assets would come under the sole ownership of those investors in case of a default to pay back the loans by the Russian government. The program was also structured in a way that allowed the loans to be issued before the election had commenced while the actual SOE assets would only be auctioned afterwards. This maneuver effectively bound Russia's new business elites to Yeltsin's electoral fortunes and further reinforced business-clientelist ties in modern Russia.

While Yeltsin had compromised much of the reform process from 1992 and onwards, the Loans for Shares was a unique moment in that it solidified the coalition between important business elites and the new market-based economy (Bunce 2004). Furthermore, it allowed Yeltsin to sell assets while the government retained a significant degree of ownership in those same companies because it only exchanged managerial ownership. It allowed the new set of business elites to tap resources that were previously unavailable without having to own them which produced a whirlwind of profits for both parties (Aslund 2006). This move also weakened business's organizational capacity and enthralled business associations to government policies (Schmidt 2009, 6).

4.4.2. *The 1996 Election and the Economy*

Despite a close 1996 presidential election, Yeltsin won in a runoff against his communist adversary. The buyoff of Russia's business class was complete, and the die was cast. Russia's independent corporate sector would be compromised moving forward which would reduce the costs of buying off other parts of society in the long term. However, the economy was not back on solid footing yet. Along with the shrinking economy, the tax base continued to contract after 1996 and the government's relationship with the New Russians became more clientelistic in the form of a golden pipeline of patronage networks that reached deep into the Yeltsin's administration.

Not all businesses benefited from the deal. Outsider entrepreneurs and startup businesses found themselves mired in a punitive regulatory quagmire. High payroll tax rates (up to 38%) dissuaded many startups to enter the Russian market in the first place. Additionally, an aggressive bureaucracy which would extort large sums of bribes presented a challenge for 'unconnected' businesses and became a consistent obstacle in order to conduct business. Becker and Vasileya (2017) state:

"Russia's privatization program did not create a full-fledged liberal market economy but rather implied two waves of patrimonial asset appropriation by well-connected insiders in the context of a weak state." (89)

After the 1996 election, the communist dominated parliament had lost much of its potential to challenge Yeltsin. Without much opposition, the Duma supported the appointment of Yeltsin's deputies which implied a turning point in Russia's national politics. The appointments had little positive effect on the economy which continued to flounder until 1998 when the financial market completely collapsed. This spectacular downturn would be even more destructive because the government had been trading on bonds to finance the government's

coffers as the tax base shrank.⁴⁵ Loss of tax revenue, the collapse of the Asian financial markets in 1997, and a shortfall in oil prices depleted much of the government's income. The government sought out short term solutions by constricting social payments and arrear's payments skyrocketed.

Tax receipts in Russia were consistently short because of the fragmented and hostile environment in which private business had to conduct itself. While the private economy was supposed to make up the largesse of free market industry, it could only muster "10 to 15 percent of total employment" (Frye 2010, 178). High regulatory burdens, taxes, and bureaucratic obstacles stifled private growth. Compared to neighboring post-communist countries, private businesses made up a very marginal percentage of Russia's GDP. This only served to incentivize the government to rely more on the elite centers of the economy, such as banking and energy. Businesses were further hampered by the ineptitude of the state in protecting independent firms from the predations of aggressive regulators and government officials who sought out all sources of revenue (Yakovlev 2006, 1036). While the state decentralized, smaller business associations failed to materialize. The result was an elevation of the necessity for businesses to cooperate with the government's schemes, despite the losses, rather than work outside of the governments purview.

4.5. The Election of 2000 and Re-Etatization

By the time 1998 arrived, the Russian economy was in a total financial meltdown. The overreliance on selling bonds to float the Russian government's finances was quickly undone after the demand for energy collapsed. The result was the resignation of Boris Yeltsin in 1999,

⁴⁵ Russian bonds or GKO's (Государственное Краткосрочное Обязательств) were short term bonds issued for face value and were traded to domestic and foreign banks in 1996 (Frye 2010).

approximately three months before the 2000 presidential elections. Although he had survived several impeachment scandals, Yeltsin declared that he wished to give Russia over to a new set of leaders in the new millennium. The case was more likely Yeltsin's grave unpopularity, which was working against his party's, the Unity Party, chances in the upcoming election (Evans 2011). The Communist Party had gained larger number of seats in the 1999 Duma election and the field of presidential contenders was broad. Acting president and current prime minister, Vladimir Putin, however, was in a strategic position to win the election despite his close connections with the Yeltsin administration.

Putin did not campaign at all during the 2000 presidential election. Instead, he released a series of open letters about his platform. This approach undermined his competitors as he did not participate in the debates and was difficult to align on specific policies. Instead, Putin was able to play into media biases due to the strings of loyalty that Yeltsin had created from selling broadcast assets to a select group of new Russian media owners (Pietiläinen 2008). In addition, cooperation between the Communist and Unity parties in the national Duma undermined several important outside contenders for the presidency such as Yevgeny Primakov, and Sergei Kiriyenko who had both been a part of Yeltsin administration as prime ministers.

Unequal access to mass media was not the only progenitors of Putin's success. The First Chechnyan war that had ended so poorly for Russia in 1996 had reignited in 1999. Chechen rebels had attacked northwards into Russian Dagestan and had captured several villages. More importantly, a wave of bombings had ripped across Russia in late 1999 and killed approximately 350 people. While it has been considered that Putin was in favor of a limited exercise of a renewed war with Chechnya, even before their invasion of Dagestan, the bombings was a crystallizing moment for Russian politics (Resnick 2012). The Russian population clamored for

enhanced state security and Putin directed much of his platform rhetoric towards that end. After Yeltsin's resignation, Putin's position as both president and prime minister put him in a position of power to conduct the war in Chechnya and receive the benefits of any successful military campaigns. By February of 2000, one month before the election, Russian armed forces had captured Grozny, the capital of Chechnya, and effectively ended the war. Russia had reversed its fortunes from the disastrous first war and Putin was swept into office as a result. Newly elected Vladimir Putin beat out Zyuganov by 24 percentage points and won a majority of the vote which removed any need for a runoff.

Putin had come to power in a position of relative strength compared to his predecessor. But he also was no stranger to utilizing the tactics and clientelistic techniques that were perfected by Yeltsin's previous campaigns (Sakwa 2008). With media owned and operated in tandem with the United Russia party, elections were now much easier to manipulate (Lukin 2009). While Russia has always had a problem with corruption with its electoral practices, Putin was able to perfect that process on a grander scale (Sakwa 2008). As a result, Putin's United Russia party gained more representation in the legislature and across the government's many ministries and governorships.

Contested politics also declined rapidly after Putin's successful presidential election in 2000. Resistance from leftist parties, while still very much a potent force in 2000, had been depleted overtime. Polarization greatly declined both in the legislature and in the population. The Communist Party of Russia was rudderless in terms of offering a counter argument to United Russia's platform. Not to mention the socialist path that was largely unfavorable to Russians with only 18 percent of survey respondents in 2000 interested in a return to the old Soviet model

(Lukin 2009, 83). That is not to say they favored a turn towards Western liberalism either.

Instead, most polled Russians favored a path that would be unique to Russia.

The failure for alternative parties to gain broader appeal became even more apparent four years later. The results of the 2003 parliamentary elections saw the Communist Party of Russia lose nearly 40 seats in the Duma and the dominance of the United Russia party with 223 seats out of 450, just short of a ruling majority. With United Russia's position secured, Putin was able to capitalize on the lack of coherent political contestation and captured a greater share of the state under his executive authority. The country became more unified around the president who had widespread popular support despite enacting legislation that reneged on the initial liberal reforms of the 1990s. These laws constrained labor and enlarged the state's reach over the economy.

By the 2000 election, the middle class of Russia had been gutted. Most Russians had felt the strains of economic stagflation from the 1998 crisis, but it squeezed lower- and middle income workers mercilessly. Russian voters supported Putin because they saw him as a Thermidorian candidate that could put an end to the economically destabilizing clashes between the free market and communist political tribes (McFaul 2002).⁴⁶ A young Vladimir Putin represented that Russian third way that voters were interested in. A path that was away from the Soviet past and a European future. By and large, Putin was successful at delivering Russian citizens from the economic quagmire of the 1990s into a more prosperous 2000s. Rising energy prices allowed Putin to buy off larger portions of Russian voter's interests and the middle class became more intrinsically linked to Putin's government. Putin presided over a torrent of economic growth and was able to more neatly envelope the state around voter's needs.

⁴⁶ Thermidorian reaction is a term that refers to the reactionary events that proceed a political revolution in effort to gain more stability within the country. Named after the month from the French Revolutionary Calendar, it refers to the events where the more radical elements of the French Revolution, then led by Robes Pierre, were overthrown, and replaced with more conservative leadership and institutions.

4.6. State Primacy

After 2000, low levels of party polarization in Russia allowed for the state to absorb more political and economic power. The domination of United Russia party allowed a reversion back towards manual control of the economy (Becker and Vasileva 2016, 89). The weak oversight capacity of the state during this period made it a hotspot for abuse from within the bureaucracy and political elites who could leverage rents and prebends through formal institutions (Ledeneva 2013, 170). During this time Putin's administration was able to better secure several important reforms that would debilitate the viability of entrepreneurial businesses and organized labor.

Market solutions and middle class access to private wealth declined rapidly in the 2000s. The pervasive clientelistic linkages that had emerged during the reforms of the 1990s had led to the development of the *power vertical*. This is a hierarchical model that attaches formal and informal levels of authority to decision making and the networks of patronage that exchanges goods for loyalty (Gel'man 2016). Secondly, this power vertical pushed businesses, bureaucrats, and elites to coordinate with the state for privileges and access to resources. Those businesses that could not directly benefit would be extorted by in-network elites. A quid pro quo of dirty business dealings gave the state leverage over elites who were lower in the hierarchy with the threat of prosecution acting as a cheap monitoring tool for defectors. Finally, the primacy of the state over markets and organized labor raised the collective action costs of societal coordinating outside of the regime. For the middle class, economic dependence on the party-state for employment, goods, and status would alleviate any desire to organize against Putin's tenure.

4.6.1. Clientelistic and Neopatrimonial Traps

Throughout the 2000s and 2010s the government actors took advantage of the corrupt business practices that had become commonplace in the 1990s (Vasileva-Dienes 2019). The pervasiveness

of the power vertical absorbed the Russia's oligarchic elites into the state capture economy as they were sanctioned to act in clientelistic compliance for material gains or face reprisals (Gel'man 2016). Corrupt practices within the business world of Russia are not a bug of the system, it is a feature. It suffuses all aspects of the business environment. Corruption participation is a useful tool to dirty the hands of participating economic actors and to raise the cost of opting out by compromising the actors within that system (Ledeneva 2013). To quote Gel'man (2016, 461), "Almost every actor can easily be accused of criminal acts, and the threat of criminal prosecution is an even more efficient tool for maintaining control than its actual use." As a result, there were very few business and capital owners whose hands were 'clean'. This is cheap source of loyalty making as it makes participants unlikely to organize against a violator's excesses.

Vasileva-Dienes (2019) refers to this as the 'informality trap'. Actors may act in informal ways to their short-term benefit but ultimately undermine the credibility and legality of their own position. She argues that "by behaving informally many small Russian companies inadvertently dug their own graves" by taking advantage of patronage and administrative shortcuts (Vasileva-Dienes 2019, 336). Even those businesses and companies that acted within the legal system were ultimately undone by the race to the bottom created by such a cheap source of bureaucratic abuse. In tandem, bureaucrats and other governmental agents were likely to extort a heavy toll on business owners. As corrupt bureaucratic practices ate into profits, companies would then turn to other shortcuts to make up that shortfall. Tools such as tax evasion was not just a way around corrupt bureaucrats but also a means for replacing losses (Vinogradova 2006). In response, Russian bureaucrats have developed a range of methods at their disposal such as extortion,

bribes, and regulatory raids as a form of business harassment tactic to beat rents out when necessary.

Putin added to the contention between business interests and the state's enhancements to its coercive power and security (Carnegie EIP 2017). This institutionalized corruption within the state and formalized many impersonal practices. In other words, it strengthened the state and increased the likelihood of businesses to act in coordination with the corrupt excesses of the government. For example, since 2010 police and prosecutors have aggressively pursued economic fraud cases and approximately 150,000 cases are filed annually. However, very few are fully prosecuted. Instead, it is estimated that these arrests act as a source of rent seeking which is especially effective against smaller businesses who are more vulnerable to such attacks (Volkov, Paneyakh, and Titaev 2010). One could estimate the growth of Russia's coercive power over the course of the 2000s by charting the increase of raids (*raderstvo*) year-on-year (Rochlitz 2014, 103).

One major change that gave the state more leverage in the realm of administration and bureaucratic oversight of business were a series of tax reforms that were enacted in 2001. These reforms replaced the 1990s tax code with a flat tax designed to close loopholes, sure up enforcement, reduce of tax evasion, and increase tax compliance. The effect of these new tax policies increased revenue dramatically with revenue from personal income taxes increasing twenty percent in 2001. While some scholars like Gaddy and Gale (2005, 986) contended that the new revenue was the result of a more robust tax administration and a growing economy, skepticism remains as to how a state with weak capacity was able to implement a strong tax code and target new streams of revenue so effectively. Instead, it is likely that elites and voters went along with these changes because the payoff of patron-clientelist networks encouraged the need

to cooperate and facilitate a more efficient tax code (Gel'man 2016). These kinds of reforms fit within neopatrimonial theory as it produces higher levels of stability that can grow the economy for the sake of new rents that the state can then redistribute the client's benefit (Gel'man 2016, 462).

Whatever the case may have been, the 2001 changes to the tax code gave the state more capacity to capture additional levels of the economy. Even those firms and businesses that would not cooperate within the power vertical were not immune. The new law allowed administrative agents to physically coerce and commandeer assets using the pretenses of tax fraud and failed payments to expropriate private property. The stiffened regulations did not enable better oversight either. Instead, it had the effect of pushing legal businesses to rely on bribes and payoffs at a higher rate because the fines for infractions were so high. For instance, the changes to the Code of Administrative Offenses in 2016 made penalties for infractions so punitive that informal behaviors, like bribery, was nearly always a necessity compared to the costs of the fine (Vasileva-Dienes 2019, 347). Instead, it would be cheaper for managers to pay the bribes and for officials to look the other way rather than try their luck in court.

Imbedded state agents, or those agents that traced their lineage to the confluence of party-state fusion and state capture, also use tax codes and other economic crimes to go after business owners who are viewed as uncooperative to the Russian government (Dawisha 2014). Prosecutors will often go after business owners in order to directly seize their assets for the government's coffers. Mikhail Khodorkovsky was one of the more famous examples of this. The oligarch had acquired the oil company Yukos during Russia's loans for shares program, but his criticism of the government got him prosecuted in absentia and his assets seized by the government in 2004. The list also includes names like Media Most's owner Vladimir Gusinsky

and Sibneft's Berezovsky. All of whom were vocal critics of Putin's government. More recently, network megaserver Nginx was raided in 2019. The owners of that company, Maksim Konolov and Igor Sysoev, were taken into custody for supposed infractions of Russia's administrative codes.

While state capture presents hazards for entrepreneurs to navigate, business minded elites do not actively work to undue its corrupt institutions or directly challenge the neopatrimonial practices it provides (Gel'man 2016). The fear of losing out on selective access to resources, the costs of trying to maintain legality, and relative ease in which businesses can conduct corrupt behavior has made for a climate where firms have weak influence over markets. Functionally, the system is self-managed. The state gains its own rent seeking advantages by letting bureaucratic politics take place between competing interest groups while Russian political leadership disengages (Remington 2018,304). The government only weighs in when necessity of profit would allow it to arbitrate beyond its divide and conquer strategy.

Policy is also restricted due to the high levels of oversight over the economy within the spheres of Russian elite governmental circles. Alternative policy proposals that gain traction are often coopted by the regime in an effort to dismantle whatever regime destabilizing effects they may produce (Khmelnitskaya 2021). According to Khmelnitskaya (2021), executive control over policy confounds regime-outsider efforts to change Russia's dysfunctional system. She goes on to state that since Russia was unable to develop sophisticated oversight measures in terms of policy and governance, massive amounts of power has been concentrated in the executive government whose officiants can act with impunity (Khmelnitskaya 2021, 630).

4.6.2. State Capture Capacity in Russia

The ability for firms to independently operate had been much reduced since 2000. In the absence of fully realized markets, Russia began a process of re-etatization which is the recapture of the economy by the state. The United Russia government has increased its managerial privileges over the economy to the point of being the preeminent economic player. Certainly, independent businesses and the free markets exist but not nearly to the extent or reach of the Russian state. Russian state capture is connected to access over finance and banking, ownership of larger swaths of the economy through SOE buyouts, and the practice of selecting champions of industry that gives government agents exclusive rights to the most revenue producing elements of Russia's economy. The financial crisis in 2008 exacerbated all of these qualities due to Russia's 'addiction' to energy rents (Gaddy and Ickes 2010, 282). The triple shock of oil price, capital flows, and external financing during the 2008 recession gave way to an intense period of state capture and resource capacity enlargement while still maintaining a marketized structure somewhat conducive for business (Bogetic 2013).

There are some inconsistencies to be discussed here regarding the government's relationship with private business. By the mid-2000s, Russia directed economic policies that were aimed at easing the overhead and administrative constraints of operating a private company. In fact, as of 2018 Russia had a 6.74 out of 10 for its Economic Freedom index score from the Fraser institute with a 10 indicating the most economic freedom (Yap, Law, and Abdul-Ghani 2020). Just fifteen years earlier its score was a point and a half lower. This score does not tell the whole picture in regard to the amount of state capture that has occurred in Russia since 2000.

One reason is that private industry has been unable to modernize Russia's economy because there are too many obstacles for business to operate unconstrained. Disorganized

oligarchs lack the capital and wherewithal to do so. In the words of Sergey Bodrunov (2017, 224), “the ‘invisible hand of the market’ cannot by itself ensure the necessary structural shifts in the material and technical basis of the economy, while without such fundamental shifts the further development of our economic system will finish up in terminal stagnation.” Russia has remained largely deindustrialized after 1990s after its GDP shrank nearly 60 percent (Kornev 2019, 523). Additionally, much of the economy is worn down and obsolete which incentivizes the government to take a more hands on approach in order to direct markets for efficiency’s sake. Or at least to the benefit of those who profit from the rents such companies may provide. But elites who dabble in state capture must tread carefully. Citizens in Russia lack the interest to revert back to the planned economy of the past and so government elites must rely more heavily on ways that influence economic outcomes while balancing the needs of the market. As a result, Russia maintains policies with an aggressive focus on reindustrialization. Government policies rely on “large-scale and long-term state projects” while not overreaching into every corner of the economy (Bodrunov 2017, 231).

Government strategies do not directly hamper independent medium, and small enterprises but the excesses of state-owned industries strain against market competitors. Upon entering office, Putin worked to reverse Yeltsin’s approach of selling off managerial shares of Russian owned industries and instead favored reimplementing direct control via loyal government ministers and outright ownership shares in important industries. Especially in the energy sector. For instance, the energy giant Gazprom’s executive board was replaced by loyal Putin appointees in early 2000. This is only one aspect of the patronage network between Putin’s government and its control of state-owned enterprises (Dawisha 2014, 281).

High levels of state control are not always detrimental. Expanded state ownership has given state owned companies softer budget constraints to operate as well as avoid technological investment costs with supplemental government funds (Kornai 2013). Russia's high levels of SMotE means it can better direct resources to their SOEs, placate outside competition, and direct human resources towards the needs of select industries. Whereas private companies will rely on market-based cues to efficiently determine inputs and outputs respect to competition and trade.

Russia began enhancing their SOEs throughout the 2000s with a large expansion into the banking and energy sector. While SOEs are on the rise across the developing world, Russia remains comparatively high in terms of the government's share of the economy (IMF 2020). Nor does Russia show signs of slowing down with SOE expansion and will often do so by acquiring smaller, competitive businesses through noncompetitive means (di Bella, Dynnikova, and Slavov 2019,16). Debate still remains as to how much of the economy is controlled by the Russian government as the data is often obscured by internal policies and incomplete reports. Some estimate that the state's share of the economy may be as high as 70 percent, although recent scholarship has argued that this number may be exaggerated, while other estimates place it as 33 percent (di Bella, Dynnikova, and Slavov 2019, 18). This number has been consistent for the last decade but is still much higher than most developing states or its European neighbors. These estimates fail to fully account of how politicians can manipulate the economy without overt action or direct ownership.

Russia has engaged in the manual steering of their economy by setting market and development priorities through active policy preferences with very little pushback from private business or the electorate. This heavy-handed approach has had several consequences. First, the expediency of energy rents has led to a failure of the Russian government to diversify beyond the

energy sector or to spend more money on technological enhancements in nonenergy industries (Gaddy and Ickes 2010). While this may provide dividends during times of high energy costs, downturns in the economy that lead to less oil and gas demand can be extremely detrimental.

Second, state owned firms retain an advantage over their competitors in the market but also in terms of managing the demands of their workers. One advantage is over labor pool curation. Since the higher paying jobs are often with the state, the government is able to pipeline higher educated and professional workers from national universities back into state owned industries (Winogradow 2013). Another comparative advantage of the Russian government is how it controls organize labor. A series of 2002 labor law reforms enhanced employer power and linked workers more directly to weak employment bargains. The laws shored up some formal protections for employment but also opened more informal loopholes for employers. For instance, it formalized payment in ‘black cash’, or off the books, salaries (Cordell 2019). This frequent phenomenon is especially problematic for middle class workers who are more vulnerable when working in the private sector where the practice is more likely occur. Finally, the powerful trade union, FNPR, was incorporated into United Russia party during this period which married government policy with labor representation.

This last point better explains why workers were largely quiescent to the roll backs to their employment protections. There was also a lack of collective action because the state expanded social protections and subsidies to the working and middle class to make up the differences from employment which were bought and paid for by the energy booms in the 2000s (Khmelnitskaya 2019). To put it into scale, the revenues from oil and gas sales were so massive that the Russian government was able to pay off its 1999 IMF loans by 2005. Due to the high

prices for oil Russia began building its reserves in foreign currencies as a future hedge against future inflation.

The financial sector was not immune to government take over either. Party accumulation and control of fiscal wealth was just as invasive as their approach to firms and business. Bank independence has declined rapidly since 2000. The direction of state bank assets allows the Russian government to dominate large shares of its market via control over the direction and availability of finance (Vernikov 2014). Public Banks in Russia hold about 60 percent of the country's banking assets, an asset ratio that is on par with Chinese bank's control of assets (IMF 2020).

Even during the 2008 financial crisis, Russia maintained its course as overlord of the economy. While public sector debt declined precipitously, private sector debt accelerated at a rate the far outpaced what their counterparts were able to pay off. Private firms were also limited in who they could get to invest in their company. Putin was hesitant to let foreign capital in to invest, especially in the oil and gas sector in Russia during the 2000s boom (Gabby and Ickes 2010, 300). Government policy reflected Putin's hesitancy who decried foreign investment in Russia's resources as a form of colonial exploitation (Abdelal 2010).

The result of the Putin led state capture during the 2000s was a business sector that could not provide an economic alternative for the middle class. Those businesses that were highly valued and ran by elites who operated within the neopatrimonial structure were likewise dependent on the kormlenie system of feeding and glutting themselves on rents. The reaffirmed coercive capacity of the state, thanks to several key reforms in 2000, meant that any elites who did not cooperate were likely to face severe prosecution and asset seizure. On the smaller end of the business spectrum, the informality of working within such a corrupted system undermined

the ability of entrepreneurs to effectively avoid dirty practices and subjected them to an ‘informality trap’ in order to survive in the clientelistic minefield of Russia’s bureaucracy. As a result, they would become too dependent on the informal practices of *systema* and beholden to the whims of government extortion. Finally, Putin’s aggressive expansion of SOEs and the administration of direct government management of state-owned firms meant many workers would also become more dependent on the state.

4.7. The Growing Middle Class

Russia emerged from a near decade of growth into another recession in 2008. The decline of energy prices, and the invasion and annexation of Crimea hurt Russia’s future growth prospects as a result. With it, the middle class has also suffered in distinctive ways. During the 2000s, Putin’s state-capture policies had the consequence of expanding the middle class into a more coherent identity complete with modern consumption habits, better incomes, and policy preferences oriented towards increasing their stability. Although debate still lingers as to the legitimacy of the existence of the Russian middle class and their position in society, increased proliferation of data and longitudinal studies has provided a strong case that a robust middle class exists in Russia.

There are two strands of literature that are relevant when considering the Russian middle class. The first is pretty succinct in its dismissal of middle class identity in Russia. Scholars argue that there is a lack of diversity among middle income earners and therefore the group lacks some of the important theoretical characteristics of the middle class: political power, lack of financial independence, and a unique identity (Samson and Krasil’nikova 2014, 59-60). Instead, the Russian middle is argued to be a mere myth that has been propagated by the West to explain the country’s democratic compatibility (Samson and Krasil’nikova 2014, 62). There are

contradictions here. This perspective over emphasizes the interests of elites and their capacity to rent seek but says nothing about the legitimacy of government officials to be able to act. This argument also relies on a qualitative assessment of preferences that overplays social concerns rather than economic or political ones while simultaneously claiming that the middle class is motivated by access to property and income.

By most metrics and survey data, the middle class is a coherent identity that is motivated by unique factors that are shared by neither the top nor bottom deciles of the Russian population. This brings about the second point of contention when discussing the middle class in Russia: how to measure their presence. The population that makes up this group can be as high as 70 percent by some estimates and as low as 10 percent (Braun 2020). Meanwhile, there are those who apply various ways of interpreting middle class presence. Some scholars erect a nucleus group that comprises the core of the middle class to compare against its upper and lower bands (Gorshkov and Tikhonova 2016). For instance, assessments of consumption rates help to discern where these boundaries appear. Gorshkov and Tikhonova (2016, 495) use survey data to conclude that, “Compared to the rest of Russians, the middle class is much less concerned with material problems (10 percent compared to one-third), and a greater proportion (38 percent compared to 16 percent) see no problems at all in their lives”.

It should also be stated that high levels of income mobility provide further evidence of the emergence and existence of a middle class in Russia, especially among those living in cities and with university degrees (Nissanov 2016). Based on income measures, it is estimated that the percentage of middle class Russian increased to 37 percent by 2014 (The Moscow Times 2019). In dollar amounts, they are represented by earners who make 39,000 to 99,000 rubles a month, or approximately \$700 to \$1,600 dollars. Beyond incomes, they are also characterized by other high

value traits such as professionalization, occupation, and educational attainment (Palchikova 2001). Ross (2019) defines the Russian middle class as educationally distinct and highly engaged with employment that relies on educational background. Others refer to the urbanized core of professionals in Russia's as the "creative class" rather than middle class in order to denote "a stratum of highly educated, internet-linked, urbanites, with globalized consumption habits and a post-modern sensibility" (Treisman 2014, 373).

Coupled with increased government social spending in the 2000s, the middle class grew exponentially during this period along with levels of satisfaction in government and the economy (Kulmala et al. 2014; Sutela 2010, 2013). The welfare and growth of the middle class was financed in large part by high energy prices with oil prices reaching over \$170 a barrel in 2008 with a large percentage of the profits redistributed towards welfare programs and social security. The evidence for Putin's desire to redistribute the gains of the 2000s are evident in the 2012 presidential election. Despite large protests for increasing the fairness and openness of elections, Putin focused on building a 'worker's aristocracy' that improved middle class conditions using social spending and access to education (Belton and Clover 2012).

Middle income earners were a large portion of the population according to the Russia Longitudinal Monitoring Survey (HSE 2021). Figure 4-4 estimates the proportion of the Russian population in the 3rd quartile of earners from 1995 to 2019.⁴⁷ This is a narrower selection of middle income earners but shows these earners made up almost 40 percent of the population. The 'S' curve shows that higher middle income earners were relatively sparse by the turn of the millennium but quickly grew in size, tapering off at around 35 percent by 2019.

⁴⁷ See Appendix C.3 for questions and coding.

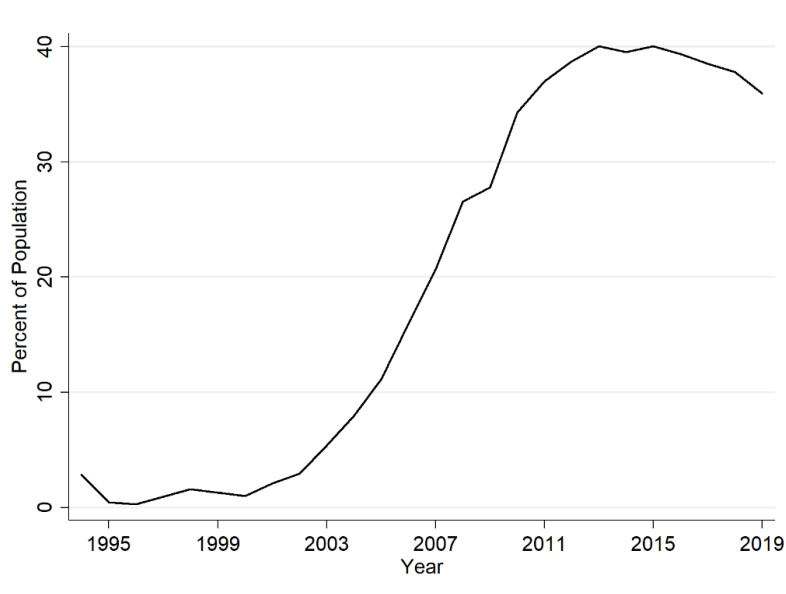


Figure 4-4 Percent of Population in Third Quartile of Earners

Not only did the share of income earners in the third quartile rise in the 2000s, but the amount of money spent on consumer goods significantly increased as well. Where growth was not met by the rapaciousness of demand by higher incomes the import market picked up the slack when local production chains couldn't keep up (Gabby and Ickes 2010, 286). Consumption nearly doubled from 2000 to 2008 to approximately 16 trillion rubles per year in retail sales. Furthermore, consumers exhibited purchasing behaviors similar to “more mature economies” (Kotov et al. 2018). Even after the economic downturns after 2010, consumer habits have remained quite high. Figure 4-5 illustrates this consumer growth curve for demand in US Dollars from 1996 to 2019.⁴⁸ High spending has reached its watermark in 2012 and has remained stable. In 2015, squeezed budgets following the drop in oil prices and Ukraine crisis has contracted the Russian economy contracting and wages were again being outpaced by inflation. This did not interfere with spending habits. By 2015, most middle class Russians owned smartphones and a

⁴⁸ Data on household consumption provided by Penn World Table that provides data on incomes, productivity, and government expenditures from 1950 to 2019 for 183 countries (Feenstra, Inklaar, and Timmer 2015).

foreign car. However, some luxurious lifestyle devices, such as a dishwasher, were less likely to be owned (Tikhonova 2017, 338).

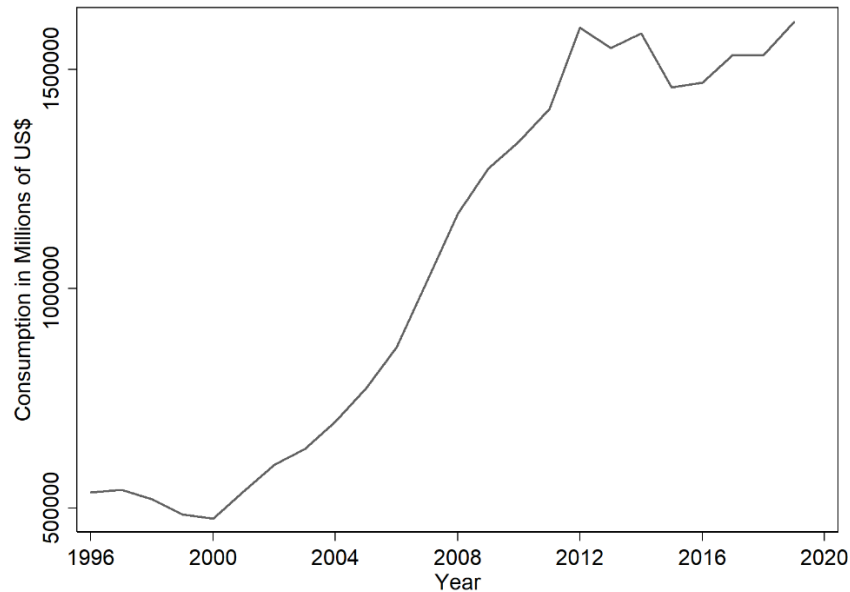


Figure 4-5 Yearly Household Consumption in Millions of \$US

4.7.1. The Middle Class and Neopatrimonialism

The power vertical associated with Russia's clientelistic state provides some benefits to the urbanized, creative class as well. The urban core often coalesces within 'local regimes', a concept devised by Mossberger and Stoker (Mossberger and Stoker 2001) that highlights the amalgamation of "institutions, actors, and the resources and strategies available to them, which determine the conduct of local politics, local policy and local governance" (Gel'Man and Ryzhenkov 2011, 449). During the 2000s, when economic growth was at its highest, there was a great shift from the local towards hierarchical coalition building within urban policy and coalitions. The result was a decline in the amount of access to public spaces for individuals but an imposed consensus that allowed for cheaper development when these urban coalitions were

led locally (Gel'man and Ryzhenov 2011, 452).⁴⁹ In the hinterland rayons (regions) and oblasts (provinces) of Russia, these developmental coalitions were traded in exchange for modernity and human development in backwater towns (Treisman 2014, 374).

In order to reinforce the power vertical and to further clientelize the middle class, the Russian government incentivized the urban middle class by giving them access to local resources and urban development through a process of cooptation. As a result, local governance was maintained within the umbrella of the government's hierarchy of control while allowing local actors to pursue their own interests without much outside interference. It provides a principal-agent framework that further lowers the costs of middle class clientelism by removing more costly oversight methods. To quote Kolesnikov (2019):

“The class of people working not just directly for the state but also for state corporations and banks, and private structures whose existence in fact depends entirely on connections with the state and officialdom, accounts for a significant—and growing—proportion of the economically active population. The state feeds them well, and under the criteria for income and consumer behavior, officials, public sector workers, and the siloviki undoubtedly belong to the middle class.”

The middle class still carries political agency despite being consumed and dependent within this power vertical. The nature of the neopatrimonial system is organized in a way that allows smaller interests to operate as long as governmental elite's policies are met. The crises that occurred during 2008 that has dogged the Russian economy for nearly a decade since has revived distributional coalitions and has placed higher demands for side transfers which further increases the costs for maintaining the status quo (Gel'man and Ryzhenov 2011, 249). The fragility of the system has emphasized Putin's interest for maintaining the interests and preferences of Russian voters, especially those in the loyal middle class. Since 2008, this group

⁴⁹ Gel'man and Ryzhenov (2011, 452) refer to these coalitions as 'growth coalitions' comprised of local elites and businesses. These groups were allied in trying to expand urban wealth and increasing capital flows towards urban centers.

have been more likely to demand and receive better governmental protection against the encroachments of privatization, market fluctuations, and public services deterioration.

4.8. The Middle Class and Vulnerabilities

The 2011 Russian protests in Russia in response to the ongoing crisis and economic instability represented a possible breakthrough of democracy from below. The middle class that had enjoyed so much success in the 2000s could be a potential trojan horse for Putin's electoral prospects. As (Kramer and Herszenhorn (2011) wrote, "authoritarian leaders who pursue effective economic policies become victims of their own success..." Some observers were hopeful that this represented a wave of democratization by average Russians who wanted the government to reaffirm its commitment to democratic principles. Yet, history proved this argument to be less prophetic in the case of Russia. Instead, middle class protests for open and fair elections were less cohesive in achieving those ends due to a concoction of various intervening variables. For one, a lack of organizations that could lower the cost of collective action outside of urban centers. Private sector resources were also in short supply to help finance protest movements against the government. Private companies had never been fully fledged by the advent of state capture nor were they well positioned to solve the economic and social problems the middle class were facing. Only the state and its attendant elites remained a legitimate source for economic solutions in Russia.

Evidence that protestors were motivated by democracy promotion may be less convincing compared to responses to the terrible economic conditions that were rife in the country. Treisman (2014, 377) found that, while the creative classes in Moscow and St. Petersburg were turning against Medvedev and Putin's regime, they still remained supportive of United Russia's plans and policies. High levels of policy support remained even while the

middle class deteriorated since 2010 (Trudolyubov 2019). Some, like the Institute for Social Analysis and Forecasting, placed the middle class at just 15 percent of the population (Kolesnikov 2019). However, Russians continued most of their spending habits from the 2000s. According to the Ivanov Index by Sberbank, the middle class are individuals who have enough money to travel abroad, eat out, and still save money (Sberbank 2020). However, even by this metric the middle class's disposable income had fallen by 7.3 percent by 2014 (Adrianova 2015).

Despite some shudders, the middle class stuck with its support for Putin. While it could be due to lack of electoral options, the research here presents a variegated picture of preferences and voting behavior coupled with middle class frailty. This frailty lies in several key components. For one, and probably most importantly, Russian businesses were isolated, lacked cohesion to bargain with the state, and were generally crushed under the weight of state capture. Organized labor fared no better. The middle class's access to labor organizations is nearly entirely beholden to the state, which controls labor unions and associations. Additionally, while both lower and middle income groups look to the state to solve their economic problems, the middle class is unique in that their demands center around middle class interests that don't necessarily align with the lower income workers in Russian society. Finally, the Russian middle class, like other Russian cohorts, remains trapped in informality, inconsistent employment in the private sector, and dependence on side transfers to make ends meet.

Systemic frailty is inherent in the Russian middle class that goes beyond cultural or historical antecedent. The supposed cultural limitations of Homo Sovieticus, it has been argued, is unable to explain this phenomenon. The Soviet citizen was far too focused on the short term and has difficulty planning long term strategies without intervention from higher authority (Tyszka

2009, 510) or ‘learned helplessness’ in the psychological literature.⁵⁰ However, this explanation applied to middle class vulnerability is limited. It doesn’t elaborate on how these systems change across time (the fall of the Soviet Union) and space (between former Soviet countries). Per the thesis of this paper, stronger structural forces impose a weaker or stronger will over its citizens which react accordingly and to their own benefit.

Perhaps then religiosity plays an integral role in determining popular support for the government after crises. The orthodox church pushes pro-state messages with the goal of increasing social cohesion in exchange for government’s support for socially conservative goals and values (Aslund 2006). Subservience to church could be construed as a steppingstone to acquiescence to the state in Russian society. The current relationship between church and state has been close enough for one research to comment “the policies of the president and even where there are differences, the church’s preference for a close relationship with state power has meant that major church-state clashes have been avoided” (Aslund 2006, 186). It’s unlikely though that the Orthodox church sees the state as a vehicle for all of its preferences.

Beyond cultural imposition, the frailty of the Russian middle class lies in their disposition relative to the state and Putin’s governmental policies. The relative strength and weakness of middle income earners rises and falls with the economic fortunes of Russia while clientelistic politicians seek to soften the true impacts of recessions for its constituents. The government is particularly clued into these cycles of losses and gain as the impact on important voting constituents is important to predict. One of these estimation methods is the state owned Sberbank which uses the ‘Ivanov Index’ to measure the relative lifestyle and consumer confidence of

⁵⁰ See Abramson, Seligman, and Teasdale (1978).

middle income workers. Ivanov, a common family name in Russia is meant to represent the average middle class consumer is able to engage in frivolous purchases (Trudolyubov 2019).

The Ivanov Index may point to a decline in economic confidence in the middle class, but this is not the whole story. By middle class standards of education, Russia is similar to other European countries whose populations are comprised in large part by middle income professionals. Data from the World Value Survey is useful in explaining this fact. Surveys from waves 1999, 2008, and 2017 were correlated with household income deciles that had been broken into thirds.⁵¹ The first through third deciles represented the lower income groups and eight through tenth were coded as high-income households. The rest were left in the middle income box. This coding scheme follows OECD (2019) standard that estimates the middle class as 75 to 200 percent of the median income that I applied to the WVS's decile standard.⁵² I correlate this data with educational attainment in Figure 4-6 and cluster responses by survey waves from 1999 to 2017. The probabilities of each income group are then shown for each educational level.⁵³ The results indicate that there is a strong correlation between educational achievement and incomes but there is no distinguishing probability between income groups when an individual has "some college". Interestingly, the probability of a middle income earner being a graduate slip a little when moving away from the "some college" category. This information insinuates that middle income earners in Russia are less likely to be full graduates. A factor which may limit employment opportunities moving across industries or entering the private sector workforce where education is more valuable.

⁵¹ WVS data conditions income groupings based on a "Harmonised variable: Country-specific income scales labelled by national currency were recoded... according to the *buildet deciles* of the net household income distribution" (Inglehart et al. 2021, 32).

⁵² See Appendix A.1 for income coding.

⁵³ See Appendix C.4 for questions and coding.

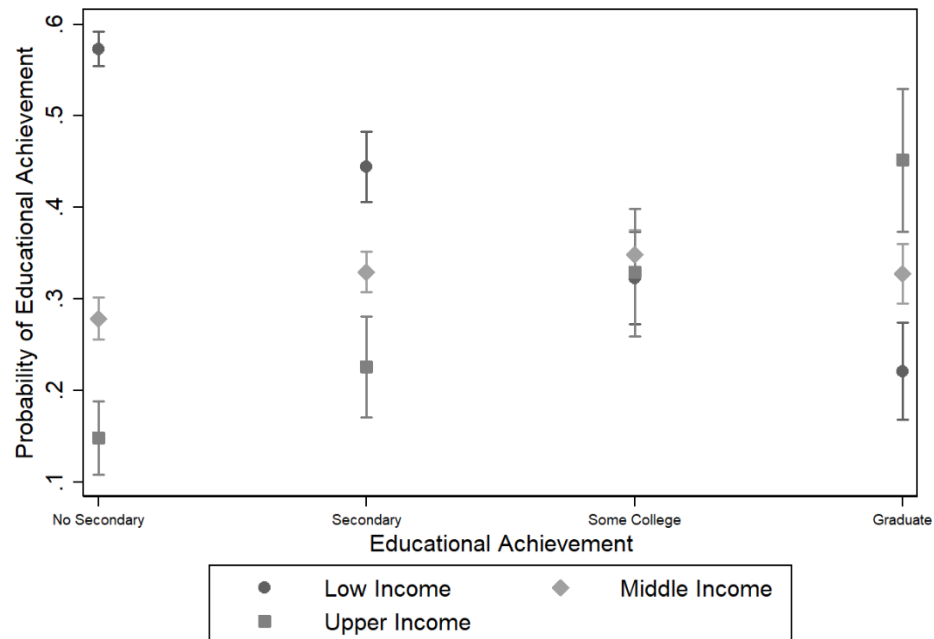


Figure 4-6 Predicted Probability for Educational Attainment by Income

The middle class's employment opportunities are affected by the level of state management of the economy as well. While this has already been explored by previous literature, the extent of the dependence is such that public sector employment is nearly all encompassed by the middle class. According to Mareeva and Ross (Mareeva and Ross 2020, 575), the middle class is comprised almost 50 percent of state worker and only 26 percent are in the private sphere. This would indicate that there is still a substantial percentage who work for private companies. These workers are likely to face harsh work environments and unfair pay schemes as these workers often suffer from the limitations that are placed on their employers due to high levels of SMotE.

Informal associations in Russia lead to frequent incidences of employer-employee abuses that typically go unpunished (Siegelbaum 2004). Shortfalls in profit are caused by the extractive and coercive practices of state actors are balanced against employee salaries, downstream. These workers are also often paid by extracontractual black and white salaries. It is estimated that 50

percent of salaries take the form of envelope payments that are off the books and help to keep employers keep costs “flexible” for businesses (Becker and Vasileva 2017, 90). Worse still for the employees, private industries are in the habit of using completed products to fill in salary gaps. These products can be given out in lieu of pay which then have to be turned around and sold to street vendors by the employee. Tools to tool makers, bras issued to brasserie factory workers, tires for tire plant employees, etcetera.

Black and white salaries are not just restricted to the realm of the private sector either. They proliferate in and outside both public and private sectors. Employees are generally weak with regard to private or public management who use different methods and tricks to ensure workers remain quiescent. Often employees will be downgraded to an at-work state which affords less protection and recourse against being fired. The inability to respond is merely a reflection of the restrictive reforms against collective bargaining in the workplace (Becker and Vasileva 2016, 90).

Since the 2002 Russian Labor Code changes, unions could no longer block firings or bargain directly against management. Strikes were largely prohibited where full employee support wasn't first achieved. Corruption and neopatrimonial practices had tightened the clientelistic screws that connected the state with the national union, the FNPR, which made national level collective action untenable. While unionization rates are relatively high, it is estimated that Russian union representation is overexaggerated at approximately 35 percent since national unionization rates are not reported by labor organizations (Christensen 2017). Employees gain little utility out of unionization as a result of having to bargain with employers and management directly and independently. Unions provide very little in the form of a bargaining chip against either private or public employers

4.8.1. The Middle Class and the State

Russia's GDP dropped by 7.9 percent in 2009 and continued to decline into the 2010s by approximately 2 percent each year in tandem with rising inflation rates (Kolesnikov 2015). Although major Russian banks were spared, unemployment and poverty grew by over 8 points. At the time, Vladimir Putin was limited for running for a third consecutive term and so Prime Minister Dimitry Medvedev was elected president from 2008 to 2012. The political survival and reelection of Vladimir Putin in 2012, while challenged as being highly fraudulent by observers, may have been related to how government policy responded to middle class interests and needs as a constituent group. The Russian government enacted a spending package that amounted to nearly 7 percent of Russia's overall GDP which included provisions to aid workers such as tax cuts aimed at income and increased pensions and wages (Bogetic 2013).

The decline of Russia's economic position fell further when sanctions from the US and EU were filed after it annexed Crimea from Ukraine and quasi-invaded Ukraine's Donbas region. Still, voters remained committed to the United Russia party and reelected Vladimir Putin in 2012, and 2018. Indeed, Putin's policies pull more in the middle than they do in the lower or higher social strata. Lower income workers are more likely to demand higher amounts of transfers and subsidies that work against Putin's neopatrimonial market policies. Simultaneously, the highest earners are more likely to be exposed to governmental overreach when their interests clash or compete. According to Treisman's (2014, 384) study, the highest earners were more likely to hold negative interpretations of the economy during this time. Figure 4-7 contradicts this assessment.⁵⁴ It presents HSE data that demonstrates the respondents' likelihood to indicate their satisfaction with their life at present predicted by class. The results show that most of the

⁵⁴ See Appendix C.5 for questions and coding.

optimism for the economy lies in the middle and upper strata. Interestingly, the middle class is more likely to respond “both yes and no” regarding satisfaction than either upper or lower class individuals.

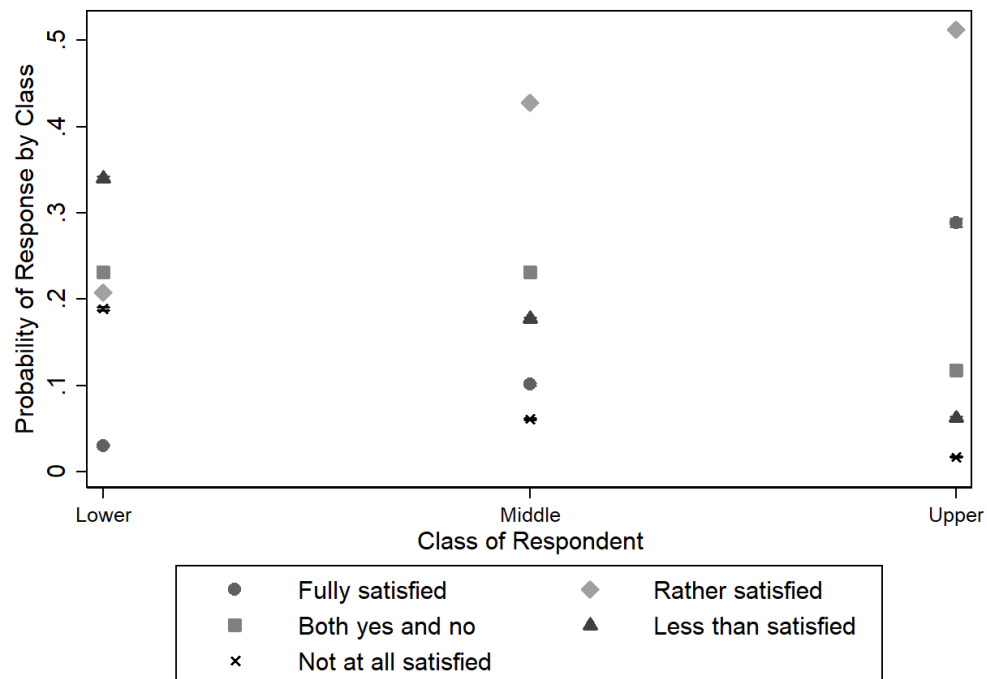


Figure 4-7 Probability of Respondent's Satisfaction with Life at Present by Income

It may be the case that economic outlooks are colored by the tangible divide that exists between state dependent and private sector workers (Mareeva and Ross 2020). I suspect these differences are marginal as they often fail to elucidate how middle class Russians vote for illiberal parties in either instance. In a 2018 poll it was shown that 2/3rds of both public and private sector workers wanted to increase the state's control over the economy, revive national traditions, and censor the media (Ross 2020). The middle class is oriented with other groups such as the Young Conservative Movement and have an overall philosophy of Russia as being neither fully liberal nor authoritarian. Support for market reform and an economic system in favor of free markets is less clear among the middle class who simultaneously want reform but claim that

the state's current role in the economy is insufficient. According to a Carnegie and Levada center poll in 2018, 63 percent said the state's presence is insufficient while 48 percent claimed private enterprise was more efficient than SOEs which demonstrates the contradictory overlap (Kolesnikov and Volkov 2020).

The capacity and self-sufficiency of the Russian middle class reached its zenith in 2008 at the height of the Russian economy. Since then, it has largely been focused on defending the gains it has achieved as Russia stagnates under the weight of direct intervention in the economy and state capture. Moscow is motivated by middle class clientelism, and Putin's economic policies call for a robust middle class emboldened within a strong economy. Indeed, Russia's long-term strategic economic initiatives, sometimes referred to as the Gref 2010 and the Gref 2020, were aimed at the socioeconomic stability provided by enriching Russia's core middle stratum.⁵⁵ The vulnerabilities the middle class experience in 2009 and onward provided politicians a chance to buy off this important constituency at lower cost.

4.8.2. Limited Options in the Middle

Russia's private sector was devastated by the 2008 crisis and lost nearly \$1 trillion in market value. Russia was unable to make up those losses the following year and middle income workers in the private sector faced a dubious scenario. Those companies able to pay wages consistently were far outmatched by those who couldn't keep up. Instead of expanding state ownership, Putin began selling off state assets while simultaneously directing state owned banks to buy out the foreign owned debt of Russian companies (Sutela 2010). Companies would owe their debt to state banks and, as a result, they removed international management for companies. Meanwhile,

⁵⁵ The Gref plan was named after Herman Gref, the minister of economic development (2000-2007) and trade who was tasked by Putin to strategize Russia's entry into the top five global economies.

the Russian banks were held afloat by unsecured loans from the government to select banks which created a chain of ownership back to the government.

Personal debt was also refinanced and redistributed to working families. According to Rosstat data from 2018, 75 percent of Russians have no savings and 19 percent are estimated to be heavily burdened by debt. Economic minister Maxim Oreshkin stated that Russians are stuck in a debt trap where many owe more than their annual income and yet continue to take on more debt (Korsunskaya, Fabrichnaya, and Voronova 2019). The consumerist nature of the debt suggests a middle class bent, who have proceeded to make outsized purchases in order to keep up their standards of living. The tethering of debt-soaked workers to high levels of debt has made employment security highly valued. Leaving a job presents a host of risks and hazards for those Russians overleveraged even if the economy was performing better.

The quality of borrowing goes beyond just consumerism as loans have taken on the duties of welfare in order to meet basic needs (Bovt 2018). For the middle class, debt provides a bridge towards a middle class lifestyle but on shaky ground. As such, it seems relevant that middle class Russians would be less likely to reject Putin's offers of patronage for votes. In exchange for loyalty, they receive government sponsorship for water costs and electricity for subsidized housing (Belton 2012). The method of procuring assistance helps cement recipients in place. Support is held hostage by welfare programs that lack a central redistributive program or means tested benefits (Remington 2018, 408). Therefore, access to these goods and services is highly dependent on bureaucratic decision making. The shrinkage of middle class incomes makes dependence on transfers even higher, at least on the surface (Maryganova 2017). While the financial situation remains dire, middle class Russians are still more likely to visit other countries

and take out loans to improve their living conditions compared to lower-income cadres (Tikhonova 2017, 336).

4.9. Evidence for Middle Class Clientelism in Russia

The middle class is unlikely to collectively mobilize against their private employers or the state. Indeed, it is quite dependent on pernicious state actors. Subsidies that correspond to employment benefits enfeeble the middle class to seek out other opportunities which may provide better security. These employment benefits provide entitlements such as healthcare, paid vacations, and housing and are managed by the FNPR through Russia's Social Insurance Fund paid by employer contributions. Housing subsidies are typically represented by cash-in-kind settlements or guaranteed availability for low-rent apartment. Elderly workers are especially vulnerable. Russia's aging population is reliant on pension funds which the state bank rolls and subsidizes (Belton 2012). One of the main predictors for an individual to fall out of the middle class is to retire without thorough pension support (Mareeva 2020).

Beyond employment benefits, public and private sector employees also receive intangibles that fill in salary gaps. For instance, clientelistic bargains with workers enhance government employment with the "opportunity to earn informal rents" which "binds public-sector workers to the regime... these privileges and side-payments simultaneously produce private-sector grievances" (Rosenfeld 2021, 123). Such arrangements are not restricted to the public sphere, either, and manifest in private enterprise and employee relationships as well. These intangible arrangements are necessary for middle class workers to fill in shortfalls. There are two distinct locations of support. Social benefits are provided through employers to some degree, but Russian workers are mostly dependent on the state for rent distribution in the form of social goods, and pensions (Tikhonova 2017, 344).

The social benefits offered for middle class employment could explain inertness among employees who remain fragile and constrained by clientelistic propositions. Certainly, it provides some logical explanations as to why middle class individuals would be oriented towards selling their support to state capturing elites as it gives them access to the resources, they need to maintain their status. Decreases in status is a unified feeling within the social stratum which reduces the costs of clientelism in the middle class across the whole group. This effect is consistent even when socioeconomic vulnerabilities depreciate the material status of those of the middle class to the point of falling out of it. Economist Kirill Tremasov, director of Loko-Invest writes, “Once people realize that everyone is worse off, not just them, they will again feel they are ‘middle class.’ Right now they have not yet reconciled themselves to the fact that the decline is serious and long term” (Trudolyubov 2019).⁵⁶ Social and material losses might not be as debilitating when those losses are shared across all individuals.

Economic deficits drive the middle class to seek out and sure up its access to the utilities and the resources it desires, and the Russian regime organizes the state in a way that delivers higher quality goods. Voting against the regime may decrease the consistency of patronage, though there are few alternatives otherwise. Outside voices that pose a threat are often coopted. A policy of the Putin administration to decrease outside pressure and ensure internal cohesion (Khmelnitskaya 2021). For instance, the economic expert Aleksei Kudrin, who wrote a paper detailing how to improve the economic situation, was viewed as a possible boon to opposition parties in Russia and was brought into the regime and placed in charge of policy and has since become a strong supporter of Putin’s government and its policies (Khmelnitskaya 2021, 636).

⁵⁶ The quote in Russian: «Люди понимают, что у остальных доходы и уровень жизни также упали, поэтому я не хуже, значит, остаюсь средним классом. Просто сейчас еще не все смирились с тем, что снижение уровня жизни – это всерьез и надолго».

4.9.1. Modeling Russian Middle Class Clientelism

Democratic outcomes for a society where the state maintains near total control over the economic lives of individuals and firms is one where those same individuals will be unable to avoid cooptation in the first place. The party-state serves the interests of voters, and voters, in turn, serve the interests of the party-state. This is shown to be true even amongst the middle class whose interests so often get conflated with those who lean democrat in elections. In Russia, the systematic expression of vulnerabilities in the middle class has eroded their capacity to gain resources outside of state control or to overcome the collective action problems needed to promote change. In conjunction, the failure for an independent capitalist class to materialize has meant that the state often triumphs over the market in nearly all aspects of economic and social life. The result is a middle class that is more likely to be willing participants whereby welfare and government services are offered in exchanged for electoral votes. Loyalty to United Russia Party is consistent throughout middle income earners because the costs of voice or exit is too steep in scenarios that don't have a viable alternative.

In return, we should see a noticeable increase of confidence in Putin's administration and bureaucracy by the middle class. Participants in clientelism will report higher quality public goods due to better access. They will also report an increased likelihood of participating in corrupt activity representative of Russia's neopatrimonial system since their electoral participation makes them less vulnerable to the crosswinds of prosecution. To measure these aspects, I rely on the World Values Survey (WVS) data from 2010-2014 and 2017-2019 that considered Russian respondents' assessment of public goods along with questions about corruption. To better model this behavior, I create a two-factor analysis using a clientelist and corruption index of WVS questions that pertain to those two variables. I also estimate likelihood

of protest and respondent's satisfaction with the regime. I predict that these values will be integrally correlated with an overall preference that the regime is serving middle class needs.

The theory of this dissertation posits that when high levels of state management of the economy interact with a vulnerable middle class that alters the costs of buying off the middle class with targeted patronage and goods. The far-reaching hand of the dominant party projected over the state's economy provides the resources that allow it to bargain at much lower premiums and simultaneously offer more. Meanwhile, crisis and collective action problems make the middle class willing recipients and participants of graft to support their own position. Monitoring loyalty is also cheaper in this case because defection costs are driven up by the state's dominance over economy which depresses private industry as an alternative preference for middle class survival. Active engagement by middle income voters in corruption also keeps defection low. If we recall Hirschman's thesis, without alternative options, the consumer is forced into a position of an almost default loyalty. Voice presents too many hazards and is unlikely to offer much reward. Instead, quiescence would be a better course of action in this case. Those who do attempt to voice their displeasure are nearly always met with counter protests who seek to reinforce the status quo.

I again rely on a measurement of middle income households by coding respondents that were placed in the 4th through 7th deciles, per OECD standards (2019) which produced a proportion of middle income respondents on par with Sberbank's estimation although quite high at 60 percent. This value is stable between 2014 and 2019 survey waves. Predicting support for clientelistic United Russia was simple given that respondents answer questions as to which party they would vote for in the next election. I coded United Russia voters as one and all other

respondents as 0.⁵⁷ The mean value here was .49 which indicates a relatively even split in the voter pool while simultaneously matching United Russia's electoral percentages for the State Duma. When regressed in a probit model, the results indicate that middle income respondents are 0.18 times more likely to vote for United Russia compared to other households. Figure 4-8 presents this data with a line at 0.45 probability as a reference line. These results indicate a high likelihood of middle class voters supporting Russia's clientelist party.

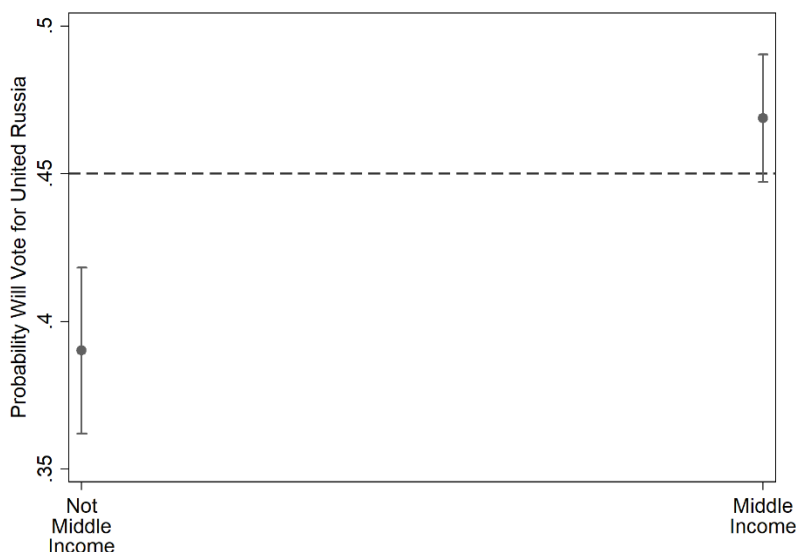


Figure 4-8 Probability of United Russia Voter

With this supporting evidence in mind, I next estimate middle income respondents in relation to clientelism and corruption. I follow the guidance of (Bue, Sen, and Lindberg (2021) who created a factorial indices of party linkage and vote buying clientelism. Using data from the same WVS waves, I predicted a two-factor analysis using middle income households. These are clientelism which are estimates of vote buying using public goods and services, and corruption which is a participatory process where agents engage in illegal and informal acts. The thought here is that middle class Russians both are engaged by vote buying techniques and actively

⁵⁷ See Appendix C.6 for questions, coding, and model results.

contribute to clientelism and corruption. This reciprocal process keeps voters imbedded and loyal to Russia's neopatrimonial system.

I use maximum likelihood factor analysis using most likelihoods to produce two factor composite scores using survey responses to questions about confidence in public goods and the justifiability of performing corrupt actions.⁵⁸ Public goods estimates asked respondents to rate their confidence in courts, the police, government, and civil services from a great deal to none at all. A lower value indicates more trust as the variable was coded 1 to 4, with 4 being no confidence. The logic with this composite score is that clientelism participants will have much higher confidence in these goods due to access and targeted spending based on income group. If not, then it is likely that targeted spending is not occurring. The second factorial predictor used responses to the justification of claiming benefits not entitled to, avoiding fares, cheating on taxes, and accepting a bribe. These values ranged from never justified to always justified on a scale from 1 to 10. A higher value indicates corruption. This bifurcated factor analysis provided the two dependent variables *clientelism* and *corruption*. Since these values are continuous between their minimum and maximum scores, I use OLS regressions with middle income participants and United Russia partisanship.⁵⁹

Table 4-1 show some supportive evidence that clientelism and corruption are corresponding with middle income household respondents with statistical significance at the 0.05 and 0.01 cut-offs, respectively. The estimators for clientelism suggest that both middle income households and United Russia supporters recognize more trust in public goods compared to non-United Russia voters and individuals outside the middle class. A similar result was gained for

⁵⁸ See Appendix C.7 for factor analysis and details of LR test.

⁵⁹ Each model was processed again with multiple control variables for robustness checks. Stata estat tests were used as well to ensure estimators were not inflated due to model overspecification. See Appendix C.9. Summary of Statistics is provided on page in Appendix C.8.

corruption regarding the middle class, however the coefficient flipped for United Russia supporters. Vote buying, as a tool of the United Russia party, shows some indication that it is successful in connecting supporters with better goods and services.⁶⁰

Table 4-1 Estimates of Middle Income Household with Clientelism and Corruption

	Clientelism Score	Corruption Score
<i>Middle Income Household</i>	-0.157* (0.049)	0.124** (0.037)
<i>United Russia Supporter</i>	-0.363** (0.034)	-0.114* (0.047)
<i>Constant</i>	0.262 (0.055)	-0.031 (0.069)
<i>N</i>	2,858	2,858
<i>R</i> ²	0.04	0.01
Note: OLS Regression with robust standard errors in parentheses. ** $p < 0.01$ * $p < 0.05$ Standard errors are clustered by respondent region: 9 clusters Negative value for clientelism means higher confidence. Positive value for corruption means more justified.		

These results fall in line with the theory and expectations of clientelization in the literature. A positive value for corruption signifies that middle income households are also more likely to actively participate in clientelism and abuse of the system. Either out of recognition that participation is necessary for survival or that such participation is less likely to be punished by cooperating with United Russia. United Russia voters were less likely to justify corruption which indicates that lower and higher income voters may have been biasing the indicator. This corresponds with whom the regime targets as a principle of vote buying and which constituents are given legal relief from corrupt activity.

⁶⁰ I ran the models again looking at upper and lower income participants and middle income as a reference category. I found similar results with lower income participants showing negative results regarding clientelism and corruption. Upper income households being statistically insignificant as a predictor of clientelism but were stronger predictor of corruption. This stronger predictor of corruption demonstrates more evidence for the power vertical and how it affects Russians on a basis of wealth. See Appendix C.10 for table and results.

Finally, the results are visualized across all three household income groups to demonstrate how middle class effects correlate with each factor score. Figure 4-9 presents the predicted margins of both factor composite scores using all three income groups.⁶¹ The left panel presents the Clientelism composite score and shows a sharp decline when moving from left, or higher clientelist scores, to the right which indicates the lowest score. Higher household incomes demonstrate a similar downward trend though not as steep as middle income households. On the other hand, lower income households have a high likelihood to report the lowest confidence in public goods. Both higher and lower income households had similarly low incidences of probability for justifying corruption. However, lower income families were much less likely to justify it in the first place. Middle income households had a much higher probability of indicating that corruption was much more likely to be tolerated.

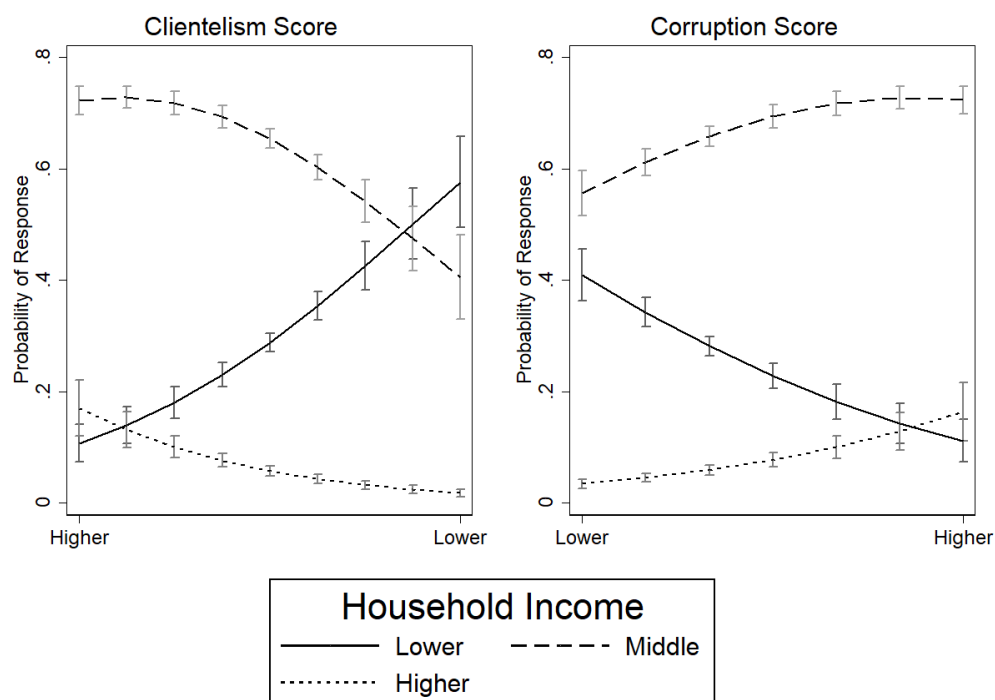


Figure 4-9 Predicted Probabilities of Household Income and Factor Scores

⁶¹ Figure was generated using an ordered logit of clientelism and corruption scores by income groups.

4.9.2. Paying off the Middle

The results indicate a Russian middle class that is akin to Bradshaw et al.'s (1993) thesis who described middle class citizens a likely to support illiberal parties and policies for fear of losing out on status and resources. As a result of the 'low bargaining power' of the middle class, they are left with little choice but to seek out patronage from their political leaders (Auzan 2009, 264). Those same political leaders reciprocate with better goods and services in exchange for electoral support. The evidence for this was a positive composite score for clientelism associated with middle income respondents. This could mean that modern party platforms are not as appealing as redistributive schemes that favor the middle over lower income workers. This results in a harsh bargain with what amounts to as a "servile class" of dependent workers whose livelihoods are intertwined with their government's continued existence (Melville 2017, 227).

Those citizens in the fragile middle are more anxious for change. Measuring the cost of defection is difficult but we can estimate it by looking at participation in corrupt behavior as well as indirectly observe its implications on the ground. Table 4-1 has given some indication that respondents in the middle income group were much more likely to justify corrupt activity. How much does this indicate that they would actively participate is unclear, but it does indicate that such respondents are more willing to justify the behavior which we could infer as participation given the additional evidence that has been presented here. Even more so than United Russian voters who are less likely to justify corruption when considering both lower- and higher-class voters. Participation guarantees access, is likely to avoid consequences if the voter remains loyal, and it produces a cheap monitoring effect within the neopatrimonial system by corrupting the participants.

Evidence from the data and clientism scores also shows a strong correlation between United Russia supporters, the middle class, and respondent's clientism scores. Figure 4-10 shows

the linear prediction of a one unit increase to a respondent's clientelism score by middle income status and United Russia support.⁶² What the figure shows is that being middle income and having a lower clientelism factor score, which indicates more clientelism and confidence in public goods is significantly correlated with supporting United Russia. Those middle class survey takers that do not support United Russia are more likely to indicate a statistically insignificant effect of lower clientelism scores. Non-middle income participants indicated the inverse effect by showing a insignificant correlation between supporting United Russia and clientelism, whereas those who do not are likely to report lower confidence in public goods. The result from this figure provides some connective evidence that not only does the middle class acknowledge higher levels of clientelism, but they are more likely to support United Russia when accounting for this effect.

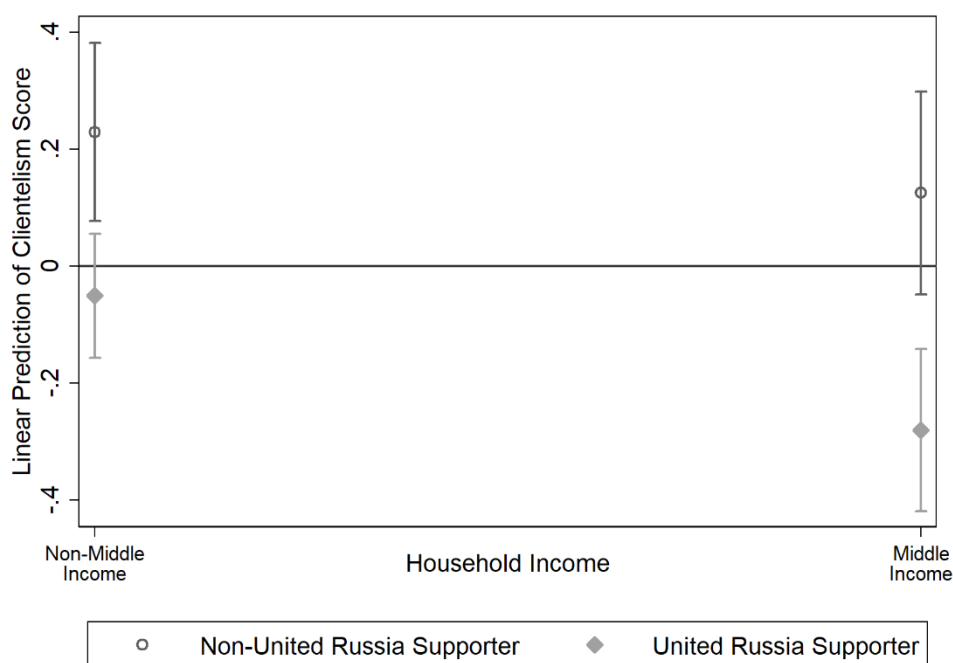


Figure 4-10 Linear Prediction of Clientelism Score by Middle Income and United Russia Supporter

⁶² Figure 4-10 was generated using a regression of middle income variable interacted with the United Russia variable. See appendix C.8 for variable details.

Support for United Russia by middle income voters may also indicate lack of alternative economic incentives necessary to avoid cooptation or fewer alternative party choices to defect to. The latter is quite weak as competitive politics have eroded in conjunction with United Russia fusing itself to the state along with middle class clientelism. As for the former, there is little room for supporting markets or entrepreneurship as the private sector is tied directly into Putin's policies and is codependent as well. It is estimated that entrepreneurial activity declined from 15.2 to 7.5 percent from 2000 to 2018 (Kolesnikov 2019). Yet, there is some room for change. Polled Russians believe that independent business is still more efficient than SOEs (Kolesnikov and Volkov 2020). Russians often express high hopes for building a country that their children can live in as economically independent but concurrently have no interest in pursuing such independence themselves. This attitude makes sense given the rampant violations of private property that occurs, and the corrupt practices small businesses must endure. The 'night of long shovels' in 2016 is just one instance in which nearly 100 shops were destroyed extrajudicially in Moscow as a part of a systemic process of property seizures.⁶³

The middle class in Russia are beholden to a regime that dangles carrots in exchange for active support or quiescence. Whether viable electoral alternatives exist may not be as important as the notion of keeping continuity with United Russia and maintaining a system of benefits for individual citizens. Then there is the payoff for United Russia and Putin who are more likely to enjoy support from the middle class. This not only manifests as political electoral support during elections but is seen in the higher demands for public goods from illiberal politicians. It is no

⁶³ The 'night of long shovels' refers to a 2016 event in Moscow when city officials and authorities bulldozed and leveled approximately 100 shops (kiosks and shopping centers) across the city in an attempt to enforce city codes and permit processes. Many of the shops had been there for decades and there it was highly speculated small-scale entrepreneurs were targeted. This was part of a process by Moscow Mayor Sergey Sobyanin to create a more modern Moscow where shops are built by the state and rented out through an auctioneering process.

wonder then that Russian politicians are able to act in illiberal fashion at behest of their constituents who often support these outcomes.

4.10. The Future of Russia

Loyalty has yielded inconsistent rewards in recent years. Putin has acted against middle class interests in several ways with cutbacks to spending and changes to pension programs. The retirement age for pensioners to receive benefits has been raised along with reductions to subsidized programs that the middle class take advantage of. The changes to Russia's pension fund are especially sobering given that Russia's aging population will be increasingly dependent on stipends and government support in the near future. Then there are those workers off the books who represent approximately twenty percent of the working population that missing from Russia's pension fund (Kolesnikov 2019). To make matters worse, healthcare professionals are in short supply due to education not being worth the cost often in Russia (Kotov et al. 2018). This has only recently changed when the net gains of attending college finally outpaced the costs in 2020 (Melianova et al. 2020).

Still, support for the patronage habits of Putin's government remains high among Russia's middle class. In fact, based on Levada polling, the voters who desire the most change are located in the lower and higher income strata along with those who are approaching retirement age (Kolesnikov and Volkov 2020). This is obviated by who shows up to protest most frequently, namely individuals in lower and higher income brackets. This may be a scenario where the one begets the other. Or poor social services for being a nonvoter leads to higher likelihoods of protest participation. Then there is also the lack of coherence among opposition protestors who rally against election fraud, changes to pensions and handouts, changes to how trains operate, and human rights abuses (Gilbert 2016). In fact, many protests are often in

response to rollbacks to handouts and are driven to maintain the status quo of their benefits (Christensen 2016).

Then there are the effects of being bought off by Putin's policies to support him electorally. Data has shown that public sector employment is a strong negative predictor for not participating in protests which indicates that rewards for voting correctly comes in the form of patronage but also that not protesting guarantees access to those payoffs (Rosenfeld 2021, 124). Middle income individuals often fall within this class of employment. When survey participants were asked in the 2014 WVS surveys whether they had or would participate in lawful demonstrations, 9 percent participants who identified as middle income reported the affirmative. That number was 13.5 percent for the other income groups. By the 2018 survey, that number had risen to 11.7 percent for middle income respondents but was still lower than other income groups.

4.10.1. The Response to Covid-19

Protests have occurred more frequently in Russia since 2019. The decline of disposable incomes has led to a more protest ready population who was not previously motivated by economic issues to mobilize. Such protests mobilize on a hair-trigger where "the economic situation may be creating a background against which any disappointment can provoke a large protest" (Snegovaya 2020). The global economic depression that followed the Covid-19 pandemic has also spurred protest in Russia as well as the demand for oil declined precipitously in 2020 due to lockdowns and work-from-home orders has slowed Russia's growth trends even further.

Putin's rating had reached their lowest ebb since the onset of the pandemic crisis (Snegovaya 2020). Perhaps to shore up control in the wake of declining support, Putin's government has responded by rewriting much of the Russian Constitution in 2020. This

centralized more authority to the Kremlin and allows the Russian president to run for office ad infinitum because it removes consecutive term limits. The changes were held to a referendum in July 2020 with 78 percent of voters approving the measures. Included with the constitutional changes were several other caveats such as banning gay marriage, elevating Russian law over international treaties, and ensuring Russian educational standards conformed to federal mandates.

Despite the amendments being passed by a wide margin, polling data showed very little enthusiasm for the measures among the voting public (Kolesnikov and Volkov 2020). However, lack of enthusiasm did not translate at the polls either due to voting malfeasance, polling data inconsistencies, or lack of options credible alternatives. In Russia, alternatives still remain scarce despite desires for change. Kolesnikov and Volkov (2020) show a growing tolerance for political change, but disagreement remains high over who should lead that change. For instance, 20 percent of Russians still see Putin as a potential agent of modernization and most still support him when asked to choose between alternative leadership candidates. Compared to Alexei Navalny, the much-touted opposition leader in western media, who has less than five percent support among polled Russians.

4.11. Conclusion

Russia presents a post-communist case where state capture was produced by high levels of SMotE. This state primacy over the economy allowed United Russia and Vladimir Putin to dominate more aspects of the social and political lives of citizens. Taken with vulnerabilities in the middle class after the crises in the 1990s and the late 2000s, the middle class presents a cost-effective voter base to clientelize and expand state capture. Their penchant to exchange support for better access to universal public goods has transformed Russian society into a much weaker

democracy as a result of voter support for clientelistic parties. The middle class has very few alternatives and buys into vote buying programs willingly as it is likely that prodemocratic changes would fundamentally erode the middle class's own access to resources and their stability. State erosion through economic failures is not enough to break this loyalty chain. Democracy can do little but stay constrained without a strong force for democratic politics in the country.

I have demonstrated in this chapter that the middle class is more likely to be clientelized by political elites and participate in corruption rather than be a bulwark of democracy. This is because the private sector never fully developed to the point where it could provide a secure counterweight to the state capture demands of the government. Decisions that began during a politically contentious time in the 1990's would ultimately undermine the independence and capacity of private companies. Instead, the state stepped in to fulfill and manage as many economic roles as possible which left very few credible alternatives for middle class success. Those individuals at the top and bottom of Russia's society are more likely to contend for change and advocate for systemic changes to Russia's neopatrimonial system but those in the middle class find themselves in a dependent position to Putin's policies.

Russia's future seems uncertain. If the economic condition continues to deteriorate apace then living standards will continue to be dragged down for the middle class. This may reach a breaking point where the state is no longer able to offer enough rents to settle the difference for being in or falling out of the middle class. We may see that more Russians become willing participants in protests. However, changes to the Russian constitution and reinforcement of the autocratic systems in Russia in 2020 limit what a mobilized group may even be able to achieve.

Then there are the limitations of Russian civil society wherein all aspects of social organization are dependent on the state. Russia is far from fully totalitarian and there is room for a functioning civil society to operate (Greene 2020, 92). However, the state's level of disengagement with civil society and the compartmentalization of urbanized centers that are spread out over the largest country on the planet has limited the effectiveness of civil protest and further increases apathy.

Perhaps the Russian case provides some insight as to where Poland may be going. That country has shifted from low polarization to polarization defined by populist rhetoric. Like most countries in Eastern Europe, it lacks a coherent organized labor component in society and SMotE has been growing at a high rate since the 2008 crisis. The middle class has begun to decline as well. Poland presents a new way of thinking about post-communist politics; one where the state and free markets vie for political and economic authority and the middle class is split between state and market loyalties.

5. POLAND

In Russia, the failure to develop independent markets, outside the purview of the state, placed the middle class in a position where they were more likely to support party-state politics and corrupt behavior in exchange for a more secure position in society. This preset stance is so pervasive that, even when the economic and social wellbeing of the middle class deteriorated with Russia's overall economy, the middle class has remained loyal to illiberal political parties and continue to support President Putin's entrenchment in Russian society. The effects of high levels of SMotE in capitalist electoral societies lowers the costs of buying off entire sections of the electorate which has a unifying effect on the middle class and negative repercussions for democracy development.

When there are alternative economic forces in society the middle class has more opportunity to arrange itself in more diverse interest groups, align with a variety of political parties, and be less prone to support illiberal state capture behavior. Or at least theoretically. Poland is such a case that has gone from command economy to market capitalism to the re-entrenchment of the state into the economy in the span of 25 years. From its first mover advantage in the destruction of its communist system in Central and Eastern Europe to the successful implementation of shock-therapy to induce economic liberalism that inspired its CEE neighbors, Poland was unique in its development of a prolonged democratic movement throughout the 1990s and 2000s. However, this direction changed after the 2008-2009 financial crisis. While Poland was able to maintain positive growth rates during those and the proceeding years, its dependence on foreign capital provided the impetus for a wake-up call to the Polish middle class who experienced a new set of vulnerabilities.

As with Russia, Poland's organized labor apparatus had been largely dismantled in the 1990s in the wake of a dedicated movement to liberalize all facets of the economy. An ironic outcome for a country that was able to break its communist yolk through worker activism associated with the Solidarity Union in the 1980s. Without organized labor, the newly minted Polish middle class, comprised of government workers, professionals, and low-level entrepreneurs, found itself deeply embedded in a free-market system that would begin to rip and tear at society after 2008. In response, the Polish government did what Russia had done some 10 years earlier and became an activist in their economy in order to secure the stability of their capitalist markets. This could be a case of Polanyi's double-movement in Poland, but whereby the state has responded by re-embedding its market within the government, rather than society (Özgür and Özel 2013).

Polish state capitalism is unique in many ways. For instance, it balances the political needs of the polity, especially those in the middle class, with the demands and corrupt practices of politician's who are motivated to seek out rents. The vulnerability expressed by the middle class would ultimately give rise to populist parties and the political dominance of the Law and Justice Party (PiS) who have ruled since 2015. This party, whose message is intrinsically middle income oriented, redirects much of Poland's class-based antagonisms towards nationalist and cultural fervor. Furthermore, it has shifted elements of the middle class towards populism.

Polish citizens are now faced with a political party that advocates for an expanded state welfare and resistance to liberal market principles. The capability of markets and businesses in Poland since the 1990s has allowed the Polish middle class to gain class stability outside of dependence on what populist and state capitalist policies could provide. However, the presence

of both independent firms and moderate levels of state management in the economy has created polarization amongst Poles. The middle class is no exception to this.

The split between its state-capitalist and liberal free-market future still seems up for grab in Poland. It remains to be seen whether Poland descends down the path that was trailblazed by its southern neighbor, Hungary, and continues its illiberal trajectory. At the current moment and given the PiS's capacity to reshape government institutions in favor of their continued political dominance, retrograde democracy seems indicative of Poland's current future. In the following chapter, I layout the foundations of why Poland has become so polarized between its illiberal and liberal middle class. I demonstrate that the middle class can be bought off when vulnerabilities exist, and parties have enough economic power at their disposal to buy off enough of those voters. However, participation in corruption will be less likely because of alternatives that the middle class can defect towards. The result is a state that absorbs more economic decisions that were once held by the market and a retrograding of democracy when enough of the middle class vote for state capture parties.

5.1. The Solidarity Movement

Polish history after WWII is similar to that of most CEE countries. The country suffered greatly during WWII. Not only had it comprised the major battle grounds of 1939 but 1944 as well and absorbed the brunt of the Nazi regime's Lebensraum policies and anti-Jewish pogroms as well as Stalinist purges at Katyn. During the 1946 census, there were 11 million fewer Poles than in 1939 (Hardy 2009, 15). As Poland emerged from the carnage, deep behind the Soviet front. It was quickly declared a people's republic began a process of Stalinization along the Soviet model. Stalin's control over the country was extensive and went right down to the redrawn borders of Poland. The Potsdam Declaration created a mass exodus of Poles from the East and

who were resettled in former German territory that was now to be a part of the Polish People's Republic.⁶⁴ Despite this, Poland retained a large semblance of politically active groups, although often abused, along with a large degree of private land ownership in agriculture. A fact that made it unique among CEE communist countries (Hardy 2009).

After WWII, there was a radical shift towards urbanization away from the agricultural economy. Poland was entering a process of radical industrialization that would reshape it for the next fifty years into an industrial center. Meanwhile, on the political front, Wladyslaw Gomulka and Boleslaw Bierut were able to orchestrate the communist party's coup over the multiparty Sejm, Poland's unicameral legislature, using subterfuge and outright oppression. Both Gomulka and Bierut were members of the Polish Workers Party, the PPR which had been reestablished by Stalin in 1942 to counter the Polish government-in-exile that had fled to the UK at the start of WWII. An effort to legitimize Stalin's designs for the country (Kulczycki 2002). After several party mergers, the PPR eventually became the dominant Polish United Workers' Party, PZPR, which seized control of the country from 1948 until 1989.

The PZPR's first steps in Poland was a massive nationalization campaign that conducted the "total nationalization of the basic productive property of the state and the severe curtailment of virtually all property rights" (Herman 1951, 501). Poland's industries were compartmentalized as SOEs managed directly by the state and the ruling PZPR party through its command economy with the intention of rebuilding Poland and invigorating the state economy. In addition, large tracts of land that were privately owned were also nationalized and redistributed amongst Poland's peasantry. Land hunger and large rural populations had always been a feature of Polish

⁶⁴ The Potsdam Conference of 1945 made Stalin's gains in the Eastern European theater officially sanctioned. The Red Armies occupation of much of Poland, Czechoslovakia, Hungary, Rumania, and Bulgaria allowed Stalin to enact communist governments in each of these states and maintain them as a buffer against Western Europe.

society and the PZPR saw this as an opportunity to increase its alliance between the urban and rural proletariats (Kochanowicz 2014). However, Polish agriculture was resistant to the nationalization of agriculture and so large tracts of land remained privately owned throughout its communist years.

Poland's began investing heavily in heavy industry and capital accumulation at the expense of consumer goods. This raised the Polish economy at the costs of living standards. The Polish national income grew over 76 percent by 1950 and its nomenklatura ran system was become completely imbedded by the 1960s (Hardy 2009, 15-16).⁶⁵ This growth was not even, however. Uneven growth across Polish society led to constant friction between workers, peasants and their PZPR overlords. Riots and protests and resultant brutal oppressions recurred often. In 1956, 1970, 1976, and 1980, worker led strikes and protests were broken up with force followed by a series of concessions (Hardy 2009, 4). After the 1970 protest, Polish leadership began to integrate its economy further with the West through an import-led-growth strategy. This paved the way for an increase in consumer goods but increased the government's debt, decreased industrial output, and increased monetary inflation going into the 1980s.

The success of activist movements in CEE communist countries was in large part because the state was in the sole position to address the grievances of workers; as opposed to employers, or social groups (David Ost 2009, 501). By the time the Solidarity movement emerged in 1980, Poland had had a long history of activism and protest. By the 1970s, the global crisis of stagnation and reduction in production had arrived in globally integrated Poland as well. In response, the Solidarity committee, founded in Gdansk, had mobilized the largest working-class

⁶⁵ The Polish nomenklatura were, similar to the Soviet model, comprised of the ruling elite in Poland's socialist society. They made up the managerial class and were appointed from PZPR lists for their ideological reliability and compatibility with the communist command economy system (Tymiński 2017).

movement since WWII in an effort to gain concessions and changes from the government. The PZPR, at first unsure how to handle the situation, decided to implement martial law under General Jaruzelski's oppressive leadership. However, the stage was set for the end of communism, not only in Poland but across Central and Eastern Europe.

5.1.1. The End of Communist Poland

Poland's transition from communism to liberalism had high amounts of interparty cooperation, coordination, and, ultimately, success. Indeed, Poland's overall success in transforming into Europe's 'tiger' economy with a robust democracy at its center perhaps colored expectations for other post-communist CEE countries to follow suit (Harding 2009). Poland's success in liberalizing most aspects of its society and economy is unique and should be understood as such. However, Poland's process of state capture and re-etatization should remind the reader of Russia's experience. Poland's success in liberalizing was limited in its inability to completely exchange SOEs for free markets. It was unable to fully extract the state from all aspects of the market. SMotE remained a key aspect of the Polish economy after liberalization as a means of guaranteeing the social compact between Poles and the government.

Since 1945, Poland had gone down the path of communist state managed economy and maintained that status in a less than convincing fashion compared to its CEE neighbors. The collaborative energies of the Polish peasant economy were robust enough to allow them to maintain an independent network of farmers and private landowners even within its socialistic society. Agriculture workers in Poland even had their own party, the PSL or Polish Peasant Party, which was dedicated to farmers and independent landowner's interests in the Sejm ((Staar 1958, 202). While this party was oppressed after 1948, its potency was such that it reemerged in

the late 1980s as one of the driving forces for liberalization and the continuation for protections of Poland's small-scale landholders.

Beyond independent farmers, the Polish economy had been opened up to the financial vicissitudes of western capitalism in the wake of First Secretary Edward Gierek's policies in the 1970s. Gierek began to take on large amounts of debt, mostly from the United States and Western Germany, in order to rehabilitate Poland's industry and to open up Poland's markets for imported consumer goods (Forestier-Peyrat and Ironside 2020). Per Jane Hardy (2009, 21), this realigning of the economy towards western markets would undo communist Poland's fortunes in the end. Unfortunately for Gierek, the global economic crisis at the end of the decade crushed the Polish economy and Poland's sizeable debt made matters worse.

Gierek was replaced by Jaruzelski in 1981 out of fears that a Soviet intervention would respond to the growing protest movements. Many of the labor organizations spearheaded by the Solidarity movement were repressed but the economic shortfall could not be corrected. Along with the repressions there were debilitating price and wage adjustments, Jaruzelski's junta attempted to reform socialism further and began to introduce markets mechanisms and economic freedoms (Lewis 1994). Under the guise of socialist reforms, many in the nomenklatura abused their privileged positions to gain ownership and direct control over parts of state-owned assets and enterprises. SOEs were stripped of their profitable operations which were then sold out to foreign buyers on Poland's black market (Hardy 2009, 25).

The writing was on the wall for the PZPR. Without the support of the nomenklatura, the reduction of Soviet influence, and the continued collapse of the economy, the Polish government entered talks with what remained of Solidarity's leadership. Communism in Poland ended in a series of round table discussions which resulted in a semi-free election in 1989 that the newly

formed Solidarity party dominated. They gained a largest percentage of seats in the Sejm that legally allowed to be contested. Unable to form a government, Jaruzelski stepped aside and let Solidarity leader Mazowiecki to lead the new government. Poland was on track to undergo a series of liberal reforms that would soon reverberate across CEE communist countries.

Meanwhile, the Polish private economy had been expanding for some eight years since Jaruzelski had imposed martial law. Hardy and Rainnie (1996) estimated that privately held firms increased by over 200,000 companies. Additionally, foreign owned small enterprises increased by 800 percent by 1989. The private sector accounted for 19 percent of the overall GDP of the country in this period (Frye 2010, 215). Poland was ready to dip more than just its toes into free markets with such a large private sector by 1990. Solidarity's successes in parliament gave them the mandate to move ahead with their efforts at full speed. By 1989, the economy was on life support and social instability continued to escalate.

5.2. From Solidarity to Free Markets

The success of Solidarity's new government hinged on several factors. Firstly, the PZPR was largely abandoned as obsolete. Parties began racing to the towards the liberal center away from the socialist left (Frye 2010). Unlike Russia in the 1990's, there was very little disagreement that Poland should liberalize and privatize its economy. Though debate remained as to what extent that should entail. This lack of friction allowed Poland to transition in a process that was relatively smooth compared to some of its CEE neighbors. Second, because there was such uniformity in its political appetite for change, the reform process was less prone to the predations of capital flight and capital hoarding that was rife in Central and Eastern Europe at the time. Finally, political parties agreed to leave much of the social benefits afforded to workers in place which kept public support high.

Poland had committed to a break from its past and to extirpate their markets from the state control. The half-hearted attempts during the 1980s were not working and Jaruselki's reforms could not bring down commodity prices. The newly formed Solidarity government had a more radical solution. Two economists, Lipton and Sachs (1990) provided the playbook Poland would follow in regard to its reform agenda. Lipton and Sachs argued that the state had to deconstruct its socialistic systems and fill in those now raw edifices with markets. To do so, they recommended a process of shock therapy, rapid economic reforms, and cuts to government expenditures which all began in earnest in 1990.⁶⁶

Solidarity may have been successful in pushing for initial change, but they were not alone in their efforts. After their loss in 1989, the PZPR rebranded itself the Social Democratic Party of Poland, SdRP, and placed economic entrepreneurialism high on its list of activities (Frye 2010, 216). It dumped the old party elites and took up a more centrist position. The PSL also returned as the main party of agricultural interests and continued to promote private ownership, and trade liberalization of agricultural produce as it had done so forty years earlier. Polish politics in the early 1990s were dominated by those parties who were focused on liberalization and adapting the country to the new norm of markets.

Timothy Frye's (2010) main thesis on the process of reform in Poland was that the country's success was commiserate with its politically consistent nature. There wasn't an existential fear that reforms would be quickly reversed if ideological opposites were elected to power because there were very few of the old-left parties left in Poland by 1991. The turnover between political parties and Sejm alliances throughout the 1990s involved mostly liberal groups

⁶⁶ Shock therapy is a radical process in which state economies are exposed to free market effects. This is usually done so by reducing price controls, reducing government spending and benefits, and privatizing most sectors of the economy that are in state hands.

like the Solidarity Electoral Alliance and Democratic Left Alliance led by the SdRP but little change to the overall tone of reform. Presidential elections consistently exchanged who was in power. From Aleksander Kwasniewski to Lech Walesa, and, yet the liberalization reforms remained consistent.

Much of the reform process was planned out using the Balcerowicz Program which was led by its namesake economist and minister of economics. These were a series of programs that were intended to stabilize Poland's currency and massive selloffs of Polish SOEs to both domestic and foreign parties. Many of these SOEs were distributed through government-owned, joint-stock companies that sold shares at a discount rate to employees and investors (Balcerowicz 1994). SOEs by half in Poland by 1995, and the private ownership rate rose dramatically to fill in the emergent gaps (Frye 2010, 222). The economic changes were extensive but so too was the development of corporate governance structure and securities monitoring that added an edge of legitimacy to the private economy (Frye 2010, 223). This allowed the state to privatize at a high rate while maintaining competent, and functional institutional oversight.

Political agreement was also maintained in relation to the government's social compact with Polish workers and professionals. The extensive amount of job destruction from SOE liquidation was subsidized by the boom in job creation by new sets of entrepreneurs and startup firms (Jackson, Klich, and Poznańska 2005). There was little contestation in the Sejm over the size of welfare and whether to maintain pensions and benefits at the pre-transformation rates. In fact, social spending went up 7 percent in 1991 as the government incentivized older workers to retire and used retirement benefits as a "strategy to ensure support for the program from Poland's emerging middle class" (Frye 2010, 226). Many of these programs would be targeted towards

middle income earners as a political effort to constrain any backlash to their overall reform efforts.

Despite interparty coordination being high in Poland's critical reform years there was disagreement on some issues. One area of disagreement between political leaders was over whether privatization should be domesticated or exported abroad (Kowalik 2002). The PAIZ, Polish's foreign investment department, was in charge of creating lists of opportunities for foreign investors to enter Poland's emergent market (Hardy 2009). Even when pushback emerged against foreign asset purchasing, there were workarounds available to connect savvy investors to profitable companies. Managers of larger firms would often buy stocks at a discounted rate just to resell them to outside investors directly (Frydman et al. 1999).

Even with the wave of committed privatization and marketization by Polish leadership, SMotE remained somewhat high. This was because some SOEs could be rectified with the free market and the lingering effects of corporatism during its transitional period. SOE managers were motivated during this period to adjust and restructure their firms with the goal of making them profitable. The Polish government had signaled that there would be no bailouts for SOEs producing budgetary shortfalls. There was an expectation that managers would be rewarded for successful restructuring and economizing their SOEs when privatization of their firms would eventually arrive (Frye 2010, 225). This meant that many small and medium public firms were able to adapt quite handily to marketization and become profitable to the state. Public support also pushed the state to retain many of its assets out of fear that the government would become too economically ineffectual. Then there were also those SOEs that were just too large and unprofitable to sell and would have to remain on government ledgers for the foreseeable future (Rondinelli and Yurkiewicz 1996, 152-153). By 2000, Poland still retained at least a 50 percent

share of a quarter of the companies on the WIG20 index, Warsaw's capital exchange (Kozarzewski and Bałtowski 2019).

5.3. The Reduction of Organized Labor

Initially, Poland remained committed to its social obligations with regards to organized labor. Certainly, this made sense given that Poland's liberal transformation was bound up with labor movements and Solidarity. Poland's labor laws were kept consistent with its pre-transformation rules and a high amount of social spending was conducted to placate those Poles would find themselves on the losing end of its liberal transformation (Spieser 2007, 117). High levels of social spending coupled with the politicization and reformation of trade unions undid their ability to effectively bargain for workers' rights in the long run. As a result, organized labor deteriorated both in membership and capacity.

The destruction of organized labor occurred in tandem with the Polish government's reform of labor in relation to the emergence of business interests. Initially, the Polish government attempted to balance trade unions and business interests through a tripartite system that was akin to the corporatist states of Central Europe. The Tripartite Socio-Economic Commission was set up in 1993 to oversee and manage the relationships between workers and their employers but the model often favored the government's interests and employer rights. These two items were seen as necessary for the success Poland's liberal transition (Szklarczyk 2019). In order to placate labor's losses, the government maintained a strong welfare system while it commodified labor. A process that was met with acquiescence by trade unions and labor movements alike (Spieser 2007, 99). Even after social spending was cut and union membership began to fall, organized labor remained silent. Instead, it acted to mostly to ensure the peaceful transition toward liberalization of all aspects of the Polish economy.

The development of institutions that would entrench markets and pro investment and business policies cannot be understate. Figure 5-1 shows how Poland’s probusiness environment developed over the past decades using data from the Economic Freedom Index from the Fraser Institute (Yap, Law, and Abdul-Ghani 2020). This value calculates the country’s business environment by comparing the size of government, legal structures, property rights, freedom to trade, and access to credit and aggregates those scores from 1 (least economically free) to 10 (most economically free).⁶⁷ The trendline of Poland’s Freedom of the World Index score remained quite steep all the way up to 2008.

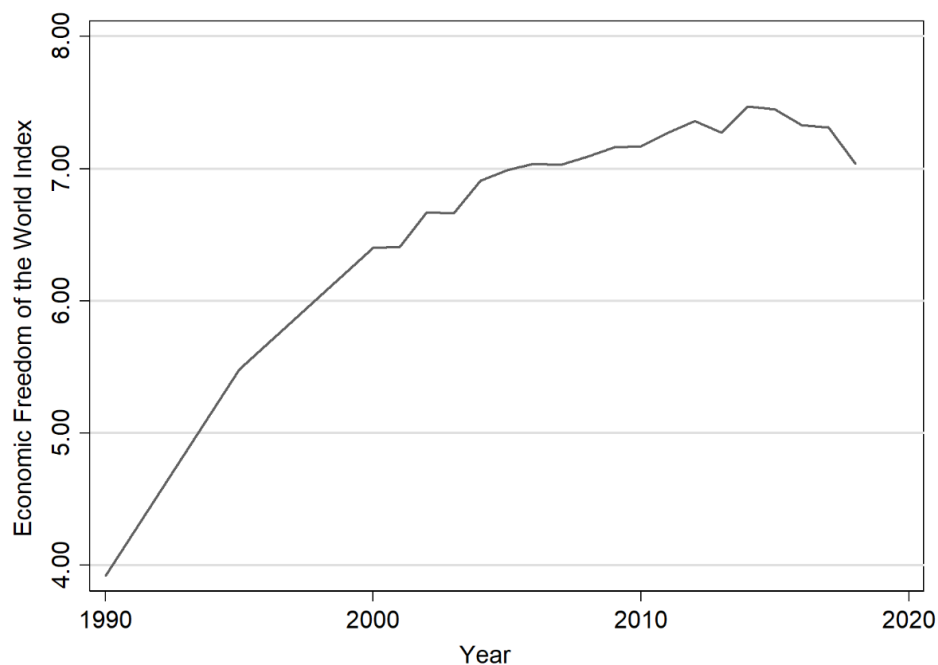


Figure 5-1 Economic Freedom of the World Index for Poland Since 1990

As Poland’s free market was codified, organized labor declined. The abandonment of organized labor by workers, even after the success of one of the greatest worker movements in the 20th Century is perplexing. Per Ost (1996, 29) “...Polish workers seemed to lose much of

⁶⁷ See Appendix D.1 for questions and coding.

their militancy. Just when it seemed that they could pursue their class interests with unencumbered commitment, workers watched passively, even approvingly, as their former rights were whittled away”. Whereas shifts in popular support for various interest groups tends to be slow and gradual, the shift from communism to liberalism provided for an explosive event where more radical occurred (Rozbicka and Kamiński 2021, 3). Accordingly, the transformation of Poland was one where the organizational interests of labor groups across Poland were moved out of trades unions and into interest specific associations and parties. By 2021, business associations outnumbered labor unions 7 to 1 (Rozbicka and Kamiński 2021).

David Ost (1996, 30) claimed that the devolution of polish labor movements was a response to the exhumation of classes in Poland in the 1990s. Under communism, workers were a unified class that was commiserate with Marx’s rubric of political discourse that could be activated and mobilized against the state. Since the state controlled all aspects of society, worker contestations were aimed directly at the top apparatus as this is where change and reform could spring from. Before the transition, the interests of workers were holistic and better able to be represented by unions. However, as Poland liberalized, the ‘honorific’ of being a worker shifted in terminology and content (Ost 1996). The process of interest diversification led to an atomization of Poles from the 1990s onwards which would split along a variety of interests, socio-economic conditions, and cultural divides. Polish workers found less utility in cross-class party formation. Those interests now began to break down along class lines whereas before it had materialized in confrontation to the state directed economy (Ost 1996, 41).

Unions had lost their original purpose in Poland’s new system. Unions would now be tasked with assisting the transitional status of employees and help works embrace their new status between productivity and wages. Like Russia, unions also acted to pacify worker

resistance to the harsh reforms and austere measures that were being enacted. (Spieser 2007, 98). The more severe and labor restrictive of these reforms occurred towards the turn of the millennium. As Poland sought accession to the EU it began to reorganize its labor unions under a new set of tripartite policies. In this second wave of reforms, large amounts of social spending were cut, and changes were made to the law regarding labor contracts. Protections against job dismissals were curtailed. New laws placed worker organizational power within companies rather than in trades unions.

Reforms seemed necessary to deal with high unemployment which was at 20 percent in 2002 (Speiser 2007, 100). In response, those most affected by the socioeconomic deteriorations coped with the system, rather than acting against it. Polish citizens were suffering from the shocking grips of a free-market transition and labor commodification. As with Russia, Poland's labor force had become quite stagnant. Skills and education were not essential tools for individual growth or prosperity under the communist regime as employment was a guaranteed right and prosperity had been leveled off. In the process of marketizing labor and opening the Polish market, a deep vein of cheap, semi-skilled, labor had become available to western corporations and businesses for exploitation.

Those in the middle class that had more sophisticated skills and education had more employment options to choose from and could select from the best job opportunities. Meanwhile, lower wage earners suffered the most from unemployment as they were thrust out into a novel capitalistic environment with very few skills or technical expertise to take advantage of employment opportunities. Figure 5-2 highlights the correlative level of unemployment by skill

level of the respondent from 1990 to 2000.⁶⁸ The figure shows the probability of being unemployed and having low skills as much higher than their higher skilled counterparts during Poland's transition.

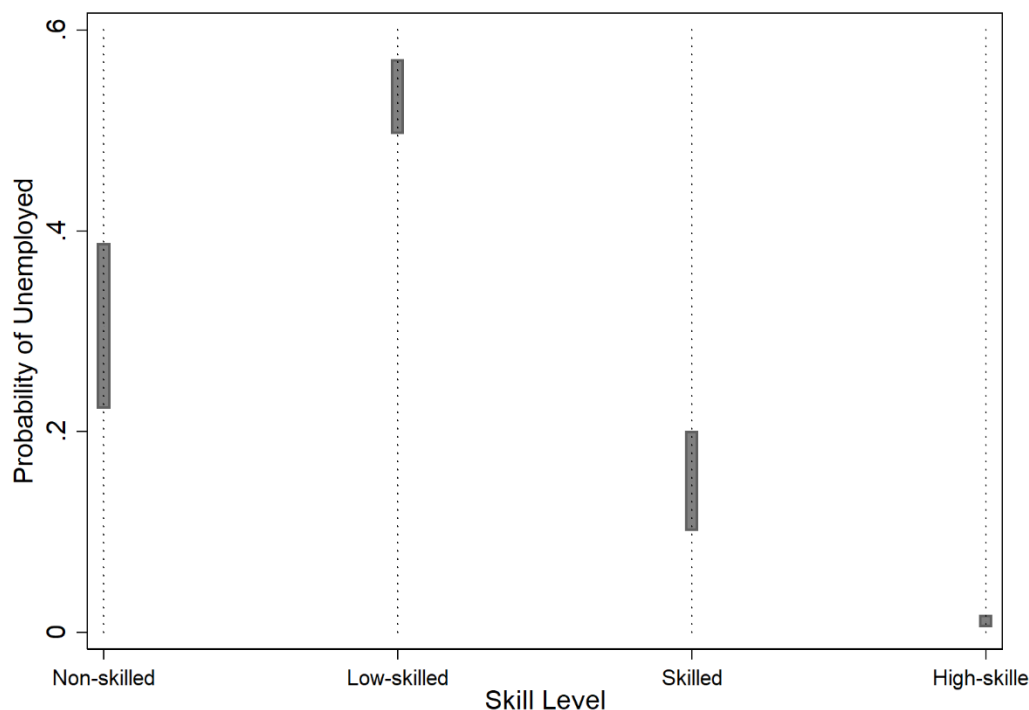


Figure 5-2 Unemployment by Skill Level

Organized labor is also tied down by extensive political alignments that inhibit cross sectoral organization and an atomization of bargaining power within host companies. Representative labor has been consolidated between several major trade confederations who represent nearly 25,000 organizations. The Solidarity union maintains its status as the liberal union while OPZZ, the former communist trade union confederation, continues to represent the old left of Polish unions. The use of trade confederations has led to a two-tiered bargaining

⁶⁸ Data was provided by the Euro Value Survey which classified socio-economic status on a four-tier basis: nonskilled, semiskilled, non-manual, and upper middle. This data was collected in 1990 and 1999 and was aggregated across both years using a logit function. See appendix D.2 for more details.

structure. Most collective bargaining is pushed down to the company level while the confederations handle sectoral bargaining with the government (Trappman 2012, 2). This also means that, at the company level, only employees are allowed to join that company's union which further restricts collective action across organizations and limits access to students, or the unemployed. Leadership in the OPZZ and Solidarność tend to correspond to political membership with SLD and the Solidarity party which politicizes membership.

Membership rates are abysmally low but organizational levels remain high in the public sector and SOEs (Trappmann 2012). However, changes to the labor laws have created new obstacles for unions to attract new members while allowing companies to avoid labor contracts. Many companies now rely on fixed terms of employment which leads to higher rates of turnover and provides less incentive for Polish union leaders to encourage new membership since employees are often gone in a few years.

All of these changes mean that Poles have become extremely pessimistic of union representation. A fact that further fuels disengagement. According to survey data published by Trappmann (2012, 10) "57 per cent of Solidarność members and 49 per cent of OPZZ members thought at the end of the 1990s said that no trade union represents their interests and revealed themselves to be pessimistic about their ability to represent workers' interests at enterprise level". Organized labor has remained incapable of challenging corporate interests or realigning the state governance towards the interest of labor despite of living standards declining after 2010. Even the Solidarity union, who had gained so much power in the late 1980s, squandered their newfound elite status in Poland by ensuring their own disutility and antiquatedness by offering very little to its increasingly economically disenfranchised members.

5.4. Consolidation of Democracy

In its early years, Polish democracy was quite robust. In the proceeding years after 1989, there was a deluge of political parties that emerged to compete for representation in the Sejm and Polish Senate. I have already discussed how the PZPR communist party had abandoned its positions and reemerged as the Social Democrats with a party platform was closer to the center. The successful consolidation of Polish democracy followed a transition of behavioral changes and procedural developments that enshrined liberal democracy until around 2010. From that point, a shift began to occur that realigned those prodemocratic procedures and behaviors away from liberality and towards state capture.

Poland's new parliamentary system encouraged party variation with a wide spread of political ideologies. Comparatively, Polish parties exhibit a high degree of party density and diversity compared to other parliamentary systems in the region (Rozbicka and Kamiński 2021). The proliferation of small parties increased the need to consolidate them within political alliances in order to form ruling governments (Winławska et al. 2021). This also meant that there was a high degree of instability as smaller parties would often break off from coalitions and realign themselves. Indeed, there was a high amount of party switching, especially on the right side of the aisle, in Poland throughout the 1990s and 2000s (Frye 2010, 215). Then there were issue-specific parties that proliferated the Sejm, such as the Polish Peasant Party, whose interests were more narrowly tailored to agriculture, Polish nationalism, and identity.

Voting behavior shifted along with the transition from communist single party state to competitive democracy. Poles embraced the transformation and saw democracy as a return of their national identity that had been stifled by WWII and the Cold War (Kinowska-Marzaraki 2021). However, this zeal could not motivate Poland's democracy forever. Low social capital

between Poles is beginning to lead to high levels of political and social apathy in the wake of economic crisis. By 2010, 80 percent of surveyed Poles said they feel they have no say in government (Carvacho et al. 2013). A number that is consistent in contemporary polling data.

Democratic consolidation has also been arrested and undermined by the development of procedural processes for democratic security (Kubas 2020). These structural changes provided key checks and balances via institutional oversight. For a time, Poland seemed dedicated to rules-based procedures with a strong deference for governance by the majority but with minority rights protections (Kubas 2020, 12). Many of these institutions were enshrined by Poland's 1997 Constitution that passed after a 6-year process in the Sejm. A slow process compared to Russia's constitutional debate that took only a year. The robustness and debate around Poland's democratic institutions ensured that at least some of those procedures would survive authoritarian attacks.

Democratic consolidation takes a long time to generate and requires repeated iterations of the same electoral game and compliance to its outcomes are tested each time (Pridham 2005). This dependence on time means stagnation of democratic transition can occur and even result in democratic erosion. Foa and Mounk (2017) argues that even if some failures occur, democracy should still be able to consolidate if adherence to procedural and behavioral democratization continues. In Poland, adherence to those procedures is not as clearcut.

In the early 2000s, several scandals undermined the integrity of the ruling SLD government. This led to the first successes of the Law and Justice Party, PiS, under Jaroslaw Kaczynski and his twin brother, Lech. Their party's platform had organized itself against what they termed as 'western liberality' (Kubas 2020, 20). While the PiS's term in power was short lived, the challenges brought by the financial crisis in 2008, shortfalls in pension funding, and a

new slew of corruption scandals that rocked the PO-PSL coalition led to the eventual return of the PiS in 2015.

5.5. The Polish Middle Class Emerges

During the period of democratic consolidation in the 1990s and 2000s, Poland experienced a growth of class identities similar to that of its Eastern European neighbors. While some scholars, such as David Ost (2009), have claimed that class has been slow to emerge in Poland, the evidence bares out several alternative explanations. There was a strong sense of class identity in Poland before communism flattened society and this class identity remained quite powerful throughout the communist era. During its transformational years, class identity became more entrenched as labor shifted towards highly skilled, middle income work centered around urban cores. Alignments and interests have become more diverse and varied which has allowed many scholars to identify a significant middle class group in Poland.

Poland's middle class can trace some of its roots back to the 1800s. After being divided up by Russia, Austria, and Prussia in 1795 through a series of partitions, Poland's middle class was critical to the maintenance of Poland's identity, culture, and traditions (Kocka 1995). In Poland, 'mieszczan'stwo' carried a similar identification with the middle class as to Russia's 'meschane'. The difference between the two was that while the Russian middle class in the late 19th century was hobbled by weak a bureaucracy and overbearing nobility, Poland's middle was rule by a network supranational elites from Austria, Russia, and Prussia (later Germany) in the early 20th century (Kocka 1995, 794). Polish identity was connected to the urban tradesmen evolved out of the feudalistic milieu of Central European serfdom. While this system entrapped most of the population on the land in a system of peasantry, it also increased the value of trade goods and skilled labor in towns and cities as a result. The middle class of the 1800s was critical

to the renaissance of Polish national identity which allowed it to maintain a counter-cultural movement against their supranational masters. When Poland gained its independence after WWI, it further severed its feudalistic past which allowed the country to modernize with a strong middle core and rural large peasantry based on national and republican principles that endured until WWII (Jezierski 1992).

After WWII, Poland attempted to modernize the state further through a series of rapid industrializations to the detriment of its own societal evolution. Or as Ost (2009, 501) puts it, “communism created a gritty industrial society and stopped there.” Work was universally guaranteed, and wages were kept flat. The onrush from overpopulated rural villages to the city meant no shortage of labor, either. There was little distinction between class identities in the capitalistic sense and instead there were two tiers in Polish society: the nomenklatura and the workers. The nomenklatura had privileged access to goods and services that separated them from the rest of society (Hardy 2009, 48).

However, arguments have been forwarded that a middle class remained cogent within Poland during this period and even pressed against communisms hegemony at the time (Jezierski 1992, 284). Indeed, the Solidarity movement could be seen as just one of many middle class protests against the nomenklatura. Such arguments regard that middle class Poles existed in identity and conscious even before the Iron Curtain fell (Jezierski 1992). In an article published in 1987, Kurczewski (1987) wrote “the middle class, or classes, which have been formed here, have their moral active status manifested in big conflicts which are the 'last' instances of the sense of the bonds, which also found manifestation in their politically active status which the

experiment of Solidarity was” (Kurczewski 1987). The Polish middle class identity may have been more resilient than their critics let on.⁶⁹

In the aftermath of 1989, incomes became wildly divergent as vast sums of wealth shifted away from workers and farmers towards the inner cities and especially towards the new entrepreneurial class (Hardy 2009, 30). Income inequality substantially grew in ten years with the GINI index placing Poland as the highest among European countries and even post-communist countries (Domański and Jedrzejczak 2002, 218). Wages plummeted by up to 30% in the switch to a market-based system. The situation was dire and dissatisfaction among workers was rampant, but the reform process went largely unchallenged because of a lack of worker organization and the economic gains that were experienced by the middle class. As Solidarity member Kuron (1991) and Minister of Labor from 1989 to 1993 stated, “we can offer nothing else than the proposition that social advance will occur as a result of a long process and that skilled workers, future farmers, people employed in agricultural service, and the intelligentsia will one day become the middle class.” That the middle class must emerge from its own effort within a free market system.

Still, socio-economic conditions were rapidly changing in Poland. From 1994 to 2004, the share of white collar and professional workers increased 10 percent and the share of business owners was over 1/10th of those in a profession (Ciesielska and Frąszczak 2014). Meanwhile, skilled, and unskilled workers fell a similar amount leading to a trifurcation of wages between a labor-intensive class, the professional middle, and a small proportion of business elites at the top.

⁶⁹ Critics of class identity in Poland often point to sympathies and interests within the worker strata as indicative of a failure of class-based identity to coalesce outside of this rigid identity until income and social inequalities were exacerbated by Poland’s liberal transformation (Ost 2009; Hardy 2009).

According to the IMF (Obserwator Finansowy 2019), approximately 60 percent of the population could be categorized as in the middle, either by profession or income status.

Despite divergent incomes, there has still been resistance to class formation in Poland. Familiarity with egalitarian communist principles has led to push back on social identities by some older Poles. In Polish politics, class debates have been largely restricted. There was a generalized fear that class consciousness would undermine Poland's liberalization period or create class conflict between an emergent set of 'haves' and 'have nots' in the aftermath of rapid privatization (Ost 2009). This fear has led many politicians to downplay the concept and keep it out of the forefront of political discourse. The political displacement of class in this case has been argued to have been supplanted with identarian arguments in Polish political discourse. The failure to engage with class-based politics led to the downfall of Solidarity in the 1990s, according to Ost (2009, 499).

Perhaps this argument could best be applied to lower income earners who stood the most to lose as a result of Poland's transformation. Within the middle, politicians and political leaders were adamant about bringing about a Polish middle class that had all the hallmarks of its Western European counterparts. Poland's nascent middle class found itself filling in the roles of the former nomenklatura elite as their former status did not translate into advantages. Instead, a new cadre of middle class Poles absorbed these old roles, and began occupying the bureaucracy, media, colleges, government, civil society, and other professional careers (Ost 2009, 502). The changes are not just limited to status either. The re-urbanization of old cities like Wroclaw and Krakow have driven a "cosmopolitan" awakening among middle class Poles (Galent and Kubicki 2012). As a result, there has been a profusion of diverse interest groups and social associations

amongst the population. It has brought about a cultural panoply but also increases to religiosity within the middle class and the emergence of traditionalist and rightist politics (Arnold 2012).

The saliency of Poland's middle class can also be determined by the government's social spending. It often spends more on middle income groups who are the target of its subsidies by (Frye 2010). Programs are often aimed at assisting families with welfare dollars to subsidize traditional family roles and child rearing (Keane and Prasad 2002). This approach typically politicizes social transfers and turns them into electoral debates for political parties to run on. For instance, just recently in 2021, the PiS party launched a campaign to broaden middle class support through tax breaks and subsidies for young families in an effort to expand the middle class to all and garner more votes (Reuters Staff 2021).

5.6. A Dependent Market Economy

The proliferation of skilled, but cheap labor made Poland ideally suited for attracting foreign direct investment (FDI). A feature which has captured the attention of some comparative economists who have identified the unique complacency between some CEE country's comparative advantage and investment dollars (Nölke and Vliegenthart 2009; Ban 2013). The typology of Dependent Market Economy (DME) was meant to recall the hierarchical market economies of South America which was proliferated with governments reliant on FDI in order to maintain economic development and growth (Schneider 2009). In Poland, reliance on foreign investors and transnational corporations was further amplified by its international economic policies. These policies were geared towards developing regional economic interdependence with the Visegrad coalition and eventual accession to the European Union. This section reviews the internationalization of the Polish economy as a necessary component of its eventual rejection of neoliberal market praxis in favor of rigid state led development after the 2008 financial crisis.

The dependent market economy literature emerged as an expansion to the early work of Shonfield (1965) and later VoC arguments by Soskice and Hall (2001). Nolke and Vliegenthart (2009) correctly identify that the limited typologies of LMEs and CMEs do not adequately apply to many of the emergent market economies in Central and Eastern Europe. Their response was to expand and identify new typologies in order to interpret the Polish experience more accurately. What they discovered was that Poland possessed a particular comparative advantage that was not found in either CME or LME descriptions. This was an advantage for producing complex consumer goods with cheap, but semi-skilled labor. These kinds of commodities would often be outpriced in developed economies and under sourced in developing economies. Nolke and Vliegenthart (2009, 672) claimed that DME's like Poland possessed "comparative advantages... based on institutional complementarities between skilled, but cheap, labor; the transfer of technological innovations within transnational enterprises; and the provision of capital via foreign direct investment".

Foreign capital would not be shy in reaching out to Poland. The nascent market was seen as an economic powerhouse of cheap labor and in an easily accessible location. Nor was the Polish government shy about attracting foreign investment. The PAIZ, or department of foreign investment, was noted for keeping long lists of assets and state-owned firms that it would provide for the perusal of foreign capitalists and managers (Hardy 2009). However, push back in government and by citizens against internationalizing Polish industries often compelled FDI opportunities to obfuscate their intentions. For instance, in the early 90s, the World Bank worked in conjunction with the Polish government to institute a scheme where Polish banks would buy up the debt of insolvent SOEs. When these banks were then privatized, the SOEs, who had their debt owned by those banks, would be transferred with the banks into private hands (Hardy 2009,

60). By the 2000s, ten of Poland's largest banks were foreign owned and accounted for 80 percent of Poland's total financial sector (HSBC 2006).

As a result of Polish propensity towards foreign capital and investment, large tracts of FDI had become centered within Poland by the 2000s. Net FDI inflows accounted for up to 6 percent of Poland's GDP by 2000 (World Bank 2022). This amount is even more illuminating when one considers the rapacious rate of GDP growth experienced after 1990 in the country at a reported average of 4% growth, year-on-year (World Bank 2022). I present the economic situation in Poland in Figure 5-4 using data provided by the OECD FDI Index and World Development Indicators which measure FDI inflows. The solid line tracks net FDI inflows as a percentage of GDP from 1990 to 2010. These values represent cumulative inflows over outflows and represent additional investments per year. The dashed line is the OECD FDI index measure which aggregates obstacles to investments and totals it on a scale from 1, most restrictive, to 0 being the least. Poland has been quite hospitable to FDI, especially from 2000s onwards.

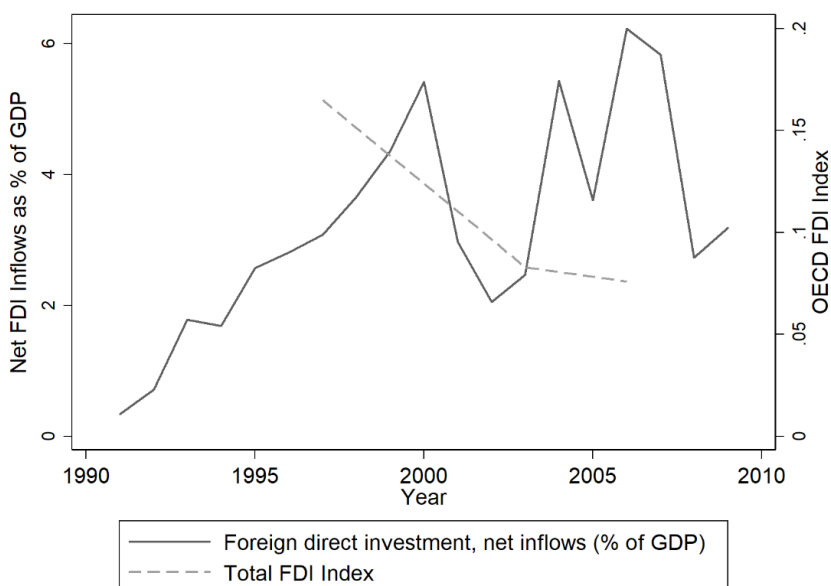


Figure 5-3 FDI in Poland from 1990 to 2010

Poland was very successful attracting FDI. Almost to a fault. Transnational Corporations (TNCs) were quick to enter and exploit the available labor supply and the Polish government was highly motivated to lubricate those transactions (Nolke and Vliegenhart 2009). But this style of economic management from afar has deleterious side effects. The quest for cheap labor means little investment in education by investing TNCs as it would subsequently raise labor costs (Nolke and Vliegenhart 2009, 677). Second, and more to the point of the dependent nature of Polish capitalism, it keeps technologies and innovations scaled horizontally as much of the R&D is held outside of the dependent market economy. Instead, there is very little technology transfer as innovative dependent labor is not readily needed in this kind of economy (Nolke and Vliegenhart 2009, 678). The effect of this TNC dependent economic cocktail is that large tracts of the economy is controlled by the whims of external firms and corporate interests with very little transaction costs in terms of technological, education, or skill exchange.

Perhaps one of the more critical pieces of Poland's aggressive outward economic policies was its interest in joining the European Union. As such, it adapted its institutions, opened itself to European investment, and sought to integrate itself with its western neighbors and away from Russia's economic and political sphere. A series of events occurred in quick succession that oriented Poland into regional integration with Western and Central Europe. In 1991, Poland joined the Czechoslovakia, and Hungary as Visegrad, Hungary to set out a cultural and political alliance known as the Visegrad Group, or V4. The process was meant to ensure mutual cooperation and further integrate into the norms and institutions of Europe.

Following this, Poland applied to join the EU in 1994 and underwent a series of negotiations and developments to align themselves with EU accession protocols. Contradictory political demands by Poland's various parties, but it was the SLD coalition that "catapulted"

Poland into the EU after their electoral victory in 2001 (Taras 2003, 6). By 2004, it had signed the instrument of accession to enter the EU and was on track to join the eurozone by 2009.

However, the financial crisis and economic downswing the previous year undercut all domestic interest in tying Poland's banks to the Euro. Instead, as with the other Visegrad countries, Poland has maintained its own currency independent of the euro but maintains the economic access provided to being a member state.

5.7. Crisis and the Turning Point in Poland

The 2008 Financial crisis affected Poland in a variety of critical ways. While just about every country in Europe endured some form of economic downturn, Poland was unique in that it continued to grow during the recession crisis with less than 2 percent GDP growth in 2009. A phenomenal rate considering that the EU averaged a loss of -4 percent that year (Orlowski 2012). Despite the economic performance, the economic crisis exposed some serious vulnerabilities in Poland. First, it highlighted the footloose nature of capital in a system that was highly dependent on FDI for continued growth. The crisis's economic effects were not shared evenly across Polish society and middle class workers became greatly exposed to the volatility of the economy. It gave more room for the state to interject and intervene into the economy leading to a higher rates of state ownership and investment. Finally, it undermined Poland's further integration into the EU by short-circuiting attempts to get Poland into the eurozone.

By 2008, the Polish economy was in a very good position. Polish unemployment rate had finally recovered to below 8 percent which was on par with the rest of the European Union. Simultaneously, FDI had reached 40% of its GDP by 2010 (Ho and Lu 2013). Polish susceptibility to an economic crisis was extremely potent. Even with high rates of FDI,

efficiency in investments began to fall. There was a decrease in job creation and projects related to FDI up to 2010.

Yet, Poland remained economically stable during the crisis being the only economy in the EU to report positive growth. Economists point to several factors that worked in Poland's favor. For one, it had the benefit of being in the EU without having its fiscal and financial systems integrated into the eurozone (Drozdowicz-Bieć 2011). Instead, it could enjoy market access while still being able to float its currency, the Polish zloty, to best deal with the fluctuations of the market and retain highly competitive export rates.

Next, Poland was able to promote its own markets because the government could directly to influence its own economy. As the Polish state retained critical investments in the economy, it was able to resist short-sighted investors who were reeling from their economic losses in 2008. Poland's public owned banks, like PKO-BP, which has 20 percent of the market's share, was able to increase lending and lines of credit because it was able to maintain liquidity via government sponsorship (Piatkowski 2015). Meanwhile, foreign owned private banks, which made up 75 percent of the finance market, pulled out their investments and shrank lending. While foreign capital was shrinking, state presence in the economy was expanding to fill in the gaps.

The Polish government also responded to the crisis by passing a stimulus package meant to sure up insecure businesses, workers, and provide subsidies to those who lost their jobs. In terms of total GDP, however, Poland would spend very little. It had earmarked 2.49 percent of its 2008 GDP for total spending. In reality "only about 50% of the amount planned in the package was realized..." and this "covered mostly the largest enterprises, often owned by the state" (Drozdowicz-Bieć, 63). Poland's hesitation to spend meant it was not as tied into the

countercyclical spending that was embraced by many European states. Nor was the Polish government motivated to bail out foreign firms who made up large sections of their economy but instead sought to keep them placated with the carrots in the form of tax breaks and its relatively stable market (Piatkowski 2015).

However, things were not always positive as the state responded quite aggressively to protect Polish enterprise from market collapse. Subsequently, this made it unlikely that further integration into the eurozone would occur. Commentators note that Poland's increased Euroscepticism has left it a "second-class EU member with decreasing influence on the bloc's policy and future budget, is an easily imaginable scenario" (Orlowski 2012). However, Poland's economic cycle has become increasingly tied to the European Union despite its inside-outside status (Ho and Lu 2012).

5.7.1. Polish Middle class Vulnerabilities

Despite positive Polish performance during the financial crisis, many middle income workers had been reduced to a state of vulnerability ever since the crisis. In this section I argue that the Polish middle class has become susceptible to economic instability and is vulnerable to clientelistic packages. The kind engaged in by the PiS party. However, this pattern of behavior was not universal across the spectrum of middle class politics. The stability of private companies has kept some parts of the Polish middle class inaccessible to vote buying techniques. First though, I take the time to elaborate on the vulnerabilities expressed in Polish political society. Many poles in the middle class found themselves in want following 2010 due to a lack of organized labor capacity or political support by parties who were too focused on securing EU accession and placating business.

Perhaps one of the key features of the middle class experience in Poland was how the dependent market economy constrained upward mobility. While highly skilled labor has been able to push up the middle class in other Visegrad countries, in Poland the middle has merely expanded its ranks with educated and skilled labor (Tomić and Tyrowicz 2010). In the wake of the 2008 crisis, middle income workers were left with little upward mobility inertia and instead felt a financial and material crunch. This created a sifting effect where those at risk were being pushed downwards and the few with opportunity were left standing.

The gains of economic growth were being disproportionally shared across Polish society. By 2008, the gap between the first and third quartile of earners was approximately 40 percent (Tomić and Tyrowisc 2010, 22). Nor was socioeconomic vulnerability likewise shared. For instance, middle income jobs were especially vulnerable to automation with 1 in 5 jobs under threat of automation. This number is well over the OECD average (OECD 2019, 29).

There are additional vulnerabilities faced by middle income workers. Access to higher amounts of income but fewer assets make them more likely to be reliant on loans. The middle is particularly exposed in that they lack a reservoir of savings or a large enough safety net but have the incomes to take on and service large amounts of debt. Debt that is required to pay for the material and social trappings of middle class existence in tandem with rising prices to education, housing, and healthcare. While the rise in the costs of these items has been the norm across Europe, Poland has been particularly hit hard by price hikes that make these commodities less attainable after 2008 (OECD 2019, 24).

As a result, indebtedness encompasses 44 percent of middle class workers and places strains on Poles who are interested in financing middle class lifestyles and behavior (Strzelecki et al. 2015, 43). What has occurred is a process of “indebtedness...” that “increases economic

welfare by smoothing consumption over time” (Ranci et al. 2021, 543). According to Ranci et al. (2021), they noted that Poles experienced the highest levels of financial strain of all the European countries they studied and ranked them relatively high on their other measures of indebtedness and vulnerability to poverty. Debt to income (DTI) was at 36 percent in 2007 and rose to 57 percent by 2020 (Eurostat 2022; Strzelecki et al. 2015, 48). Figure 5-4, below, illustrates the increasing rate of debt based on Eurostat survey data (2022) measured as debt-to-income ratio over the last 20 years.⁷⁰ This trend has only leveled off in recent years.

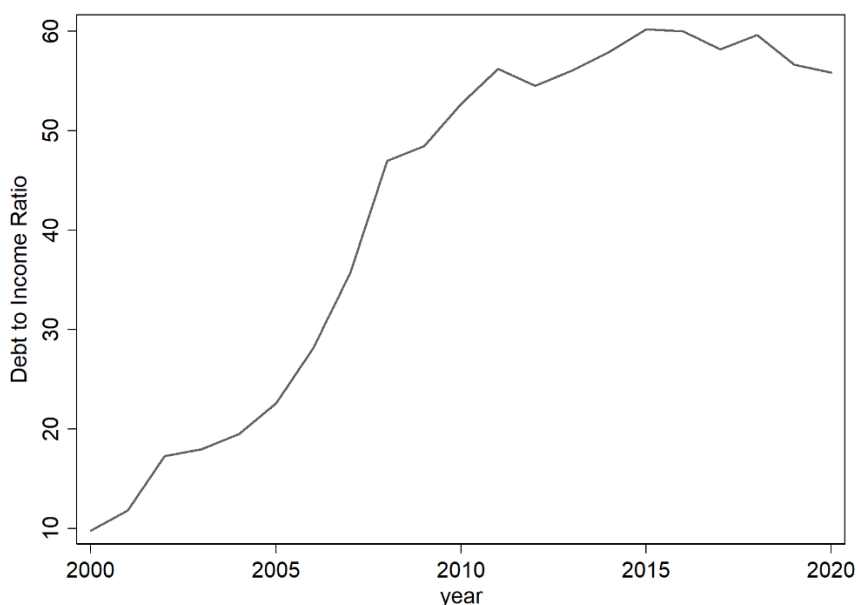


Figure 5-4 Debt to Income Ratio

Poles are also vulnerable to debt due to an overall lack of bank deposits and savings. The Narodowy Bank in Poland estimates that 82 percent of Poles have a little over one thousand dollars, estimated in euros, as savings deposits (Strzelecki et al. 2015, 36). Comparatively, Estonians have three times that amount in their accounts on average. The concentration of these

⁷⁰ Data was gathered via Eurostat (2022) indicators on debt-to-income ratio which surveys debt over household income on a quarterly basis.

two effects could be generalized across Polish society but it has a significant correlation with middle income wage earners. Wałęga and Wałęga (2021, 574) found a significantly high rate of over indebtedness amongst middle income families at a rate of 42 percent of households affected.

The Polish middle class has been shrinking as well. Figure 5-5 traces this stark downward trend that has emerged after the financial crisis. The figure was estimated using data provided by EVS survey's decile calculations of total household incomes. Similar to the WVS data used for Russia, I calculated middle class incomes using the standard OECD protocol of 75 to 200 percent of median incomes and coded all deciles from 4 to 7 as middle income.⁷¹ The results show a decrease of nearly 30 percent since 1990. Poland's national bank has estimated the middle class figure as being much higher at 65 percent (Obserwator Finansowy 2019). In practical terms, that range represents a broad scraping of incomes that can be anywhere from 9 to 25 thousand dollars a year which should be interpreted as overly inclusive.

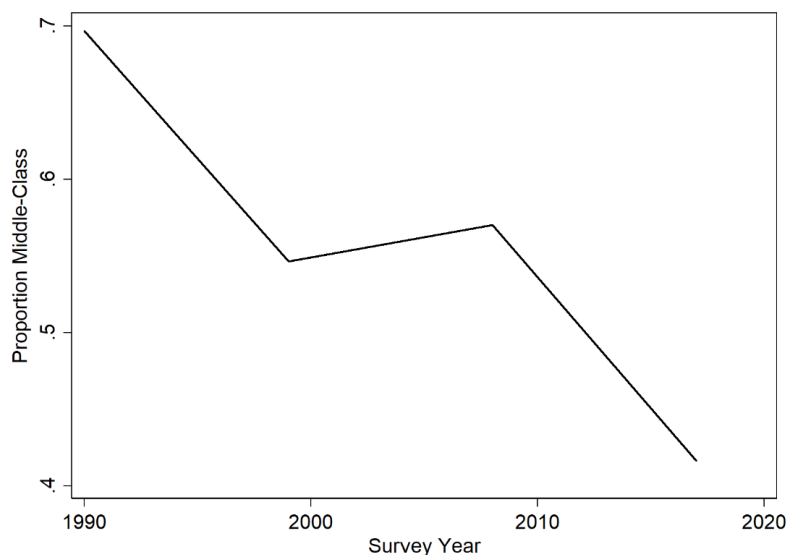


Figure 5-5 Proportion of Middle class Over Thirty Years

⁷¹ See appendix A.1

The response by the middle class has been divided despite the decline. While in Russia, the all-powerful situation of the state makes loyalty a no-brainer as to middle class clientelization, in Poland it's not so clear. In that divide is a polarized double-movement that has emerged in response to the global financial crisis with populism being a component thereof and a rejection of market excess (Davis 2020). The expansion of credit to more and more individuals had exacerbated the problem of middle class collapse and the subsequent exposures felt by the middle class. The reforms of the 1990s had yielded a situation wherein "...liberalization attempts increased the fragility of developing economies and, later, capital flights triggered economic crisis" (Özgür and Özel 2013, 893). Liberalism has created crisis vulnerability by tying middle class prospects to capital flows which later hesitated. In double movement, this breakdown focuses in on the conflicts between classes which threatens social disintegration if left unchecked (GUS 2020; Hechter 1981).

There has been a noticeable bifurcation in Poland within the middle class to the nature of Poland's liberal economy. Some voters still see liberality as a necessary and functional path forward while the other half has increasingly been beholden to clientelistic offers from populist parties. These middle class responses seek out better protection from the state for economic stability in exchange while the clientelizing political party commandeers more parts of the state for its own uses. Without organized labor to express collective dissent and voice their own interests to the Polish state or economy, middle income workers remain displaced within the current system. Instead, some may see the state or the economy as useful to their protection.

Before 2010, this pattern of behavior was less conflictual to as it is now. As of now, confidence in major private business in Poland is at an all-time low since the financial crisis. Consumer confidence crashed 25 points, from -5 to -30 over the course of a year (GUS 2020).

Most consumers expressed a lack of confidence in the economy, but this gradually shifted over the next 10 years and reached an all-time high in 2020 under PiS leadership in tandem with gradual state interventionism and state capture outcomes. Confidence in major corporations also decreased over the span of the financial crisis. Figure 5-6 provides estimated likelihoods of middle class respondents who were surveyed in the EVS from 2008 and 2018.⁷² Middle income respondents were coded following the previous scheme. The probabilities invert over the seven-year span with middle class respondents in 2012 being least likely to have a favorable take on corporate activity. As a result, I estimate that there is a strong desire for political-economic solutions that put parties who engage the middle class on clientelistic terms at an advantage.

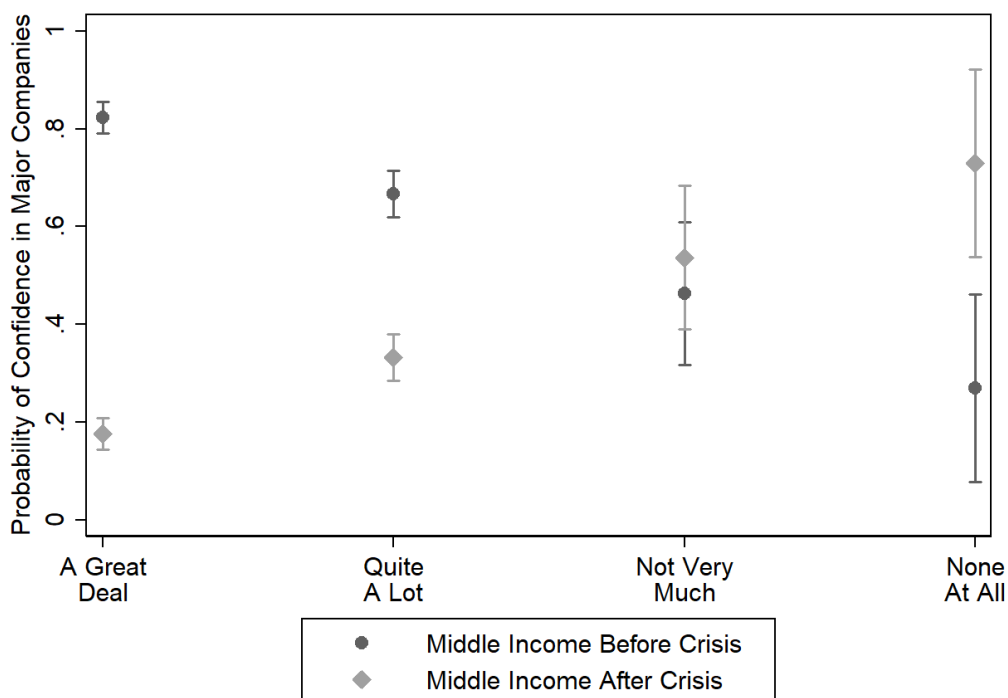


Figure 5-6 Confidence in Major Companies Before and After Crisis

⁷² See Appendix D.3 for questions and coding.

5.8. Resurgent SMotE

In Poland, the government's relationship to free markets have shifted. The constant retreat in the face of liberal advances has been undone in the wake of the financial crisis that circled the globe at the end of 2008. Polish leadership, especially within the Law and Justice party, have sought to induce a new path of development that is led by the state and compromise private firms into a position of cooperation or cooptation more and more frequently. Poland has increased its SMotE in the form of state-capitalism that both evokes markets and politicizes them at the same time (McNally 2013). While state led development and management of the economy is not a new concept, Poland has been quite different. For one, it has emerged in an already democratized state whereas state led development has previously been shown to create opportunities for countries to democratize. Additionally, it has allowed political parties to gain the upper hand over markets in order to support their own political interests and fuse their party with the state (Kozarzewski and Baltowski 2019).

SMotE was never fully diluted in Poland but instead it had changed in nature since the 1990s. The rapid process of liberalization and asset sales had come to a halt by the early 2000s as leadership in the Sejm were unable to compromise on how to sell off the last of Poland's SOEs (Hardy 2009, 45). Unemployment was high at this time and the positive effects of foreign investment were only just beginning to be felt. The government still felt uneasy about divesting itself of all of its enterprises, especially those that were the most profitable. Furthermore, there was a general hesitation by the public to sell off national firms to international bidders for fast money (Hardy 2009). The "behind-the-scenes deals and rampant corruption that came to light in political battles threw cold water on citizens' initial enthusiasm" for the process of privatization and so it was often stonewalled when it came to medium and large SOEs (Ozsvald 2019, 169).

Not to mention that SOEs remained a powerful tool of rent seeking behavior for elites to take advantage of.

The state never fully retrenched itself from the markets or completely turned over the keys to the economy to private firms as a result. It always had one foot in SMotE door and parties were able to use moments of crisis and instability to wedge themselves further into the economy as they saw fit. To illustrate this point, I used data provided by Kozarzewski and Baltowski (2019, 30) that estimates the percentage of companies with at least 25% state-owned shares on the Warsaw Stock Exchange and in the WIG20 index.⁷³ While a large percentage of the total ownership of these shares is below 50% of total capitalization, the trend is quite clear: state capitalization has advanced radically since 2010 for the top performing companies. The data in Figure 5-7 shows how after 2015, when the PiS government came to power, the percent of companies with government ownership increased. This is likely due to the fact that firms with state shares performed better during this period which is more likely to place them in the WIG20.



Figure 5-7 Percent of Companies with At Least 25% State Control on WIG20

⁷³ The WIG20 index is an index that trades the largest companies on the Warsaw Stock Exchange.

Some critics of neoliberalism and the Washington Consensus have expressed that modest levels of SMotE is a response from the state to economic crisis (Bremmer 2010; Dolfsma and Grosman 2019). A response to the challenges of markets that invokes the state to capture markets and enhance the extent of its own reach over the economy as a form of prudent constituent protection. The result is a “form of bureaucratically engineered capitalism” (Bremmer 2010, 250). SMotE does not require full ownership of assets to implement its desired policies or enable state capture. The state can also exhibit control using indirect means such as veto rights and debt financing, or “subtle means of state involvement in the markets” (Dolfsma and Grosman 2019, 583). This process ensures that the state not only socializes capital but politicizes it as well.

Crisis and vulnerabilities expressed in the middle class allows enterprising parties to use state resources to buy off votes and prolong their control over the country. In conjunction, the population that is most affected by market instability are activated to support these actions. The middle class, or at least the more vulnerable parts of the middle become affordable enough to be exchanged with by parties that have access to state resources to bargain with. However, because vulnerabilities are less even in this case and private enterprise remains high, the costs of clientelizing the entire middle class as a voting block is cost prohibited. Participation in corrupt behavior is likewise low which gives voters a cost-effective exit strategy if parties fail to deliver. Instead, engaged parties must use other tools to carve out sections of voters by targeting payouts and public incentives to their constituents.

5.8.1. Neopatrimonialism in Poland

In essence, Poland is experiencing, to a degree, what Russia experienced in the 2000s. The state has reemerged as a driving force of development and economic modality. However, unlike Russia, Poland has erected competent and institutionally entrenched markets for private

corporations to operate legally within. Poland's competent bureaucracy, that can be traced back through history has kept corrupt behavior much lower as well. After privatization, Russia was able to leverage private industry by using corruption and power vertical. Meanwhile, Poland was limited as to what its SMotE can offer parties who seek to fuse themselves to the state.

That is not to say that Poland was without corruption or scandal. Their process of privatization had already experienced several scandals when it was well underway in the 1980s. The nomenklatura and other managerial insiders of the PRPZ were deft at gaining toehold in several key SOEs for profit but this was an open secret in Poland at the time. Stories from those days abound as to managers selling off whole companies, piece meal, on the black market for easy money and without repercussion (Hardy 2009). These same agents of the state then proceeded to use their insider knowledge and access to privatization auctions to gain more assets and wealth during Poland's liberalization process. The exit of the state's influence over the economy did not end cronyism but instead presented elites with new methods and to enable crony capitalism (Szanyi 2019, 144).

What separated Poland apart from its neighbors was strong institutional oversight without the oppressive action of corrupt bureaucrats or informal clientelistic policies. The bureaucracy in Poland, by most accounts was professional, highly educated, and less likely to fall into corruption traps than their Soviet neighbors. Instead, they tended to be party loyalists who were also highly specialized, rather than being only the former (Wasilewski 1990, 745).

This formal adherence to specialization would not last forever. Competitive politics made appointments more political, rather than less as the principle-agent dilemma became more multifaceted (Heywood and Meyer-Sahling 2013). Bureaucrats had to not only be specialized but also had to have the confidence of political leadership that was constantly shifting. This is

reflected in the ongoing debates as to whether civil servants should be lifetime appointees in Poland. Since 2006, the PiS led government enacted a reformed civil servant act that allowed for such lifetime appointments. This politicized more of the Polish bureaucracy and quadrupled the number of political appointees to over 1000 (Heywood and Meyer-Sahling 2013). Polish bureaucracy has become increasingly personalized since 2007 in tandem with the capture of the state.

Neopatrimonial practices became even more problematic during Poland's accession process as well. Insider firms and lobbies were strategically tapped by political leadership to handle the work associated with accession (Gadowska 2010). Political leaders gave out favored contracts and insider information as a means of patronage that allowed corruption to go unchecked. All the while Poland put up the façade of anti-corruption measures to appease the EU and receive its structural funds (Gadowska 2010, 188). For the average Pole, corruption was identifiable and a systemic problem of governmental life with 91% of respondents to a 2003 public opinion poll indicating that nepotism and favoritism held sway in political life (Gadowska 2010, 180). A score that has not improved in the wake of "the collision between bureaucrats and entrepreneurs which was reinforced by adoption of a laws and regulations needed for the EU accession" (Kozarzewski and Baltowski 2019, 9).

The Sustainable Governance Indicators estimate a similar decline in capacity to reign in corrupt behavior. While not a very strong proxy for clientelistic linkages in a country, it does measure the amount of abuse officeholders can get away with. Lack of mechanisms to prevent corrupt behavior does not assume clientelistic behavior but these oversight mechanisms go a long way to preclude such behavior. I present those SGI values of Poland's corruption index in Figure 5-8. The trend line is clear. There has been a rapid decline in corruption monitoring

according to its Corruption Index score. Since 2015, Poland went from “integrity mechanisms function effectively” to a score that reflects that it does not “effectively prevent public officeholders abusing their positions” (Teorell et al. 2022, 495). Poland’s lack of institutional oversight to this behavior correlates with PiS’s electoral successes.

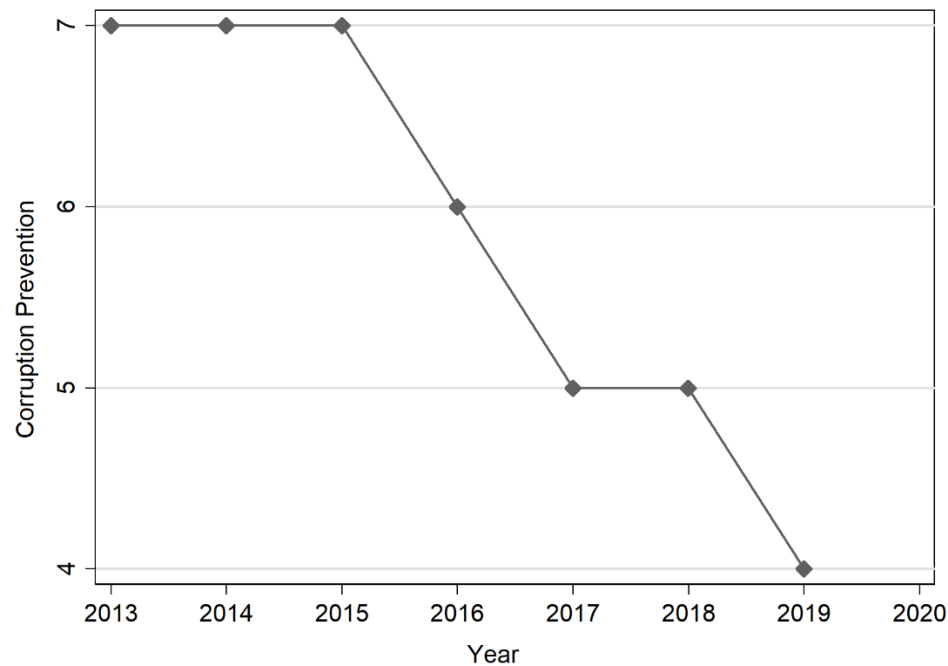


Figure 5-8 SGI Corruption Prevention Score in the Past Decade

5.8.2. Clientelism and the Middle class

For the voting public, neopatrimonial and clientelistic practices have become more imbedded in politics in the past 10 year which coincides with the rise of the PiS and its brand of state capitalism. The political right has used a populism as a means to gain political power in exchange for party sponsored welfare that meets the needs of its constituents left by liberalization and internationalization. Yet, the distinguishing characteristics of neopatrimonial politics in Poland has been argued to be an urban versus rural divide (Mamonova and Franquesa 2020). Instead of class-based cleavages, authors emphasize religion and nationality as the main

unifying feature of right-wing discourse that play out in townships and urban cities (Ost 2009, 506). However, in economic terms, the PiS's message is both pro-capitalistic but simultaneously meant to appeal to class frustrations and grievances. Democracy is in decline in Poland because clientelistic practices have found a home in a large subset of the middle class.

Jaroslaw Kaczynski led the Law and Justice Party to a limited victory in the 2005 elections, but the party wouldn't reach its current level of success until 2015. The PiS have been able to capitalize on the different vulnerabilities and tensions within the Polish electorate. Party leadership took advantage of cultural disillusionment by magnifying the economic disenfranchisement that had been occurring in recent year and the results gave the PiS a majority in the Sejm and dominance of the executive. The success of the party has been attributed to several other sources besides the marketability of their platform. Markowski (2019) argues that general public support the PiS is actually quite weak. Instead, the PiS has worked to undermine the 1997 Constitution to efficiently capture the state but does so without popular approval.

However, recent political events have been particularly useful for understanding a successful electoral dynamic for the Law and Justice Party. One of the more obvious tools the party uses means-tests of voter loyalty by identifying 'true Poles'. This is a cultural and national identifier that is meant to of foster an 'us' versus 'them' dynamic and split the electorate into more digestible parts. For instance, the death of former President Lech Kaczynski in a Polish plane crash in Belorussia 2012 has been used by his brother Jaroslaw to heighten distrust of political rivals and opposition parties who are declared enemy of the people. Other cleavages are exacerbated along cultural lines which are more easily detected in Poland given its status as a largely ethnically and religiously homogenous country possessed of fear and anxiety cosmopolitanism and Western Liberalism.

Those that tend to vote for the PiS, according to Markowski's (2019, 115) analysis, are recognizable by several aspects. They tend to be high in religiosity and represent the vanguard of Poland's conservative-cultural backlash to modernization. Yet, in the same article he estimated that the effect of "costly but popular pledges" were also intrinsic to PiS's success (Markowski 2019, 113), which highlights an important trend among PiS supporters: they tend to be higher in clientelistic linkages. Both in seeking them out and taking advantage of them. Supporters resonate with policies that lowers the minimum tax, keeps the retirement age low, and provides child benefits to families and encourage stay at home maternity care. The PiS's platform is effectively targeted at the constituent needs of middle class Poles.

When looking at the supply side theories of state capture, evidentiary gaps emerge. For instance, Markowski's (2019, 120) recognizes that Poland is an extremely divided society but relegates this contention to his footnotes and emphasizes what is occurring in Poland is a horizontal cleavage amongst elites. However, he contradicts himself in the following pages in regard to PiS's electoral clientelism stating "...yet it is clear that the level of clientelism differs significantly once PiS is juxtaposed vis a vis electorates of other mainstream democratic parties in Poland" (Markowski 2019, 125). It is not clear whether or not the PiS trumps up issues and creates electoral demands for political is not necessarily clear. It could be argued that the PiS has built up a façade of economic decline that the population has bought into. But the key words here are 'bought into'.

The population buys into clientelism in several ways. They provide electoral support to candidates who promise social transfers that are clientelistic rather than programmatic. Higher rates of SMotE following the 2008 crisis means the PiS is in a unique position to offer more to select constituents. More SOEs means more rents to the state and deeper coffers for elites to pull

from and patronize their supporters with (Kozarzewski and Baltowski 2019). It also provides the government with an alternative stream of income that can allow it to cut taxes to patron-constituents and still maintain positive inflows. Whereas decreased access to economic resources would limit the state's ability to offer patronage, even selective, state capitalism in tandem with state capture affords elected officials' a myriad of carrots, sticks, and other incentives.

The erosion of law and the separation of powers has allowed the PiS to switch from formal to informal practices more easily which has served to integrate personalistic linkages with their constituents (Zgut 2021). It also allows them to exploit long-term payoffs like job opportunities. A high volume of turnover and worker volatility is present in public industries which can be used to cement loyalty among public sector workers either by patronizing them with jobs or ensuring their job's stability. The PiS has used this turnover to its advantage as Zgut (2021, 8) states "...under the guise of PiS's policy of 'decommunization...' the party has used this process to distribute a large number of jobs to loyalists". Access to corporate boards and party appointed regulators all allow state capture to reach deeper into the economy for political purposes and sustain rent transfers (McNally 2013).

5.9. Economic Hybridization and Polarization

Unlike Russia, the Polish economy is intermixed with capable and independent firms who are in competition with an encroaching state-capitalist. Both the government and private economy seem secure at present and able to operate with a high degree of efficiency in tandem or in opposition. The hybridization of Poland's economy has been an ongoing process since the late 2000s. The availability of state run enterprises gives the government a line of revenue which compels state actors to protect those rents from outside competition. The regulative administration allows the state to interfere in ways that are not directly measurable, and whose

effects trickle down to smaller organizations and businesses. Paperwork obfuscates administrative practices which crushes down on the capacity of local, smaller businesses to operate. Poland, as it were, had begun its transition from the ‘invisible hand’ to the ‘grabbing hand’ (Kowalewski and Rybinski 2011).

Debate remains in academia as to the status of the Polish economy in general with some seeing it as a liberal market economy that has some coordination mechanisms (Rapacki et al. 2020, 571). These authors emphasize Poland’s social protections and its large stock market capitalization as evidence for this. However, these same authors don’t contend much with the influence of the state as an economic agent or one with a large stake in the private and public economy. Others have more astutely identified that state capture requires “an interventionist state... to combine with multi-national businesses and low skilled and segmented labour markets to make for a very different dynamic” (Vasileva-Dienes and Schmidt 2019, 262). In other words, a form of national capitalism that balances both the political desires of the state and the economic benefits of foreign business and investment.

Ideally the state as a primary shareholder should operate in similar fashion to private investors. It should seek to maximize shareholder value as its main source of risk. However, political parties can corrupt this bargain to better serve themselves influence groups (Kozarzewski and Baltowski 2015). A PricewaterhouseCoopers survey in 2015 found that 86 percent of managers stated that the Polish state as a shareholder “entails politically motivated engagement” and 83 percent reported that the state “distorts competition” (Oszvald 2019, 176). The ability for the government to corrupt its political relationship with the economy makes Poland’s hybrid approach vulnerable towards state interventionism.

Hybridization should not be intrinsically thought of as inefficient or autocratic. Denmark is noted for its successful use of hybrid institutions that balance between discouraging market exposure and encouraging collective learning (Campbell and Pedersen 2007). State capitalism takes on a different tone and kind in Poland as it has both a hybrid reliance on state and market capitalism. That is capitalism that relies on markets but operates with increasing amounts of state intervention either as a means of exercising executive power in formal processes or through informal and indirect control and authority (Kozarzewski and Baltowski 2019). In essence, Poland's "state capitalist systems do not employ markets primarily for efficiency gains, but for political purposes, especially to enhance national power and state elites' chances of survival" (Bremmer 2010, 5).

Over the years, state operated and influenced enterprises have become a key component of the Polish economy. In 2016, revenues generated by SOEs accounted for 24 percent of Poland's GDP (IMF 2020). However, government influence is not restricted only to ownership. Kozarzewski and Baltowski (2019, 5) identify several key methods of indirectly influencing markets and firms that aren't readily apparent. For example, while SOEs comprise about 10 percent of the Polish economy on paper, the government is able to use non-ownership tools to exercise informal control over large tracts of private enterprise (Kozarzewski and Baltowski 2019, 26). A feature which the Kozarzewski and Baltowski refer to as state-controlled enterprises (SCEs) that isn't typically captured within the SOE concept.

The state encroaches into the economy in several ways that manages and manipulates economic decisions of private firms. Besides the more direct path of developing and securing SOEs or the reliance on a 'national champions' model to protect against the "evil designs of foreign capital" the state has a variety of tools at its disposal (Kozarzewski and Baltowski 2019,

19). These include ownership and quasi-ownership tools, limiting property rights, regulatory actions, and persuasion. The Polish government, after 2010, is more capable in its ability to orchestrate the economy and pick winners and losers. The government can infiltrate business boards and stack them with party members and sympathetic elites. Kozarzewski and Baltowski (2019) continue the argument, stating that SMotE is:

“...often found in countries at a lower level of development, including Poland and some other CEE countries, consists in the state using, with respect to formally privately-owned listed companies, the phenomenon of ‘control leverage’ (also voting power leverage), i.e. gaining significantly more corporate power than warranted by the (minority) stake held by it. This group also includes companies in which the state has no shareholding but it controls them indirectly (they are formally owned by entities that are independent from the state).”
(4)

When the free and the state-tethered economy collide, the PiS party has resorted to authoritative actions that favors more SMotE which has alienated and weakened economic and political institutions. The systematic delegitimization of private enterprise has been the primary method for the state to seize more economic control. A process that has required the methodical undermining of the rule of law, and constitutional oversight to better exchange more power over the economy and maintain that access to power. As a result, a self-enforced paradigm has occurred. As the PiS increased its power over the economic, control over the economic markets by the state it simultaneously becomes more vital to maintain within party control (Kurlantzick 2016).

Simultaneously, the actions of the government have been primed towards increasing its economic share. For instance, after the PiS party took political control in 2015, two of the largest private owned banks in Poland were nationalized. This gave the government a stake in over 12 of the 20 listed companies on the WIG 20 (Kozarzewski and Baltowski 2019, 28). This also has allowed the state to control the financing and savings of larger portions of the population. A fact

that is more similar to Chinese authoritarian state capitalism rather than state capitalism in Western Europe (Kurlantzick 2016, 34). The economic utility of controlling more revenues secures the party's future successes and "thus, SOEs are used as sinecures and a source of finance, both for private gains and for party objectives" (Kozarzewski and Baltowski 2019, 10).

As far as the government is concerned, it has sought more control and a tighter economic grip in recent years. In 2020, Poland amended the investment procedures for foreign acquisitions (Wnukowski and Lasowska 2020). The government placed limitations on who can invest and increased the regulatory oversight over more private companies. The change also extended protections to indirect investments and purchases. Polish ministers argue that they remain committed to investment, but the largesse of these investments come from the own state's budget and delivered to state owned firms. Morawski (2021), who reported on a conference attended by Jaroslaw Gowin, Poland's Deputy Prime Minister and Minister of Economic Development, stated

"This coexistence of large state enterprises and the private SME sector points to the target model for the Polish economy. It should be based mainly on a network of medium-sized and large private enterprises conducting business globally with effective state support. The network would be complemented by a carefully designed ecosystem for startups in advanced sectors of the economy."

The Polish economy isn't only made up of the state. Unlike Russia, the private sector makes up the largest percentage of employment and its overall GDP at around 75 percent, in 2015 numbers (Szcurek and Tomaszewski 2020). Strong free market mechanisms and a regulatory landscape favorable for investments are also identified with Poland's economy. The private sector makes up such a large percentage of the overall economy that state capitalism is unlikely to supplant private company's disaggregated forces. Indeed, there has been strong pushback in recent years against the imposition of statism over the economy leading to an

unstable balance as to which way the scales of hybridization may tilt. Each are in a kind of stasis where neither is able to fully exert its will over the other. Authors Uminski and Borowicz (2021, 83) warn against what increases to the levels of protectionism that PiS's government means for the economic balance in the long term. However, they fail to identify the high levels of hybridization of foreign firm and state-capitalism present in Poland or how elites manipulate it to their advantage.

Poland also retains a strong investment climate for foreign capital. Relatively cheap skilled labor and export access to EU markets keeps Poland's comparative advantage for FDI relatively high. Private firms are still viable for wage earners as well though that gap is shrinking. World Bank Indicators (2022) provide evidence to this case that I present in Figure 4-9. Wage compression is much narrower in the public sector with a ratio of 3.5:1 when comparing median wage earners to new hires. Private sector wages have a much wider spread, but this has narrowed in recent years. While the wage compression data is only until 2016, Figure 5-9 provides a stark contrast as to how wages in the private sector have become less competitive in the past decade.

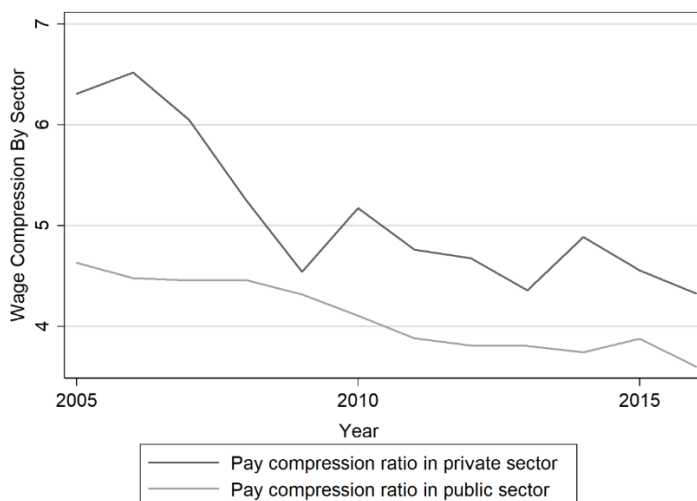


Figure 5-9 Wage Compression Ratio by Sector

5.9.1. The Loyalty of Markets

The Polish government never fully divested itself of its economy in the wake of the neoliberal transition. The government retained a large share in the economy as it began to be dominated by foreign investment dollars that were after low wage and skilled labor. As the state re-emerged in the early 2010s as a contending force in the market, private enterprise would have to adapt accordingly. Following Hirschman's (1980) thesis, private businesses have two options, to voice or exit. As will be seen, domestic and international firms have different risk-rewards for either response.

In terms of exit, domestic and international firms must approach Poland's state capitalist economy differently as the consequences and possibility of leaving Poland's market are not equal across all firms. International companies have a much easier time of exiting Poland's economy in response to over aggressive regulatory policies and political favoritism towards its national champions of industries. FDI is typically vertically integrated into Poland's market which allows multinational companies to produce locally without having to place much capital inside Poland's borders (Cieřlik 2020). Exit, in this case, is the cheaper option. It allows international firms to leave the market and avoid competing against state backed firms and the punitive regulations that go along with them (Szanyi 2022, 148).

The PiS party is not without options to limit capital mobility and have responded by raising the stakes for a foreign firm to exit its markets. In 2018, they introduced an exit tax for individuals and firms seeking to relocate capital outside of the country (Matusik and Mikolajuk 2018). Such tactics raise the costs of divestment from Poland's increasingly regulative environment. Taken together with a recent law that added government oversight to most foreign acquisitions and mergers, the PiS government has increased the barriers to exit and entry as well. For the time being, Poland's relative cheap labor costs allows it to continue to attract foreign

capital. Polish labor costs are estimated to be a quarter the cost to produce what a company would pay in Germany (Zimny 2015, 855).

The costs for exiting from the Polish market have gone up for international firms but it was always a costly endeavor for domestic companies. Much of Poland's industries are only locally invested. Domestic corporations have been slow to invest abroad via outward FDI (OFDI) given Poland's large market and low levels of competitive advantage in the quality of its domestic goods production (Gorynia et al. 2015, 330). Instead, Poland follows Dunning's OFDI strategy of seeking out resource and strategic acquisitions in nearby markets; namely Luxembourg, but other EU countries as well (Dunning 1988; Gorynia et al. 2015, 332). Outward investment still remains relatively insignificant to the size of inward FDI at 5 and 40 percent, respectively (OECD 2017, 2). Domestic firms are also limited in their capacity to retreat from the market in protest given stricter oversights on capital outflow. Instead, they are more likely to play up loyalty or at least remain silent as a means of retaining access to the state's resources and not draw the ire of regulatory agencies.

In response to state intervention, domestic businesses are limited in their capacity to push back due their overall sizes compared to SOEs. For instance, SOE tax rates of 9 percent, compared to the regular corporate tax rate of 19 percent is a clear advantage in SOE's favor. In response to Covid, the PiS's recent policy, the Polish Deal, has been aimed at relieving some of the tax burdens for the country's smallest companies, but this has also served to break up their capacity to coordinate. Polish business associates have responded by criticizing the tax plan as inconsistent and placing more power in the hands of the PiS directly through 'legal loopholes' (Kurasinska 2021). Those business associations that do not challenge the PiS engage in a strategy of 'elite replacement' (Bill 2022). The political leadership systematically pushes out

oppositional associations and interest groups and replace them with more friendly or allied to PiS interests.

Those companies that stop competing in Poland also change the estimated costs associated with the ones who remain or voice their displeasure with the system. As the number of oppositional firms decrease, those that remain to challenge the current status quo have less information to recalibrate policy or political decisions. However, in Poland this is not the case. Instead, domestic firms are motivated by economic patriotism (Naczyk 2014). Favored industries and national champions are used by the government to enhance its own prestige and political clout while smaller companies buy into the nationalist zeal through participation. The state may focus on bigger companies that are important drivers of innovation and technology development, but smaller firms gain in less direct ways. They can reap the benefits of technological enhancements and a larger market to sell their goods to (Morawski 2021). Positive effects are more likely to encourage Polish enterprises, especially smaller ones, to voice their loyalty to PiS's state capture practices rather than their disapproval.

Increased intervention into MNC's affairs limit both their strategic freedom and managerial autonomy but leaves room for adaptation (Doz and Prahalad 1980). This may be wiser option given Poland's host market for affordable labor. Moreover, international firms can use their leverage over foreign capital, technological advantages, and selectivity in placing investments to wrench concessions from their host markets. Scholars predict that dependence on FDI will likely increase in the aftermath of COVID-19 along with the advantages, or 'premium' over domestic firms, that foreign investors provide (Uminski and Borowicz 2021, 83). The correlational benefits of hosting FDI and being hosted in Poland create a stable and mutual interest that ensures both party's participation. Unlike domestic firms that lack the capacity to go

abroad, FDI selectivity ensures a level of compliance with their host country and Poland is no exception. As such, there is a strong current of investment and support for investment that has occurred in Poland and the PiS is unlikely to challenge that overall theme despite more protectionist measures introduced in the past year.

5.10. Polarized Strategic Dependence in the Middle Class

What has been described thus far in this chapter is how Poland has undergone a democratic transformation only to slow and decline away from democracy in the 2010s. The elite-led transformation that occurred in 1989 provided a path to include the former communist leadership in the new Polish government which has allowed present-day leadership to point out the continuity of ex-communist interests and alienate the past from the present (Szczerbiak 2019). I, however, contend that uneven growth, middle class insecurity, and modest levels of SMotE were paramount in leading to state capture by this new group of enterprising elites within the PiS party. State-capitalism, while not on its own anti-democratic, has been traded with middle class voters. However, the middle class does not share vulnerabilities across all earners in this group which fuels an uneven demand for clientelism. On the one hand, there are those that insist on the more liberal and market-based future for the Polish economy and who remain out of reach to the PiS. On the other hand, another contingent sees state-capitalism and clientelistic opportunism as ideal solutions for growing economic inequality.

In a country with such a large middle class, clientelism that targets middle class recipients should be more expensive (Hicken 2011, 300). Vertical transfers become too costly when there are too many mouths to patronize which makes it an inefficient method for political power promotion. However, in a system where political control is not concrete, easily informalized, and doled out in partisan fashion, these costs may be reduced. By splitting Poland

between ‘loyalists’ and ‘outsiders’, the PiS government can effectively target its main supporters in efficient ways. Kaczinski’s PiS party is selling clientelism and targeted welfare policies to ‘coerce’ voters to increase his party’s electoral success (Zgut 2021).

Welfare transfers are often designed in a way to assist the most financially strained elements of society and become more critical as income inequality grows (Paweł Bukowski and Novokmet 2021). However, PiS policy directs most aid to those ‘who need it least’ in an effort to gain electoral support from the broadest swath of the electorate (Ciobanu 2019). A fact which motivates middle class recipients to seek out these transfers for added support. Take for instance the current Prime Minister Morawiecki’s new reforms to raise the standard of living for middle class Poles. The Polish Deal is an attempt to subsidize middle income earners who politically lean towards PiS. He’s raised the tax exemption allowance to ten times its previous rate which hits Poles right at the cusp but avoids the highest earners in the middle class. This plan also targets the middle class with an increased amount of health spending and covers home loans up to 20 percent of the loan value when that family has children to subsidize family building (Wilcsek 2021).

Voters who support the PiS party have outstripped their rival’s electoral capacity by proportionally outvoting them in the past two election cycles. This has given the PiS a large share of the Sejm and control of the executive but not all middle income households support the party or clientelism. Markowski (2019, 118) is correct in his assertion that the PiS is not a ‘demand side revolt’ for large scale democratic and economic changes. In the end, his analysis is short sighted though. He does not disentangle voters across groups but treats PiS supporters as a coherent voting block that is attracted to the kinds of state-capitalist behaviors the PiS has to offer.

This split is often difficult to align with ideological differences because of the incoherence of Poland's party system. The middle class is internally polarized which makes identifying alignments difficult. While middle class voters in Russia stand out as a coherent voting bloc, in Poland their electoral preferences are not as clear. They are often chaotic and contested. The largest oppositional party in the Sejm, the liberal Civic Platform or Platforma Obywatelska (PO), is also able to concentrate on middle class support with programmatic appeals to liberal urban voters and which has been successful.⁷⁴ Although unable to gain back the majority and unseat the PiS in the Sejm, the Civic Platform only lost its race for the Polish presidency to PiS aligned Andrej Duda by 2 percent of the popular vote in 2020.

The lack of discrimination between ideological differences is unique to middle income voters. Using data from European Values Survey's 2017 to 2019 wave, I demonstrate in Figure 5-10 the statistical insignificance related to middle income households and ideological alignment.⁷⁵ Income groups used the same decile coding method and was regressed against the survey respondent's ideological placement. The likelihood of middle income voters being left, or right is indistinguishable which bodes well for my theory of a polarized electorate. Meanwhile, survey takers from lower and higher income households reported a much stronger relationship. These individuals bifurcate in ideology with higher income voters being less likely to align with the rightest politics while lower income participants have the highest likelihood. A factor that is likely capturing the conservative rural and liberal urban divide.

⁷⁴ The Platforma Obywatelska (PO) was a union of the defunct AWS (Solidarity bloc) and Freedom Union that gained prominence in the 2007 under the leadership of Donald Tusk until their defeat in 2015. They have been the opposition since and maintain a large percentage of the Sejm and Polish Senate.

⁷⁵ See Appendix D.4 for questions and coding.

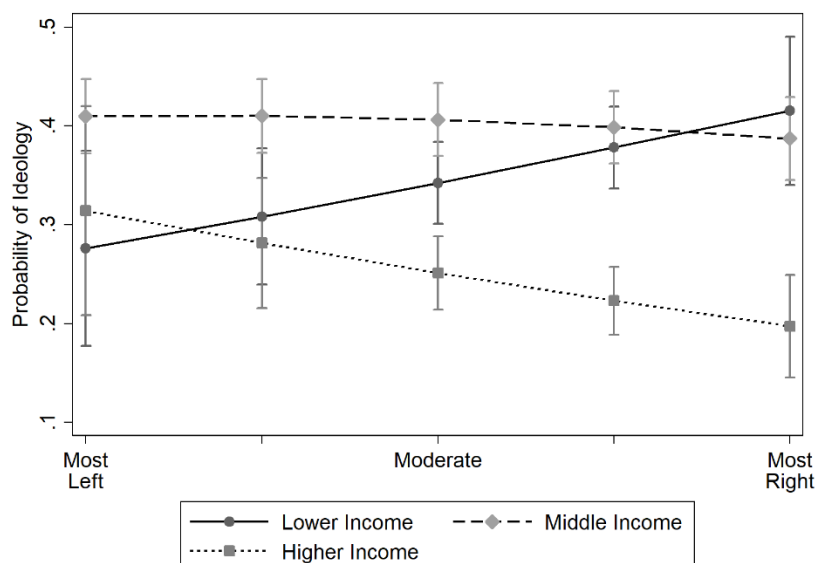


Figure 5-10 Probability of Political Alignment by Household Incomes

Polarization within the middle class highlights the strategic dilemma faced by the middle class. The choice between a state-capitalist future or a liberal-market future has broken down along lines of who supports the PiS. However, the availability of economic alternatives in Poland makes defection a real possibility. Certain elements of the middle class are affordable, but clientelistic endeavors must be careful not to overpromise to constituents that can switch their votes when they find a better opportunity elsewhere. This also effects rates of corrupt participation too. We should see higher levels of clientelism for certain groups, but unlike Russia, corruption participation will be less likely because the state doesn't dominate all aspects of social and economic life.

5.11. Evidence for Middle class Clientelism in Poland

The hypotheses of this chapter are that modest amounts of SMotE and a vulnerable middle class should make buying off some of these voters with public goods as relatively cost effective. Relative in this case because parties are limited in the totality of their transfers without a large pool of resources at hand. Additionally, the presence of strong free market forces provides a

valid and credible alternative for middle class Poles, and this makes exit strategies much more potent. Targeting supporters is essential. Therefore, we should not see a differentiation of clientelist measures within the middle class. There should be theoretical a split between pro and anti-market camps that should detract or support the state capturing party, respectively.

I hypothesize that, as with Russia, clientelistic practices should be visible in measured confidence to public good's quality. First, I expect that middle income voters won't be predictive across my models due to the polarized split within this group of voters. For this reason, statistically significant variation will only occur when looking directly at middle income respondents while controlling for party preferences. Second, corrupt participation will produce low correlations as well. Higher levels of political competition means that a lack of discretion is much easier to observe and punish. Instead, PiS voters should not report any more of a likelihood of participatory corruption.

To estimate middle class clientelism, I use a similar method to the Russian analysis but with datapoints from the European Value Survey (EVS) collected from Poland in 2017 to 2019. This was the latest survey and accounts for PiS's electoral victory effects and post-financial crisis effects. It also included more assessments of public goods that survey takers responded to. I again use maximum likelihood factor analysis with two composite scores: clientelism and corruption.⁷⁶ Clientelism is composed of responses to confidence in civil service, education, social security, health care, courts, and the police. These were measured on a 1 to 4 ordinal scale with 1 being the highest confidence reported. Corruption is a composition of responses to claiming benefits, cheating on taxes, accepting a bribe, and avoiding a fair. These were coded 1 to 10 which 10 being the highest level of justifiability for these actions. The independent

⁷⁶ See Appendix D.5 for maximum likelihood factor analysis and questionnaire information.

variables included middle income households of 4th to 7th household income deciles. Next, I include a dichotomous measure of PiS voter that I then interact with my middle income measurement to produce a variable of PiS middle income respondent as 1 and all other respondents as 0.⁷⁷

I regressed each model twice. The first model includes only the middle income and PiS variables.⁷⁸ They were then ran again including the interactive term to measure the correlative effects and are included in Table 5-1.⁷⁹ Per the polarized hypothesis, middle income households failed to correlate with clientelism or corruption scores when not including the interaction term. Being a PiS voter is statistically significant with a negative clientelism factor score which indicates higher confidence and therefore more potential clientelism. A result which aligns with the tone of my argument. In model two, middle income PiS respondents were statistically more likely to report a higher degree of confidence in clientelistic public goods. More so than PiS voters alone. When including the middle income-PiS interaction, middle income voters flip their relationship to clientelism, which signifies less clientelism when controlling for PiS voters within this group. This provides some evidence that while being in the middle class in Poland doesn't correlate to better access to goods and services from the government, being a PiS voter and being in the middle class does. The corruption score was insignificant for most variables except PiS voter. This score was negative indicating lower justification of corrupt behavior among PiS voters. Participation in corruption is less likely to be associated with middle class clientelist theory when polarization and political competition is high. Exit potential is too higher for voters.

⁷⁷ See Appendix D.6 for Summary of Statistics Table.

⁷⁸ See Appendix D.8 for robustness checks with included control variables.

⁷⁹ Each model was estimated again looking at upper and lower income respondent effects with middle income as the reference category. The results indicated that upper income survey takers were statistically insignificant when estimated with both models. Lower income effects were insignificant regarding corruption but were significant in predicator higher income scores compared. I examine this linkage in this section. See Appendix D.9 for results.

Table 5-1 Regressions of Clientelism and Corruption by Party and Household Income

	Clientelism Score	Clientelism Score	Corruption Score	Corruption Score
<i>Middle Income</i>	0.05 (0.059)	0.157* (0.071)	-0.006 (0.055)	-0.015 (0.067)
<i>PiS</i>	-0.271** (0.062)	-0.13 (0.08)	-0.177** (0.058)	-0.189* (0.076)
<i>Middle Income (PiS)</i>	-	-0.34** (0.125)	-	0.029 (0.118)
<i>Constant</i>	0.063 (0.043)	0.017 (0.046)	0.03 (0.04)	0.038 (0.044)
<i>N</i>	934	934	934	934
<i>R</i> ²	0.021	0.029	0.001	0.001

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$.
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

The association with PiS and clientelism goes further. I modeled respondent's party choice as predicted by all Polish parties in 2015 using the same clientelism score provided by the factor analysis and present the predicted probabilities from an ordered logit by middle class respondents in Figure 5-11.⁸⁰ The graph shows that not only is there a strong correlation between confidence in public goods and PiS but that there is very little association with clientelism and Poland's other parties. The probability of a higher clientelism score degrades rapidly when moving towards a lower composite score. Meanwhile, most parties are indistinguishable when considering the probability of a lower clientelism score.

⁸⁰ Each respondent's party variable (EVS 2018: E179) was interacted with middle income respondents. Figure generated with ordered logit of clientelism score and middle class party choice.

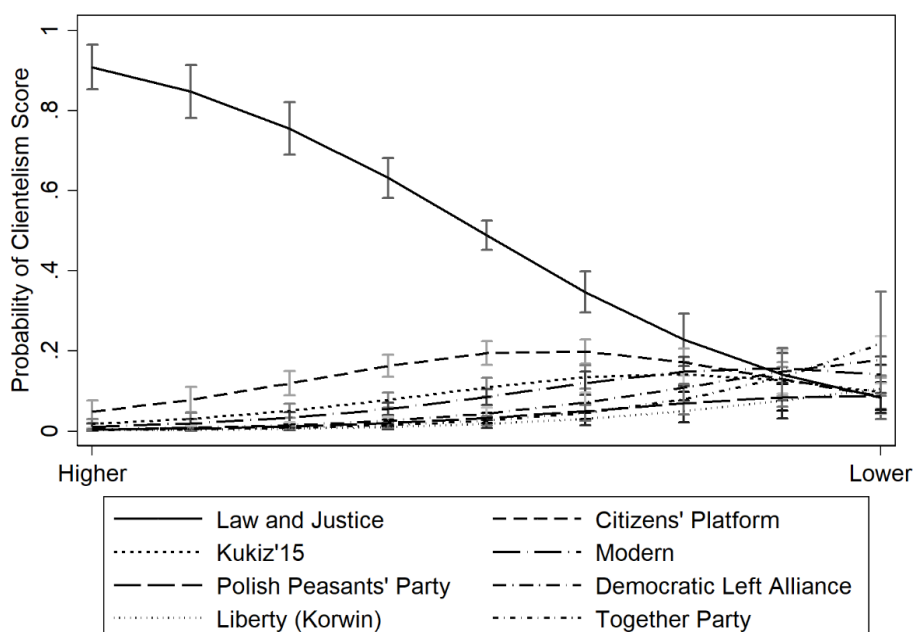


Figure 5-11 Middle income Respondent by Party and Clientelism Score

Looking at all income groups and clientelism presents some confounding features, however. Figure 5-12 shows the linear estimations of a one unit increase in clientelism score, or a lower clientelism score, between each of the three income groups.⁸¹ The results indicate a similar value between having a high clientelism score and supporting PiS between middle and lower income groups. However, the surface evidence may be misleading as having a higher confidence in public goods is a very strong predictor of being a PiS voter in the middle class but not so with lower income households. Instead, there is a strong overlap between PiS and non-PiS voters in lower income respondents regardless of clientelism score. If that's the case, Poland may also be exhibiting class clientelism or even programmatic welfare programs for its lower income citizens. Certainly, it shows that polarization does not exist with lower earning Poles as it does within the middle class. The results do not indicate a failure of the main hypothesis but do

⁸¹ Figure 5-12 was generated using an OLS regression of clientelism scores and an interaction between PiS voter and income group variable. See Appendix D.6.

insinuate that the PiS's payoff schemes are not targeted explicitly at one group like they are in Russia.

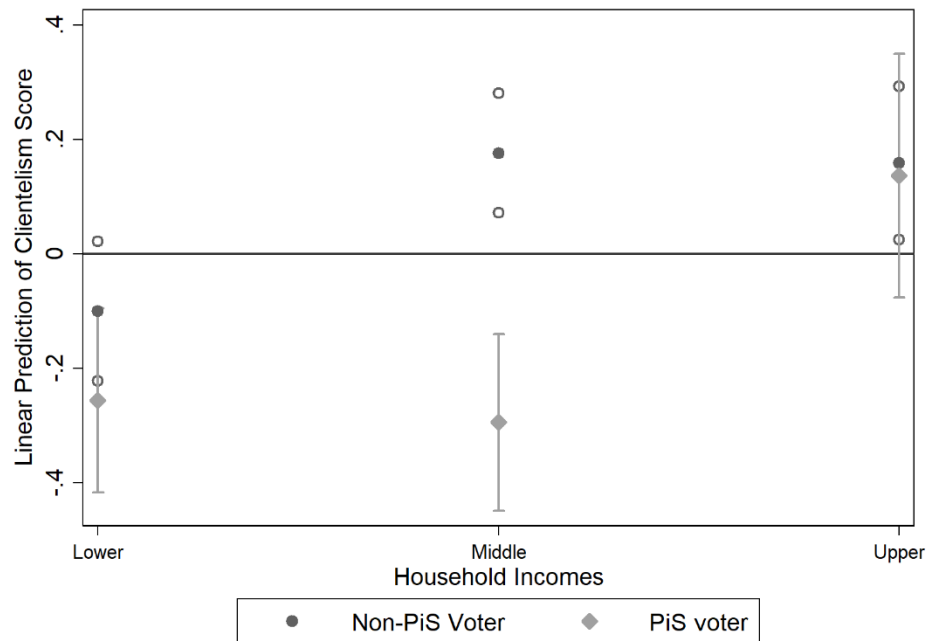


Figure 5-12 Linear Prediction of Clientelism Score by Income Group and PiS Voter

5.11.1. Targeting the Middle

The results from the models indicate several important takeaways. First, a common ideology or partisan identity is unlikely to exist amongst middle class Poles. While this is logical within a strong democracy, high levels of polarization may preclude the ability for inter-partisan cooperation and give room for exploitative elites to use disagreement as a tool to aggregate more power. Certainly, this would explain the current scenario in Poland in which a small minority of the population has been able to elect the PiS to a political majority in the Sejm and Polish Senate. The PiS have used this to their advantage in order to rewrite the economic and political relationship in Poland. Second, middle class Poles who vote for the PiS are especially attuned in to PiS spending.

There are limits with using public spending as a means of rewarding or punishing voters. Selective goods are often enough to reinforce clientelist networks and keep politicians in power, but universal programs can also be rewarding if the party designs social assistance with a selection bias built in for their supporters. In this case, the PiS can use the urban versus provincial divide to more likely place public spending into their voter's pockets. President Andrej Duda, who has official PiS support though ran as an independent, was able to exploit this divide by focusing on provincial towns and smaller settlements during the 2015 election and again in 2020. Duda visited every one of Poland's 380 districts on his campaign which aided in his appeal as a rural champion provincial voters (Walker 2020). In return for votes, the government was able to credibly exchange better services and welfare dollars.

Another example of how the PiS awards middle income supporters is the Family 500+ Programme that was instituted in 2016 by the PiS to promote higher birthrates and 'family values' in Poland (Sussman 2019). The logic makes sense for an incentivization program for citizens to start and have bigger families in a country whose population is rapidly aging and slow growing. The program has also attracted the ire of some women's groups who've accused the PiS of enticing women out of the workplace and into motherhood (Sussman 2019). Its payout awards 500 zlotys, about \$125, per child past the first, to their families. This was changed in 2019 to include every child due to the program's popularity. While universal in its appeal and access, the family income program is also able to function as a vote buying tool in several ways. First, family size varies between rural and urban populations which correlates with voter preferences. Second, the application process places a lot of oversight control within the voivodeships, or Polish states, that are overseen by administrative governors appointed by the prime minister. In this case, Mateusz Morawiecki of the PiS party. This allows for effective

monitoring of the credibility of voters by increasing or decreasing the volume of payments as needed.

The use of family size to determine social spending allows the PiS to aim more dollars at their middle income supporters. Estimates suggest the most utility from the program is gained from those participants in the 2nd income decile all the way up to the 8th decile (Sowa 2016, 2). Outside those six deciles the program loses much of its benefit. In other words, this program was engineered for benefitting the middle class (Sussman 2019). This program allows PiS to funnel zlotys directly to its supporters who tend to live in more suburban and rural areas (Wanat and Cienski 2020). One reason for this is that Polish cities have lower fertility rates in large part due to the higher percentage of women in the workforce. While the number of live births is quite similar between urban and rural settings, at 1.47 and 1.43 respectively, urban centers are in decline as residents move to the suburbs where municipal spending is higher and social welfare coverage is better (Wichowska 2021). There is also a higher likelihood that rural residents will apply to the program because the size of rural families is much larger. The average household size between urban and provincial families is 2.54 and 3.4, respectively (Potyra 2016). This value goes up even higher when disaggregating between suburban and the smaller townships.

The PiS has tailored the Family 500 + Programme to reach the pockets of their supporters as well as screen, to a certain extent, who is able to secure those dollars. The program was modified in 2018 to be monitored by local governments led by *voivodes* who are administrative governors appointed by the prime minister (Sowa 2016). These provincial leaders have the power to withhold benefits at their discretion or promote applications so that applicants receive their benefits in a timely manner. As of December 21st, 2020, almost 297,000 applicants, or 13 percent of total applications, were still being held up in this administrative process (Topolewska

2021). Applicants are denied for different reasons such as improper procedure, or mishandled paperwork. The Ministry of Family and Social Policy, which oversees disbursements, also alleges fraud and deception practices as being a common reason to deny applicants (Topolewska 2021). To top it off, applicants must also reapply each year which gives administrative services a high degree of control for loosening or tightening access to this welfare check.

5.11.2. Evidence for Provincialized Middle class Clientelism

The Family 500+ Programme has only been in effect for a short time, but it has allowed PiS candidates to run on the program's wide net and social spending as a means of getting more supporters to the polls. For instance, data on the amount of spending between 2019 and 2020 shows a strong correlation with vote shares in the 2020 presidential election. After 2019, spending for the program increased greatly with the average spending per voivodeship increasing 240 zł per capita. However, this difference in spending was inconsistent across voivodeships has a scrupulous connection with turnout for the incumbent President Duda.

I used the data from Poland's Central Statistical Office and Electoral Commission which breaks down voter percentages and spending social spending programs by voivodeship to examine this connection. The raw spending is laid out in Table 5-2 along with various measures such as per capita averages and per capita spending differences between 2019 and 2020. I also align voivodeship spending with electoral outcomes. Each province was marked if it received an increase support for Duda in the 2020 election compared to the 2015 turnout, even if Duda lost the province. Provinces that increased in support for Duda saw an average increase of 694 million zlotys from the previous year. Regions that did not increase support and Duda lost in 2015, only received an extra 320 million zlotys on average. Not far behind regions that increased support were regions that did not increase support for the Polish president, but support was high

in 2015. These provinces saw an increase of 620 million zlotys. These numbers are stark although they tighten up somewhat when considering per capita spending. I visualize this data in Figure 5-13 with the differences in zlotys per capita labeled in each province.



Figure 5-13 Difference in “Family 500+” Spending Per Capita by Voivodeship and Change in Electoral Support for Duda (PiS)

Table 5-2 Spending on Family 500 Plus Program by Voivodeship

Voivodeship	2019 Family 500+ Spending per Capita (zł)	2020 Family 500 + Spending per Capita (zł)	Difference Per Capital Spending per Capita (zł)	Increased Turnout for Duda (PiS)	Percent Won	Total Difference (millions of zł)
<i>Opole</i>	666.89	884.46	217.57	Yes	47.36	212.52
<i>Lubusz</i>	748.35	1002.36	254.01	No	40.2	255.82
<i>Podlaskie</i>	794.01	994.93	200.92	No	60.14	235.74
<i>Holy Cross</i>	742.68	938.33	195.65	No	64.41	239.6
<i>Warmian-Masurian</i>	808.19	1013.03	204.84	No	46.84	290.15
<i>West Pomeranian</i>	705.08	951.13	246.06	No	41.24	415.36
<i>Kuyavian-Pomeranian</i>	794.83	1018.82	223.99	Yes	46.77	461.85
<i>Lublin</i>	801.62	1002.62	201.00	No	66.31	421.15
<i>Subcarpathian</i>	823.15	1034.58	211.43	No	70.92	448.49
<i>Pomeranian</i>	855.89	1124.03	268.13	Yes	40.16	629.22
<i>Lodz</i>	762.77	997.34	234.57	No	54.46	571.88
<i>Lower Silesian</i>	709.19	970.21	261.02	Yes	44.61	754.69
<i>Lesser Poland</i>	862.38	1112.87	250.49	No	59.65	854.28
<i>Greater Poland</i>	864.96	1137.26	272.29	Yes	45.07	952.06
<i>Silesian</i>	731.29	986.68	255.38	Yes	48.99	1147.27
<i>Masovian</i>	864.57	1154.67	290.10	No	47.74	1573.81
Increased Support (Duda - PiS)			<i>Average</i>			<i>Average</i>
Yes			249.73			694
No (high)			226.31			620.71
No (low)			234.97			320.44

Note: zł are values in Polish zloties. Millions of zł where noted.

Spending data provided by Central Statistical Office of Poland. Published as: Świadczenia na rzecz rodziny w 2020 roku.

Electoral data provided by Państwowa Komisja Wyborcza at <https://wybory.gov>

The amounts in give some indication that higher spending returned for Duda more votes in those provinces he did more poorly in during the 2015 race. High levels of spending in provinces he had won in 2015 kept the loyalty of his backers secured in 2020. The reward for this spending was potent even in regions that did not yield higher levels of voter support since voter support increased in enough provinces than decreased. There are also issues of whether such behavior could be considered vote buying or clientelism. The availability of this public good means the PiS policy is far from a scalpel and more like a hammer. Its precision is uncertain but the relationship between spending and Duda's success is readily apparent in the data.

Table 5-3 Clientelism Score by Town Size

	Clientelism Score
Town Size	0.105** (0.021)
Middle Income	0.16* (0.067)
PiS	-0.097 (0.08)
Middle Income (PiS)	-0.357** (0.118)
Constant	-0.26** (0.071)
<i>N</i>	934
<i>R</i> ²	0.055
Note: OLS Regression with robust standard errors in parentheses.	
** $p < 0.01$ * $p < 0.05$.	
Negative value for clientelism means higher confidence.	
Positive value for corruption means more justified.	

Further analysis can help pull out the connection between the rural and urban divide over public goods access and quality. EVS data from 2017 provides useful demographic information which gives the town's size of each respondent which I use as a proxy for provincial or

urbanized settings. I used the same factor analysis composite score for clientelism to assess confidence in public goods and assess its relationship with clientelism. For the independent variable, I used an ordinal measure of town size that scales 5 times from under 5,000 to 500,000 or more. This variable was regressed against the clientelism score along with the middle class, PiS, and middle class PiS voter variables from Table 5-1.⁸²

The results in Table 5-3 bare out what has been argued here. Middle income and middle income PiS estimators maintain their effects from the initial model of clientelism composite scores. The new town size variable correlates with a lower confidence and, therefore, a lower clientelism score. This provides some evidence that there is a relationship between town size and non PiS middle income voters with identifying poorer public goods quality. I converted this data into a graph using marginal probabilities for each town size demographics and controlling for middle income respondents.

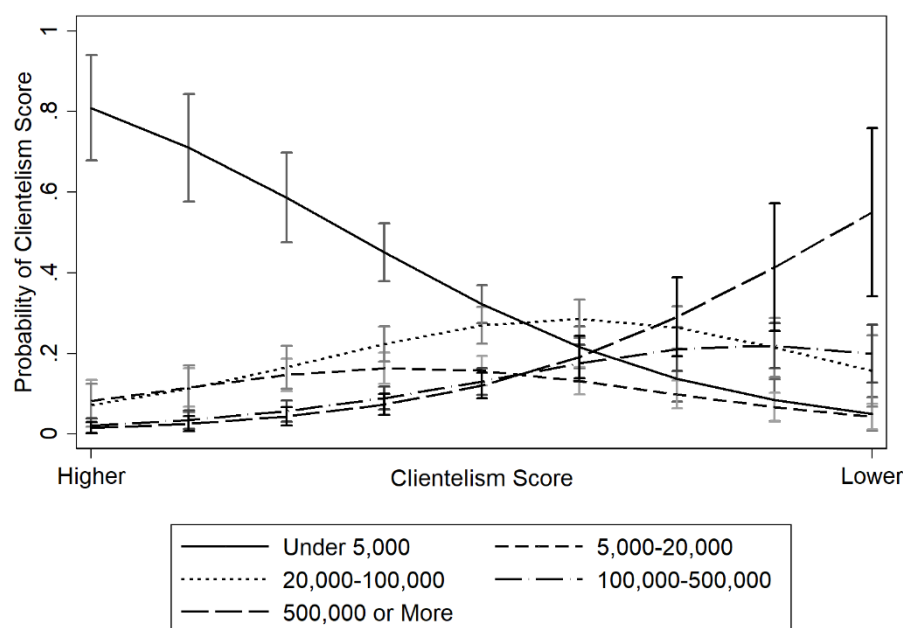


Figure 5-14 Probability of Clientelism Score by Town Size in Middle Income Households

⁸² See Appendix D.7 for town size variable and coding.

Figure 5-14 shows the highest probabilities of a high clientelism score for middle income respondents were in towns under 5,000 people.⁸³ A function of a higher proportion of respondents being from these environs. However, the mean response was 2.5 on an ordinal scale of 1 to 5 so I don't suspect this muddled the values. Respondents from the smallest towns were followed by the next smallest town measures which were at a predictive probability of 0.08 points each. On the other end of clientelism scores were large cities, whose respondents were most likely to rate the least amount of confidence in public goods.

5.12. Populism and SMotE

The coordination between state capture elites and sections of the middle class is on full display in Poland. As Kinowska-Mazaraki (2021) claims, Poles have given up freedoms in exchange for promises of the state to intervene on their behalf. The author points to “imaginary” social enemies as preeminent motivating factors, but the underlying economic and material issues are genuine to many Poles as well. The challenges faced by some of the Polish middle class is pressing on many of them to exchange liberal democracy for a state where the government can more forcefully intervene on their behalf. As a result, populist dogma has a very fertile staging ground in Poland. Social issues provide a screen to otherize minority groups in the population while promoting state-capitalist and welfare solutions. Even if the PiS were to lose the 2025 elections, much of the changes that have occurred in the last six years will be unlikely to resurrect Polish liberal democracy in the immediate future.

Populism is on the rise in Europe in what is characterized as a union between left- and right-wing nationalized sovereignty or re-establishing the nation-state as the dominant discourse

⁸³ Figure generated with an ordered logit of clientelism score and town size.

(Kallis 2018). While procedural populism is a method of activating popular sentiment on the elite level, its “anti-liberal market, protectionist economic and social policies” have real downstream effects on Poland’s democracy and institutions (Kitschelt 2002). Most of the state capture gains that have occurred have been under the PiS, but, as I have claimed in this chapter, the blueprint for state-capitalism were legacy elements of Poland’s transition in the 1990s. It is unlikely that a parliament under a different party would be able to or even want to retreat from the neopatrimonial and state-capitalist gains the current government has made.

One aspect where state and private institutions have comingled in Poland that will be difficult to roll back is the state-controlled media. The PiS have increased government control of independent media outlets in a process that is commiserate with other populist leadership around the globe in an ongoing effort to keep foreign influences out of Poland. In 2021, the PiS introduced a media bill that would effectively silence foreign owned media outlets while critics argue it is a pretense to silence dissent (Włodarczak-semczuk and Florkiewicz 2021). The bill was vetoed by President Duda in December, who cited treaty obligations to the US as an issue since one of the main companies that would have been affected was owned by a US based corporation. Concern over press abuse was not a priority.

The current Polish government is in the process of creating a corrupted state where society serves the government not unlike that of Hungary which has shifted from populist statism to authoritarian statism in the past decade (Szombati 2017). Increased nationalism and a rejection of the Washington consensus has promoted a demand for a ‘third way’ of economic development that suggests an air of inevitability to Poland’s state-capitalist future. The recent covid crisis has served to heighten those demands for state intervention. Poland’s economy has emerged quite strong from the Covid crisis, but political processes have taken a beating (Pawel Bukowski and

Paczos 2021). The recent 2020 presidential election has been criticized for its failure to be fair and democratic (Zgut 2021, 15). The process was strictly held by mail-in-voting only and the oppositional candidate was further limited in access to state resources and media coverage. Additionally, government leadership has also been more reliant on the Constitutional Tribunal, Poland's supreme court, to pass through controversial changes to Polish law. A process that critics have cited as a means of circumventing parliamentary procedure (Kinowska-Mazaraki 2021).

The correlation between statism and populism will likely mean that Poland continues down its current trajectory for some time. However, it is important to note that populism is merely a means to an end in order to package palatable party platforms to those vulnerable voters who can be adequately bought off with the redistribution of the state's rents. The support for PiS and the party's promises to the middle class gives it a lot of political capital to exchange on perceived vulnerabilities within this group. Many of these welfare promises are now too popular for any alternative party to dissolve, were they to be elected to a majority in the Sejm in any case (Ciobanu 2019). The demand for protectionism against the market remains high within the voting electorate as long as inequality and material instability within the middle class remains a factor.

5.13. Conclusion

Poland presents a case of two transitions. On the one hand, the 1990s provided an opportunity for growth and expansion which allowed private enterprise to flourish in a relatively stable environment. During this time, social classes became more coherent, and the middle class emerged as a political and social force within Polish society. Changes occurred in the 2000s, after Poland's overall economic situation had become even better followed by an abrupt

downturn in 2008. While the Polish economy continued to grow, foreign investments that many workers depended on became less secure. This process left many Poles feeling embittered to free markets and the volatility and vulnerabilities they experienced after a decade and a half of growth.

Poland's uniqueness is identified in its hybrid quality. On the one hand, state-capitalism has been on the rise since 2012. The government is enlarging its shares of once privately owned companies and extended its reach by using regulative action. Unlike Russia, Poland retains a high degree of liberal and free markets with a large contingent of foreign owned enterprises. Its regulative environment remains open and designed to encourage continued foreign direct investment. Meanwhile, the PiS government has strengthened nationalistic ties within the economy as a means of gaining electoral leverage with a narrow class of Poles.

For the meantime, Poland's hybrid economy remains functional. Foreign investment is able to continue while PiS's government increases its nationalized capitalism development model. While the two exist in a tension, the conflict has not reached a point where private industry, both domestic and private, have needed to reassess Poland as an investment market. At the same time, domestic firms that are too small are unable to challenge the PiS's growing superiority over economic regulations and state-capitalist policies. A scenario of cooperation rather than voice or protestation is more reasonable. As long as Poland remains a valuable, high skilled market with cheap labor foreign firms will continue to risk their investments and trade in spite of the government's continued encroachment.

Higher rates of SMotE are in congruence with elements of the vulnerable middle class who remain polarized and split between those who seek protection from the fickleness of the market and those that see an increasingly authoritarian state as a danger to Polish democracy. I

have argued that the financial crisis played havoc among a large portion of Polish society and none more so than the middle income earners who experienced a shift in access to material advantages as a result. Per this logic, democracy is waning in Poland because there is a large section of the polity that finds the anti-market and pro-welfare sentiments of populist elites to be beneficial. Where the state encroaches, so too there are losses to private freedoms as dependence on the government grows.

The future of Poland is not written. While the PiS have done a lot to secure political and neopatrimonial control over many institutional and economic aspects of Polish society, they are still beholden to elections. It remains to be seen if another party would be willing to roll back the government's extended management of economic matters or if the middle class enters a new phases of prosperity which makes them less prone to clientelism. Poland never fully divested itself of its public economy during its transitory period in the 90s and it is unlikely that the re-emergence of a liberal political party in Poland would reimplement the Washington Consensus in a post-2008 economy. The popularity of the PiS and their populist platform is relative to the demand for these kinds of political policies from the electorate itself. The desire for welfare protection and state-capitalist remains high and is unlikely to change. Perhaps as Poland continues to grow and develop the demand for government solutions to the middle class's vulnerabilities will wane as well.

6. ESTONIA

The Russian and Polish cases have highlighted several important facets of this dissertation's argument. First, there is theoretical utility in exposing how middle class voters may determine clientelistic outcomes. Second, the effects of post-communist transformation played a huge role in setting up how the 2008 financial crisis affected these countries and their populations. While Russia had already fallen into a state-capture paradigm by the early 2000s, the crisis spurred United Russia to control more political-economic power at the cost of middle class compliance. A process that dramatically damaged democratic politics in a country that struggles with neopatrimonial and clientelistic problems. On the other hand, Poland was able to endure a more liberal market transition and established stronger democratic conditions in the 1990s and 2000s. The turning point arrived during the late 2000s during the crisis which lowered the costs of clientelistic engagement to intervene in the economy and establish a hybridized system of foreign capital promotion and political dominance over the domestic economy. As a result, democracy has suffered due to the natural consequences of the middle class's polarization between support for anti and pro-market sides in the political debate.

In post-communist countries, the transition and development of independent markets that can operate outside the confines of state interventionism, or at least political corruption, is vital to the stability of its democracy when state capture is a probability. Voters will be less enamored by exchanging liberty for economic and political stability in such instances because the state will have a reduced capacity to exchange or limit public good access in the first place. To examine this final hypothesis, I explore the small Baltic country of Estonia. Estonia followed a similar path of economic liberalization and democratization akin to Poland, but it has resisted populism and democratic backsliding. Its economy could be described as dependent on FDI but with less

regulative oversight when compared to Poland. Where the PiS government after 2010 began to trade electoral gains for economic protection to the middle class, Estonia has engaged in extreme austerity measures and diluted its welfare programs.

The demand for welfare is no less potent in Estonia despite less offerings by the government. It emerged from its Soviet past with a highly skilled labor market and an economy oriented around technology. However, Estonia suffered from the rashness of FDI divestment in the wake of global foreign capital slowdowns as well. Estonia's middle class makes up a smaller proportion, about 1/3rd of the country, compared to Poland (The Baltic Course 2018). However, they have endured similar hardships and reductions in material wealth. In some instances, they are more vulnerable to credit dependence while earning, on average, much higher salaries than most CEE citizens. A salary that is high even by EU standards. Estonian organized labor also was gutted in the 1990s in a similar process to its neighbors. Yet, democracy scores have remained quite high in Estonia. Furthermore, Estonia has remained quite resistant to anti-democratic parties or even corporate overreach in the aftermath of extreme deregulation. This presents an interesting puzzle that requires further investigation for understanding how the two variables of SMotE and a vulnerable middle class affected Estonia and the previous two cases.

What has occurred in Estonia is a commitment to liberal markets that has bypassed the need or even capacity for social rehabilitation of the market that could be demanded for in the wake of crisis. For several notable reasons. Estonia was able to extirpate the government from the economy more extensively in the 1990s compared to Poland. This left few pathways for reentry back into the economy after political turnovers in Estonia's parliament, the Riigikogu. The effects of the 2008 financial crisis presented different challenges to Estonia's periphery market which lacked Poland's size and qualities. This led to precrisis policies that deemphasized

class and focused on enhancing the economy through deregulation. Lastly, Estonia's class-based society has strong ethnic cleavages as well. The country is divided by about 68 percent native Estonians and 25 percent Russian speakers (Helemäe and Saar 2012). As a result, Estonian class competition is tainted by ethnic instability as well and less suited to the debate markets from the lens of socioeconomic status.

6.1. A Leader in Post-Soviet Transformation

Poland may have been the first within the USSR's sphere of influence to break away and begin the process of liberal transformation, but Estonia was one of the first soviet republics to declare independence in 1990. It declared its independence from the Soviet Union on April 3rd following the Estonian Supreme Council's declaration that the Soviet occupation of Estonia since WWII had been illegal. A status quo ante that had long been held by Western countries and a large contingent of the Baltic country's citizenry since 1940. Estonia gained full independence in August 1991 after a round of bloody crackdowns and eventual withdrawal of Soviet troops. The discourse surrounding Estonia's occupation and subsequent independence movement would be a major element of its modern, post-communist identity.

The Estonian independence movement has its roots in its occupation by Soviet forces at the start of WWII. It had gained its independence from the Russian Empire in the fallout of WWI and the Treaty of Brest-Litovsk which secured the German Empire large swaths of territory to be ruled by German allied regimes throughout the Ukraine and the Baltics. Germany was unable to fully capitalize on its gains being forced to settle WWI in disfavorable terms at Versailles, but the Baltics retained their independence. Not for lack of interventions either. Bolshevik incursions were par for the course during its formative years which Estonia repelled thanks to alliances with

Latvia, Lithuania, and Germany's Freikorps.⁸⁴ Estonia enjoyed a short-lived status as a nation-state after 1918 but was later annexed by a more competent Soviet Union in 1940 during Stalin's expansion westward following the conclusion of the secret Molotov-Ribbentrop pact with Nazi Germany (T. Lane, Pabriks, and Smith 2002).

Estonia suffered extensively from the oppressive tactics of Stalinization and attempted Russification of the country. Unlike Poland, Estonia was too close to Russia to resist Stalinization pressure and succumbed to most of its programs. Aggressive Sovietization of Estonia, like the other Baltic countries, meant Estonian nationalism was violently repressed. These repressions targeted and deported Estonian elites, intellectuals, and anyone else who resisted. Estonian President Konstantin Pats was deported along with an estimated 60,000 Estonians in just 1941 (Buttar 2013). Like many of those deported, President Pats did not survive his internment. Only after Stalin's death did these policies change and many of the exiled Estonians were allowed to return.

While dissidents were being exported, the Soviet centralized economy imported industrialization and modernization into Estonia. Before WWII, Estonia's industrial base was quite small, and its economy was almost entirely dependent on agriculture (Saarts 2016). The Soviet planned economy changed this by industrializing much of the country and exploiting the few natural resources Estonia had which were essential to the USSR's economy (Mettam and Williams 2001, 138). Estonia possesses shale-oil for energy production, fertilizer (phosphorous), and uranium. As a result, Estonian experienced a great deal of heavy industry investment well beyond its own capacity to produce or even consume (Saarts 2016).

⁸⁴ The German Freikorps was a volunteer paramilitary force that had a legacy dating back all the way to the Napoleonic wars. At the end of WWI, they were used extensively to suppress communist uprisings in Germany and Eastern Europe (Gerwarth 2008).

The solution to the local shortfall of supply was a process of Soviet colonialization (Mettam and Williams 2001). According to Kukk (1991, 4), after the previous economic system was dissolved, an “alien migration” occurred that redefined Estonia’s national identity in order to satisfy the USSR’s economic demands for electricity and other materials. Russian speaking workers began to overwhelm the small country that was already devastated by WWII. It is estimated that in a population of around 1 million, around 200,000 citizens were lost to the Nazi and Soviet occupation. A fact which made Russophone migration all the more appealing to Soviet planners (Mettam and Williams 2001, 139). During the forty-five years of Soviet occupation after WWII, Estonia’s homogenous society was diluted to be a little over 60 percent ethnic Estonian by the 1980s (Eesti Riiklik Statistikaamet 1996). This demographic shift would have consequences as Estonian nationalism once again became salient in the 1980s and Soviet influence waned.

6.1.1. The End of Communist Estonia

Resistance to Soviet occupation has a long history in Estonia but its transition towards democracy can be traced back to 1985. Park (1994) argued that, generally speaking, Estonia’s transformation into a liberal democracy could be perceived as a nonviolent, anti-communist, and democratically aligned movement. However, the demands for Estonian independence were deeply imbedded to its own sense of national identity and as a counter movement to what Estonians viewed as the destruction of their ethnicity and culture. Their desire to transition was also interconnected with the necessity for completely severing ties with Russia and to ‘reintegrate’ with western Europe (Park 1994). Therefore, democratization and marketization were emblematic of that necessity to quickly distance themselves from Russian countermobilization.

Estonia's transformation could be categorized as peripheral and nonconforming in tandem with its Baltic neighbors (Kitschelt et al 1999). Previous theories of post-communist transition have played up its agricultural and industrial distributional factors as critical to this outcome (Kitschelt et al 1999) along with elite political mobilization and cooptation (Frye 2010). Yet, Estonia transitioned, in large part, without its pre-transition elites (Kreuzer and Pettai 2003). The communist party in Estonia had lost all legitimacy over the span of several years and was declared outright illegal in 1991. Unlike Poland, the communist party did not transform into the liberal party but instead disintegrated with its elites being scattered among emergent parties who were reluctant to take them in. Nor could it be compared to Russia which continued its communist party traditions as a minority bloc in the state's Duma.

Another unique aspect of Estonian, and moreover Baltic, transformations are the cultural and ethnic contentions. Huntington (1993), in his famous thesis of cultural competition, argued that Estonians were a western country, at least in religion and pre-communist societal arrangements. The Russophonic incursions of nonethnic Estonians were all the more alienating for locals who feared that they would fast become a minority in their country by the 1970s (Pettai and Hallik 1999). This motivated many Estonians to protest when, in 1985, the Soviet Union decided to begin mining large quantities of phosphorous from the central part of the country.

In Estonia, as with other peripheral Soviet Republics, the selection of Mikhail Gorbachev in 1985 to lead the USSR was paramount to the mobilization of liberal and nationalist movements. Gorbachev's policies of perestroika and glasnost gave room to open up dialogues of resistance and allow for politically contentious and counter-soviet mobilizations to take place. Estonian leadership was quick to exploit this opening (Park 1994). Liberal publications, like

Vikerkaar, began publishing Estonian nationalistic and counter-regime messaging by 1986.

Another major crisis would emerge the next year with the Phosphorite War where protestors aggressively voiced their opposition to the expansion of phosphorite mines in Virumaa for the environmental and ethnic impacts they would induce. These protests were successful in getting concessions from the Supreme Soviet.

“The Soviet Estonian authorities initially tried to quash the revolt using the same old methods. But it soon became clear to them that concessions were unavoidable and the construction of the phosphorite mines was halted. The Soviet authorities had been forced to back down in the face of public opinion and protest actions.” (Laar 2004, 228)

From these protests a major shift occurred in Estonia’s mobilization. Peaceful protests on the anniversary of the Molotov-Ribbentrop pact, which had come to define the Soviet occupation since the 1940s, were organized in 1987. These protests quickly gained traction and the Estonian SSR authorities were unable to regain control over the situation. Nationalistic symbols such as the white, blue, and black Estonian flag became a frequent attendee at highly organized rallies across the country. Rallies were often musical affairs as well. Estonians of all age groups participated and used folk songs as a tool to organize and overcome the collective actions problems that are associated with mass protest events in authoritative regimes (Nicoara 2018). Folk songs have a long history in Estonia’s culture and were adeptly interwoven within the national and cultural consciousness that was fomenting in the late 1980s. This protest movement would be dubbed the Singing Revolution.

The main stable feature of these protests was Estonian identity, especially in regard to its folkloric and cultural traditions. Nicorara (2018, 70-71) argues that Estonian traditions emphasize liberality and individual responsibility both in governance and society. A stark contrast to the Soviet model. According to Nicorara’s theory of collective action during the Estonian independence movement, singing folk songs was a cheap method of harmonization

between entrepreneurial elites and organized protestors. The use of a shared Estonian identity and its rich tradition of musicality was a much more cost-effective rallying cry compared to having to unify around an ideology or anti-Soviet themes which may not have been universally shared.

Leadership was unable to ignore the potency of the Singing Revolution. As a consequence, the Estonian SSR formed the Popular Front as a means of more clearly expressing Moscow's policies. However, the Popular Front of Estonia reversed course and began to distance themselves from the communist party which gave it more legitimacy, popularity, and members (Laar 2004, 231). Moves for greater Estonian independence in 1989 drew condemnation from the Central Soviet Committee in Moscow which was still committed to the hardline position of the Baltics, and all Soviet Republics for that matter, were to remain within the USSR. However, the situation by then was outside of Moscow's control. Changes in the Estonian nomenklatura and lack of pressure from Moscow allowed the Estonia to gain more independence leading up to 1991.

Elections in 1990 to the Supreme Soviet of Estonia and its Estonian congress swept the Popular Front into power. With many former leaders choosing not to run, the Popular Front's victory moved authority away from the Supreme Soviet directly into Estonia's parliament, the Riigikogu. The new Prime Minister Edgar Savisaar quickly acted and pushed for independence. Meanwhile, the dissolution of the Soviet Union was fully underway. Russia and the remnants of the Soviet Union attempted to federalize the Baltic states, but this offer was deftly refused. By 1991, the Moscow coup had occurred which allowed Estonia to declare its full independence. The communist party was completely abolished and banned in Estonia and its independence was fully secured that year (Park 1994).

6.2. Commitment to Liberal Markets

As with most of the post-communist countries, Estonia enjoyed the full weight and commitment of international economic institutions like the IMF, World Bank, and G7 (Åslund 2018). Unlike Russia and Poland, Estonia's markets were quite small and required large amounts of investment to stabilize its economy as it transitioned from Russia's sphere of influence and committed itself to free markets. As will be discussed in this section, not only did early Estonian politicians commit wholeheartedly to the cause of liberalization and free markets, but they went even further. There was little counter mobilization and a coherent political consensus as to what Estonians were willing to endure on this economic path. These early politicians were driven by integration with the rest of Europe.

Estonia had a legitimate fear of re-annexation by Russia that could not have been said of Poland. Its demographics included a large Russian diaspora and historical insight pointed to a long road of Imperial Russian and Soviet occupation. Transformation and integration with western institutions would be Estonia's way to guarantee its future independence. The Estonian Constitution, which was ratified in 1992, drew heavily on its 1920 constitution implying a continuation with the pre-occupation government of the early 20th century. Key tenements of the constitution were directly aligned with liberalization and imposed on parliament to initiate liberal market reforms in earnest. Integral to this process was Estonia's second Prime Minister Mart Laar. Laar was heavily influenced by Milton Friedman and concepts of shock therapy that were popular prescriptions for countries introducing market reforms (Kasekamp 2010, 181).

The selection of Mart Laar and the success of liberal Estonian parties was reflective of the limitations placed on those who could vote at the time. Russian minorities would likely have resisted Estonian nationalist, western oriented reforms, and free market principles had they had

more access to sway the elections (Pettai and Hallik 2002). At the time, citizenship for Russian speakers was divided over including former Soviet migrants within the political system or to nudge them back to the former Soviet empire, turned independent countries.

Aside from its ethnic disputes that had to be managed, the radical reform process also meant that policies were inevitably controversial (Aslund 2018, 859). Liberal reforms created instability and pressure to slow the process down from below. Estonian elites pressed on despite moderate levels of popular opposition. This transformation included price liberalization, monetary and budget policies, foreign trade, and privatization the likes of which were foreign to citizens of a planned economy (Mikloš 2021). Wages liberalized along with commodities and the former sunk rapidly as demand for labor declined while the economy contracted. The devaluation of its new currency, the kroon, was implemented to adjust against rampant inflation that had reached 90 percent by 1993 (Kasekamp 2010). The economy continued to shrink, and wages fell to 45 percent along with a 30 percent loss to production (Mart Laar and Kelam 2017, 50). However, Estonian politicians were dedicated to maintaining the course. Mart Laar was adamant for rapid reform and transition away from its planned economy. “To wait is to fail” Laar famously said in regard to the necessary reforms (Aslund 2018, 857).

The political parties of pre-independence Estonia, especially the Popular Front party, played a vital role in stabilizing its nascent party system by providing a high degree of reform consistency. Kreuzer and Pettai (2003, 86) noted that Estonia’s early politics were extremely volatile with many politicians jumping to other parties during each election period. However, many of these parties had already been quite established by 1990 which kept a consistent network of developing parties rather than electoral collapse or deadlock. The lack of an old communist guard meant there was very little opposition to Estonian policy despite the high rates

of political turnover. Unlike Poland, Estonian politics converged around the liberal and nationalist parties rather than a rebrand of the old communist party.

It did not take long for those reforms to begin to payoff (Kasekamp 2010). By 1996 the economy had grown by 4.9 percent. Estonia's ultra-liberal, free market thinking allowed it to test more experimental reforms, such as a flat tax revenue system. A system that was successful to the point of emulation across many other Central and Eastern European countries. Wages were beginning to recover, and inflation was on a downward trend. I demonstrate the improvement of Estonia's economic situation in Figure 6-1. The graph tracks the GDP growth and inflation rates since they were first measured by the World Bank across the 1990s (World Bank 2022). Inflation fell drastically since its 1993 high following the reform process. In response, Estonian GDP has grown at a considerable rate since 1994. A reference line for 1997 was included to better estimate the height of GDP growth for that year.

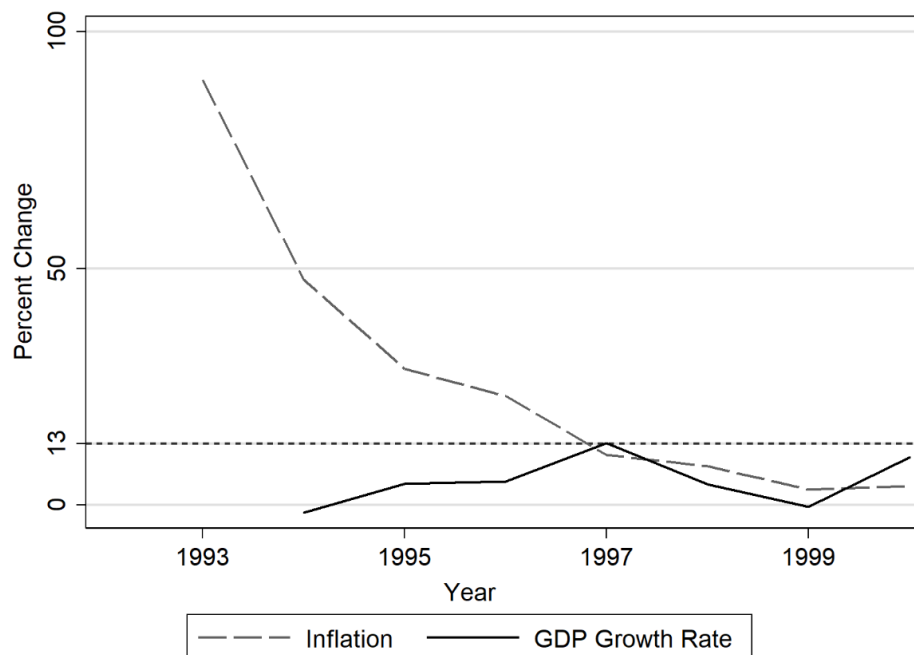


Figure 6-1 Percent Change of Inflation and GDP in Estonia

In conjunction with the return of positive growth rates, the private sector exploded. Approximately 10,000 new companies had been established in 1995 which were mostly small and medium enterprises (SMEs) and digital startups (Agenda 2000 2012). Estonia had determinedly privatized much of its SOEs which greatly increased the share of the private economy to 70 percent. The size of Estonia's market was likely a factor here as its smaller size meant that medium and small enterprises proliferated and allowed for Estonian assets to be more readily privatized during the liberalization process (Gerndorf, Elenurm, and Terk 1999). Privatization of most state-owned assets was completed by 1997. Estonia only retained some key assets in energy production, ports, other infrastructure companies (Gerndorf, Elenurm, and Terk 1999). This process should be regarded as much smoother when compared to Poland and much more complete. Estonia's rapacious effort in liberalization and privatization of the economy served to make it more attractive to foreign investments.

“Free enterprises within a non-intervention state economic model became (almost) universally accepted within the country. To the liberalization of different industries (which in Estonia rapidly occurred after 1991), privatization advanced fast, and by the end of 1996, practically all of the large enterprises had been sold, except for transport, telecommunication, and energy sectors.” (Gasparaini 2021)

6.3. Organized Labor Retreats

Like much of post-communist Europe, Estonia experienced an abrupt retreat of organized labor following their independence and liberal transformation. Before 1990, Estonian labor organization represented nearly all Estonian workers. This rate fell abruptly to one of the lowest rates of union participation in Europe. As with neighboring, post-communist countries, Estonian workers associated unions with their communist lineages and disassociated from organized representation and bargaining in the workforce (Feldmann 2017). On top of that, Estonia's policies towards liberalism and free markets eroded much of the bargaining power unions had after the independence movement.

There are two trade confederations that principally represent labor in Estonia: the EAKL and TALO. The localization of unions outside of the communist party did little to shore up membership, however. Estonia's economy had shifted from industry and agriculture to the service industry and so too did the labor market (Gerndorf et al. 1999, 4-5). Kerem and Randveer (Kerem and Randveer 2008, 87) noted that Estonian workers had to update their qualifications at 2 to 3 times of a typical development pace (15-20 years) as "technological changes, accompanied by the decline in labor intensity, have exerted influence on employment in transport and communications, etc." Per modification of market demand, labor had to become more flexible as wages ebbed and flowed with the market. Large scale bargaining organizations or confederated trades unions lost much of their utility and appeal as a result. Additionally, government policies and laws began to regulate less aspects of the economy which left companies and firms more room to bargain with their own employees.

Organized labor also faced losses in terms of how Estonia privatized its many coops and state-owned firms in the early 1990s. By 1989, Estonia had begun experimenting with worker coops and leasing state-owned assets and companies to their respective workers. This act gave workers large amounts of control over their own companies who were only limited in their ability to transfer their companies to a third party (Kalmi 2003). This would not be a major factor during the privatization process although many employees were offered opportunities to purchase their leased companies. It is estimated that only 300 companies were privatized and purchased by their employees in this way (Kalmi 2003). Instead, the Estonian Privatization Agency's (EPA) was established to market assets to strategic investors rather than workers. Farms, however, enjoyed higher rates of labor ownership. As they were decollectivized, farms

were replaced by private coops owned by former collective farmers who bought up the assets with ‘labor shares’ based on their length of service (Kalmi 2003).

There was no less demand for worker representation or the need for collective action despite the rapid decline of organized labor. The flexibility of labor had also produced higher demands on employees. For instance, 54 percent of respondents to a Baltic Working Environment and Labor (BWEL) survey in 2007 reported that work pace intensity had increased since the previous year (Woolfson, Calite, and Kallaste 2008, 318). Whatever the perceived negative health impacts from high intensity work environments, it has had little effect on unionization rates. Instead, worker’s voices have been radically individualized. Employee and employer relationships are typically managed at the local, and individual level between supervisors and workers (Woolfson, Calite, and Kallaste 2008). Wage bargaining occurs in similar fashion at the firm level and on an individual basis (Feldmann 2017).

Labor representation has been decollectivized as well with representatives often being elected from outside of unions. In 2007, the Employees Trustees Act broadened the scope of worker representation to employee representatives elected within the company which subsequently increased the number of rights and obligations conferred to them. Non-union, employee representation is the norm in the Estonian workplace (Kalmi 2003). This outcome is supported by workers. According to a Working Life Barometer survey in 2007, only 2.4 percent of respondents preferred salary issues to be handled collectively (Woolfson et al. 2008, 328).

Limited organizational capacity and individualized representation is shared with limited labor benefits and social support offered by the government. Estonia’s government has spent anywhere from 0.15 to 0.93 percent of its GDP on its labor market policies in the last two decades (Eamets 2013, 7). Minimum wage and unemployment insurance are some examples of

these policies, but limited offerings lead to fewer unemployed workers registering to receive benefits (Kerem and Randveer 2008, 86). In 2006, monthly unemployment insurance was approximately 13 percent of the minimum wage in Estonia (Eamets 2013, 6). Instead, labor policy has been focused more on vocational training for under skilled workers and enterprise start-up allowances to support entrepreneurs and ensure Estonians stay at work (Kerem and Randveer 2008, 92).

Estonia is not unique in its experience with organized labor. Across CEE countries, organized labor collapsed to levels comparable to those in liberal market economies. Estonia is unique in its approach to liberal free markets that forced labor to become highly flexible and atomized around the individual worker. Paltry government protections against labor market externalities and a low demand for unionization and collective bargaining amongst employees have placed more power with the firm to distribute benefits and labor protection. This policy has paid off for Estonia's limited population of skilled workers who are in high demand for their labor. This particular confluence has led to an increase in the quality of employment benefits and salaries despite organized labor's exit from Estonia during the past three decades (Meardi 2007).

6.4. Estonian Democracy

Estonia engaged with democracy building from the onset of its independence movement. There was wide public support on the referendum of the Estonian Constitution in 1992 which carried over much of the original wording of the 1938 constitution but with a unicameral parliament. Estonia's democratic transition was not without its hiccups or qualms. Its party system was highly fractious but simultaneously retained high levels of cohesion when compared to the other Baltic countries of Lithuania and Latvia. Additionally, interests along class lines were less salient as compared to ethnic cleavages between Estonian and Russian speakers. Certainly, it could be

evidenced that class politics were less impactful in a country which initially had to deal with an immigrant population that accounted for nearly 40 percent of its total population. However, as will be seen below, Estonian democracy has been impacted by class politics under the weight of wealth redistribution in the wake of hardline liberal economic policies.

Rein Taagepera (1991) was revisiting Estonia for the first time in 1990 after leaving the country in 1944 when he noted that his experiences with the early Estonian parliamentary processes were astute in their appreciation for democratic transition. However, he critiqued the immigration status that left many Estonian residents out of the electoral process. The Citizenship Act of 1992 disenfranchised most Russian speakers by de facto and prevented them from participating in the initial stages of Estonia's democratization process (Cianetti 2014, 91). Despite the initial disenfranchisement of non-ethnic Estonians, Estonia would eventually begin the process of providing electoral opportunities to its Russian speaking residents. The initial move to restrict Russian speakers from office, according to Cianetti (2014, 93), "deactivated the radical section of the Russian-speaking political elite" who were unlikely to apply for Estonian citizenship in the first place.

This changed with the Law on Local Elections which was passed in 1993 and gave political power to the Russian minority population and permanent residents who could apply for citizenship or resident status. This was done in an effort meant to defuse tensions where Russian speakers were in the majority. Mostly along the Russian border region and the town of Narva (Cianetti 2014, 93). This change produced some political changes and Russian speaking parties gaining seats in local elections and eventually the Riigikogu. Political parties, such as the Centre Party, would eventually coopt ethnic Russian voters over time which allowed Estonia to realign its party politics along class lines (Toots 2003).

The absence of Russian voters in Estonia's formative years may have been core to its own success. Cianetti (2014, 95) argues that ethnic tensions were mollified in Estonia because of limited polarization over non-citizen participation. The initial exclusion of Russophonic voters from Estonian politics allowed for coherent reform along liberal and free market principles to process unabated. As such, there was little counter mobilization to extending enfranchisement towards non-citizens.

Aside from ethnic political mobilization, Estonian party development also followed a path that excised much of the old guard and communist nomenklatura from participating in its post transformation democracy. Lack of specifically tailored lustration laws made it more difficult for former communist leadership to run for office after 1991 for instance (Saarts 2016, 119).⁸⁵ There were high levels of party fragmentation in early Estonian politics as a result of the novel politics and interests being propagated in its initial years. Therefore, Estonian party politics leaned heavily on its stable founding parties. Throughout the 1990s there was a series of party mergers which compressed Estonian parties into more cohesive, and well-rounded organizations that made them less volatile or prone to radical swings in the future (Kreuzer and Pettai 2003, 94).

Estonian governance remained dedicated to its liberal transformation even with a fractious political environment. Policies and reforms were aimed at aligning Estonia with Western Europe and eventual accession to the European Union. This meant there was a strong motivation to organize, reform, and reorient Estonian institutions in both liberal and democratic fashion (Aslund 2018, 857). This also allowed good administrative governance to flourish in

⁸⁵ According to Roman David (David 2003, 288) a lustration “law is a special public employment law that regulates the process of examining whether a person holding certain higher public positions worked or collaborated with the repressive apparatus of the communist regime”. These laws were unique to post-soviet transformations in CEE countries in the 1990s.

Estonia. The Supreme Court of Estonia has previously ruled that competent governance is a fundamental right that is enumerated in the Estonian Constitution of 1992 and the Administrative Procedure Act (Laffranque 2005, 114). Representation and governance are therefore frequently harder to corrupt and clientelize to the same degree as their neighbors.

6.4.1. Class Politics in Modern Estonia

As will be shown in the next two sections, experts have not come to a consensus on Estonian politics and whether it could be best articulated by class or ethnic conflict. David Ost's influence over the topic has guided many scholars to assume class politics have very little status in post-communist states due to lingering societal notions about class that make it incompatible. In Poland, argues Ost (2009), class was displaced in favor of identity and culture. However, this dissertation has gone to great lengths to demonstrate class identity in the politics of post-communist states were an issue. They emerged in the 1990s as the capitalist economy sorted incomes and were greatly disrupted by the financial crisis of 2008. Societal dedication to class equality could also promote stronger, more deleterious effects on the conscious of those who feel themselves vulnerable to falling out of the middle class. For Estonia, aggressive liberalization was no different in creating a highly structured society and one that possessed similar levels of inequality amongst its population.

There is a debate between scholars how much class cleavages play a role in Estonian party politics and amongst the voting public. The classic cleavages theorized by Lipset and Rokkan (1967) may be less salient in Estonia's formerly flat society with very little mobility in either direction (Saarts 2016). Instead, emphasis has been placed on identity (Lupu 2015) and culture (Ost 2015) for CEE political parties. In Estonia, the ethnic struggles within the USSR for decades implicate identity as the eminent category on which political parties will form and

compete. As radical egalitarianism was often forefront in the socialist society, it is difficult to quickly embed class structure and identity in the post-communist psyche (Helemae and Saar 2012, 50). Class discourse and political representation have been slow to respond in the Estonia case if one applies this logic.

As for parties, ethnicity is said to have been substituted for classist interests. Yet, some holes remain this logic and Kitschelt's (1999) articulation of post-communist party formation provides some evidence. Kitschelt (1999) emphasized the communist party's standing within society as either being patrimonial or accommodating based on the historical level of urban and industrial development already present. More specifically, percent of employment in agriculture in pre-communist societies was the decisive factor. As far as Estonia is concerned, it should be evaluated as both. The communist faction was able to gain legitimacy by industrializing the economy but had to maintain clientelist linkages for expediency given its level of nationalism. If this were the case, then Estonian politics should be more clientelistic rather than programmatic. However, clientelistic and patrimonialism was more likely to be resisted in Estonia due to its highly professional bureaucracy (Saarts 2016, 128). The constitutionality and dedication of good administrative governance supports this supposition (Laffranque 2006).

I contend, as with other scholars, that Estonia's transition to a liberal market economy generated class groupings and were especially potent in the wake of wage and material sorting based on a rejection of its communist legacy. Classless societies had become illegitimate in Estonia. Kennedy (2002) referred to this phenomenon as 'transition culture' wherein the discourse about socialism has been exhausted and market capitalism was seen as both optimum and a normative good.

Estonia's ethnic cleavages grew less potent in time as the government extended electoral privileges to its Russian minorities. This is evident in the cooptation of ethnic Russians into more heterogeneous parties, such as the Centre Party. These shifts were emblematic of partisan exchanges for welfare and social policy for votes (Toots 2003). Consequently, Estonian parties were mainly programmatic rather than clientelistic in their offerings. Those few clientelistic practices that could be observed were attributable to the old cadre of communist elites who sought to gain legitimacy in the new democratic system by "deliberately" shifting their message and brand along ethnic lines (Saarts 2016, 128). This effort would remain incoherent in the wake of Estonia's shift towards a liberal-right nationalist cleavage.

Additional studies show that class identity has emerged and become quite stable in Estonian politics and society as the result of increased wage inequality and the flexibility of labor and work opportunities (Eamets 2013). Those groups that have been more successful post-transition are noted within Estonia's middle class emergence as being materially advantaged and politically more potent (Helemae and Saar 2012, 51). Still other scholars point out the symbolic unification of middle class lifestyles and individual success by noting that "notions of 'middle class' and 'good life'... have become nearly synonymous" (Gross 2020, 442). Educational advantages have especially benefited middle income Estonians over lower income groups.

Estimations of the middle class's size tend to vary. Using a data from Eurostat, Zickute (2013, 185) found that Estonia's social stratification presented a diamond pattern in the 2000s. She estimated that the middle income cohort made up at least 50 percent of Estonia's population whereas the lower income group lagged behind at 40 percent. Other estimations tend to place middle class figures at one-third of Estonia's population (Derndorfer and Kranzinger 2021, 919). However, this figure uses data after 2008's financial crisis which decreased the percentages of

those estimated to be in the middle class by several percentage points. Swedbank found a similar datapoint with 1 out of three Estonians reporting themselves to be middle class (Swedbank 2018). I followed my previous analysis of Russian and Polish social class estimations presented in Chapters 4 and 5 by using Euro Value Survey data and household income deciles to estimate class proportions for the past 30 years. The data, presented in Figure 6-2, finds evidence similar to Zickute's results.⁸⁶ The middle class is on the rise along with the proportion of higher income individuals but is still lower than 50 percent.

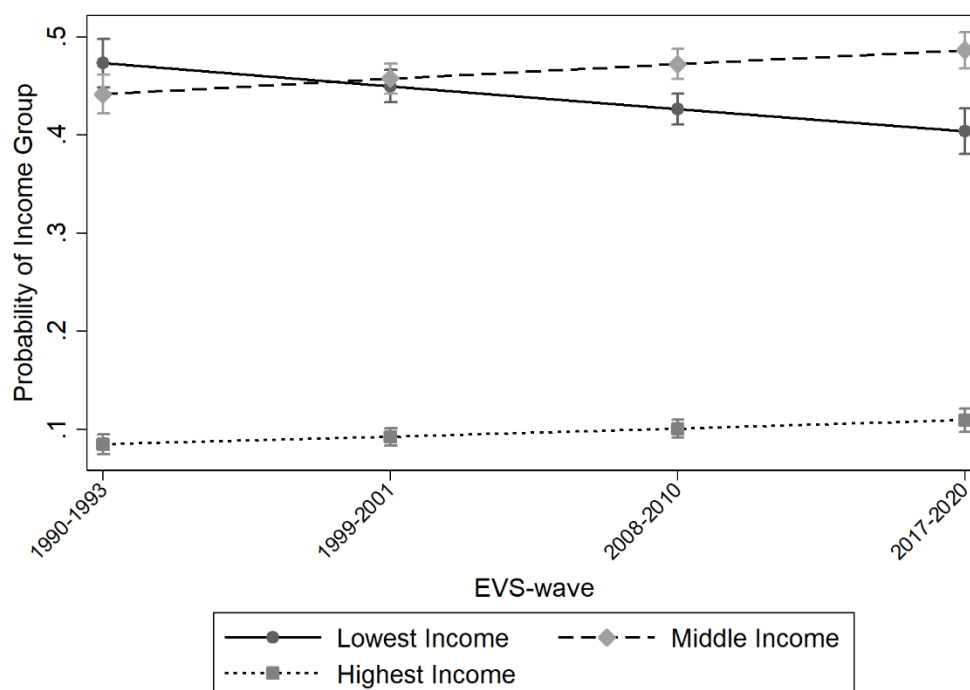


Figure 6-2 Proportion of Class by Income from 1990 to 2020

Previous scholarship has emphasized the lack of class consciousness in Estonia, but I have indicated differently. Class structuration emerged in Estonia as the natural outgrowth of the free market economic policies. Competition in the labor market, the internationalization and

⁸⁶ See Appendix A1 decile coding.

marketability of skills, and the commodification of private property all served to shuffle Estonians into respective socioeconomic categories. It is highly likely that class cleavages are not as salient due to the limited political regard for disparate wealth between high- and middle income earners (Helemae and Saar 2012). Instead, lower social status individuals may be the main source of class identity and demand for class specific welfare and social policy. This was promoted by its liberal transformation which displaced Estonian society into pools of winners and losers. Harsh losses were faced by those with fewer resources or access to them while higher rewards were doled out to those in society that were already better off (Helemae and Saar 2012, 52). Some of the major losers of this reshuffling were the Russophonic Estonians that found themselves in a no man's land of political and social status.

6.4.2. Ethnic Politics in Modern Estonia

Class should be seen as a cogent issue in Estonian society. Helemae and Saar (2012, 54) state that middle- and upper class Estonians have achieved a “strong enough class-consciousness” as a result of their material wealth and sophisticated advantages in society. So too are ethnic and cultural divisions at play. The question becomes as to what degree and if one overrides the other. Ethnic cleavages in Estonia could be summarized as one of ethno-linguistic competition. I continue my examination by exploring this tension in the context of modern Estonia in order to analyze this potential counterweight to my overall theory. The evidence demonstrates that while ethnic tensions are apparent within Estonia, the degree they impacted clientelism is not as clear. Russian speakers are more likely to make up the lower rungs of Estonia's socioeconomic sphere and be more dependent on social spending such as welfare and unemployment insurance while suffering from less representation in Estonian parties.

To reiterate from the previous section, previous scholarship on the topic has posited that class identity coalesced in Estonian society to some degree (Helemae and Saar 2012). However, ethnic problems are also quite visible. Estonia's politics represented a shift where "the communist-anti-communist cleavage is effectively merged with the ethnic cleavage" (Saarts 2016, 119). These scholars argue that the use of discursive language of soviet occupation and tracing back Estonia's government to before WWII are necessary tools to bind the polity on ethnic terms. Several prominent Russian scholars argue that occupation discourse is merely a pretense to justify "discrimination of Russian speaking inhabitants" (Chernichenko 2004). Such discrimination, it is argued, was critical during Estonia's insecure years of liberal transformation towards western alignment. Had, ethnic Russians been allowed to participate, it may have been less likely that pro-market outcomes would have been so crystalline (Pettai and Hallik 1999, 524).

The clarity of post-communist Estonian party formation also served to align Estonian parliament in nationalistic fashion. Unlike other countries in the region, Estonia had very little in the way of lingering communist legacy or a transitory party. According to Kitschelt's (1999) theory of post-communist typologies, new political cleavages would have to emerge in the vacuum of elite and nationalistic interests. Yet, Saarts (2016, 117) notes that Kitschelt's nomenclature of communist typologies should be reevaluated regarding Estonia. In this case, Saarts argues that a novel typology of 'communist-colonial legacy' better explains Estonia. The failure of post-communist leftist parties is a result of the ease of associating them with Estonia's soviet legacies. It was a legacy that was both foreign and illegitimate accordingly.

It is also important to note that there were no ethnic clashes after independence despite the sizeable Russian minority and the country's discriminatory practices. These methods served

to keep Russophones from competing in many aspects of Estonian life. For instance, educational exclusion has kept many ethnic Russians from advancing within Estonian society or attaining higher levels of employment (Lindemann 2013). Separation in education was a continuation of the old Soviet school system that was linguistically bifurcated. Estonian language requirements in higher education are now a stumbling block for Russian speakers who went to schools that did not teach in Estonian (D. Greene 2010). Ethnic Russians are often linguistically disenfranchised to fully take advantage of Estonia’s opportunities as they “often lack the native language proficiency, educational credentials, and even formal citizenship status needed to match the prosperity of the majority ethnic groups” (Petrova and Inglot 2020, 880).

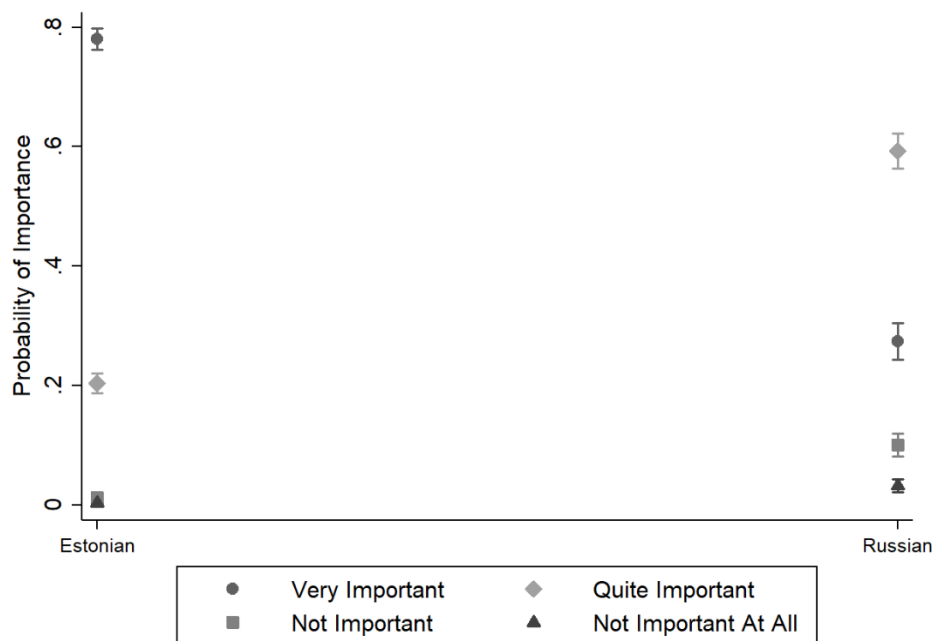


Figure 6-3 Probability of Importance to Speak Estonian by Ethnicity

Nor is there much incentive or drive for Russian speakers to learn Estonian. Data from the 2008 to 2018 EVS, presented in Figure 6-3, shows that there is a much higher probability that Russian speakers only view Estonian language as “quite important” and are more likely to report

that it is “not important” to some degree.⁸⁷ I was able to assess ethnic Russians by using the coding for the language that the interview was conducted in. This assumes that the language used was the language the respondent was most comfortable with rather than some other selection mechanism. The high likelihood that Russophonic Estonians do not view the Estonian language as necessary may be due to the geographic concentration of the Russian minority population. Russian speakers tend to be isolated in specific areas of the country which allows these communities to remain linguistically homogenous.

Politically, Estonia’s Russian minority population has been able to integrate into the electoral landscape with disparate outcomes. After the citizenship laws of the early 1990s, ethnic Russians have established political parties that were able to gain seats in the Riigikogu. However, these parties were noted as having an unpredictably negative effect on Russophonic integration (Pettai and Hallik 1999). Their ethno-partisan position in Estonian politics has allowed Estonian parties to coopt ethnic Russian voters more effectively while keeping linguistically representative parties marginalized in a kind of “permenant opposition” to the majority (Pettai and Hallik 1999, 514). This would eventually bleed over to the Riigikogu as Russian speakers began to switch their votes to more established and mainstream Estonian parties (Cianetti 2014, 95). Russian parties have not gained any seats in the Riigikogu since 2003 and most have since merged with the larger, social welfare parties. As a result, ethnic Russians are often in a politically and economically weak position in Estonian society when compared to ethnic Estonian citizens.

There has been little demand for counter mobilization by ethnic Russians despite their materially and politically weaker positions in Estonian society. The electoral reforms that

⁸⁷ See Appendix E.1 for questions and coding.

extended voting rights to Russian speakers was important to coopt and neutralize Russophonic mobilization before it could ever materialize. There are also the psychic implications of Estonian discourse which has emphasized the historical consequences of Soviet ‘genocidal’ behaviors which makes Estonian policy seem ‘reasonable’ and ‘liberal’, even, by comparison (Pettai and Hallik 2002). The collective guilt associated with the Soviet conquest in the Estonian consciousness leaves many citizens with a feeling of indifference or lack of concern for the limitations placed on ethnic Russians in Estonia. Or, to put it in the words of former Estonian President, Toomas Hendrik Ilves, “I don’t see what people are complaining about” (D. Greene 2010).

Estonian politics could be referred to as a tale of two polities. On the one hand, ethnic competition in the immediate aftermath of Estonian independence has led many scholars to conclude that ethnic cleavages are the defining characteristic of Estonian society. A feature shared by fellow Baltic state Latvia. Unlike Latvia, Estonia has extended political rights to its Russian populations despite their non-citizenship status. This has allowed other identities, especially class, to become more relevant in Estonian society which does not translate to increased ethnic friction. Instead, it endears itself to socio-economic tension as lower income individuals are more likely to be strained in the competition for jobs with ethnic Russians who make up the lower economic rungs of Estonian society.

6.5. Baltic Dependent or Liberal Market Economy

Throughout this paper I’ve argued that the contestation of democracy and democratization processes are closely tied to levels of SMotE in the aftermath of post-communist reforms. The presence of specific economic typologies, akin to Hall and Soskice’s VoC, are not necessary but they help paint a picture as to the legitimacy and direction of state economic policy that would

inhibit or allow for such state level management to occur. Per this logic, it is important to identify Estonia as a country that has embraced liberal market credentials in a way that has made state economic interventions somewhat illegitimate amongst the population. The historical precedent of Estonian policy choices since its independence provides highly suggestive evidence that its markets comply with voter preferences. It is the contention by some authors that Estonia reflects a dependent market economy traits similar to Poland, however (Fainshmidt et al. 2018). I posit that Estonia reflects an emerging liberal market economy that is dedicated towards free market principles and has done so even in the wake of economic crisis.

Nolke and Vlieghart's (2009) important work on dependent market economies was critical for understanding Poland's economic transition. The proliferation of semi-skilled and cheap labor across Central and Eastern Europe made it a prime target for investment dollars by transnational corporations. Estonia was a center of European and EU investment dollars throughout its early transition period as well. On average, Estonia received a larger percentage of FDI inflows as a percentage of its GDP than compared to Poland (World Bank 2022). DMEs tend to be target of cheap product line integration which is deemed essential given that those same products neither go through R&D or are locally sourced in the host countries. In other words, these countries act as an "assembly platform for semi-standardized goods" (Nolke and Vlieghart 2009, 679).

The dependence on foreign investment dollars for such an isolated section of the European continent would be hard to dismiss but this comparative economic typology does not seem to fit within Estonian context. For one, Estonia is comprised mainly of low to medium sized enterprises (SME) and investments are controlled chiefly by foreign owned banks. Focus is on primary good exports, technologically intensive products, and the service industry rather than

cheap manufacturing (Lane 2007). The earnings and wages in Estonia reflect this fact. A skilled-intensive tech market has given Estonians some of the highest earnings among CEE countries at approximately 800 euros a month in 2007 which had doubled in 2020. This places them just behind the Czech Republic and Slovenia.

In response to the limitations of applying the dependent market category to Estonia, Fainschmidt et al (2018) place Estonia in the novel category of “collaborative agglomerations.” This group is determined by a necessary coordination with labor, similar to coordinated markets, but decentralized banking and financing does the heavy lifting. The authors go through great methodological rigor to produce their clusters of economic typologies, yet their analysis appears incomplete. Collaborative agglomerations are made up of former communist, CEE countries whose primary focus is development rather than welfare (Fainschmidt et al. 2018, 10). In the attempt to unite most CEE economies under one umbrella, the authors leave out some of the more distinctive characteristics of these post-communist countries. The economies of CEE countries should be seen as more different, but this kind of analysis is missing from their work.

The description of Estonia as a liberal market economy seems to fit best given Estonia’s low union participation, unequal distribution of incomes, and low regulative environment (Feldmann 2006). By some metrics, such as social cohesion, Estonia may be more liberal than some more typical developed liberal economies like the United Kingdom (Fagerberg, Srholec, and Knell 2007). Certainly, in terms of labor protections this would be the case. Feldmann (2006) agrees with this assessment and argues that historical legacy and policy choices have reinforced a liberal market framework during Estonia’s transition. These choices were a limited welfare state due to constitutional limits on the government’s budget, weak interfirm

coordination, open labor pool who possessed generalized skills, and an early fiscal policy that was pegged towards European integration.

Estonia's liberal approach to free markets and deescalating the state's involvement in the economy after 1992 sets it apart from those countries that sought to inject the state more directly into the economy. As a result, Estonia's market freedom index score improved its position from 53 in the world to number 7 in the span of 20 years (The Heritage Foundation 2021). The Estonian state is dedicated to ensuring liberal market doctrine is upheld and has done so even in the wake of economic crisis. This is because, as Bohle and Greskovits' (2007) argue, Estonia's transformation was more focused on state building and the ideations behind that process rather having to balance social and political needs.

6.6. The Financial Crisis of 2008: Estonia

Estonia's approach to free market capitalism did not make it immune to the economic predations of market failures and externalities. Come 2008, Estonia became one of the worst hit of the European countries affected by the 2008 financial crisis. Its over dependence on foreign capital made it susceptible to a sudden economic reversal of global proportions. Yet it is this moment that sets Estonia apart from its Central and Eastern European counterparts. The Estonian government's response was crystal clear in embracing some of the most severe austerity measures in the European Union. Instead of embracing state intervention, the state shrunk its obligations to citizens. This process galvanized market primacy in Estonia and had the side effect of enabling stronger democratic conditions by suppressing clientelistic and patronage linkages to class and ethnic groups in the wake of economic recession.

In 2008, Estonia's GDP fell 3.7 percent followed by another 14.3 percent a year later (Feldmann 2017). Estonia's need for FDI to sustain its economy meant that as the economies in

the investor's countries begin to turn, so too did Estonia's prospects. Estonia's government responded with incentives for investors to keep any reinvested profits in Estonia tax free (Friedrich and Reiljan 2015). This pattern of dependence created cascading failures where financial markets failed, credit lending shrunk, and markets became volatile. Unemployment increased to 20 percent by 2010 (Friedrich and Reijlan 2015, 39). The recommended path forward was to promote budgetary and fiscal policies through quantitative easing to take on the shortfall losses as debt and increase government spending through borrowing (Feldmann 2017). Instead of increasing its spending, Estonia increased its value added tax (VAT) and began eliminating tax exemptions. The Estonian government increased social security contributions, sold off state assets, scaled down social programs, and decreased wages in the public sector. The zeitgeist of Estonian policy in regard to the 2008 financial crisis was to curb spending and increase revenue. This stood in total contravention to the counter cyclical model of the time.

Counter cyclical spending faced several obstacles in Estonia. First, monetary policies were outside much of the government's ability to influence. The Estonian Currency Board (ECB) controlled most of the policy levers and kept monetary policy out of reach of parliamentary action (Friedrich and Reijlan 2015, 39). Furthermore, the ECB was dedicated to meeting the requirement of the Maastricht Treaty and bring Estonia into the eurozone. This meant keeping deficits and inflation as low as possible. As the crisis began, Estonia opted to continue down this path and used the crisis as a tool to meet the Maastricht Treaty's strict demands.

The intensive dedication to retrenchment was likely the result of the confluence between the governing party's ideological position and their desire to integrate deeper into the EU (Raudla and Kattel 2011). Before the 2008 crisis, Estonia was noted in its desire for accession to the EU along with the extremely favorable business and regulatory climate the government tried

to foster (Woolfson, Calite, and Kallaste 2008, 317). By 2005, EU accession was complete, but it had yet to move into the eurozone. The ruling coalition at the time was the right leaning Reform Party and Pro Patria parties which favored austerity as a tool for adopting the euro as Estonia's currency. The discourse in the Riigikogu was heated to the point that the Social Democrat Party eventually left the governing coalition in the wake of more and more severe cuts to spending and social programs. Raudla and Kattel (2011, 176) described the tension at the time as follows:

“While in the public discourse, the right-leaning Reform Party and the Pro Patria and Res Publica Union persistently favoured fiscal austerity and complying with the Maastricht criteria in order to join the common currency, the other parties in the parliament were rather equivocal. The left-leaning Centre Party and the People's Union, for example, became more and more critical with each round of cuts and voiced concerns that the economic and social costs of the austerity packages may outweigh the benefits of joining the euro-zone.”

Estonia joined the eurozone in 2011.

6.7. The Galvanization and Primacy of Markets

Estonia broke the typical counter cyclical dogma implemented by neighboring states because of several important historical characteristics. Estonia's path to independence and reform was successful in cutting out illegitimate socialist elites and parties to a degree that Estonia's liberalization process went largely unimpeded. This would carry over into later years with high levels of cooperation and acceptance of liberal Estonian institutions, the constitutional provisions for a balanced budget, and its process of privatization that reached further than most CEE countries could achieve. Additionally, Estonia's desire to join with the rest of Europe and move as far from Russia's influence as they could manage meant accession to the EU and eurozone was of paramount concern and there was little political opposition to this pact. By 2009, Estonia was on calculated path of liberal market economics which meant that retrenchment was a natural, legitimate response to the economic instability at the end of that decade.

Estonia's reply to the crisis should not be viewed as a simple exercise of path dependence. Raudla and Kattel (2011, 177) concluded as much in their analysis of the events stating that Estonia was following a trajectory that had been laid down in the 1990s in regard to previous crises and reforms. However, such analysis may be short sighted. The government has been dedicated to its current policies, but it fails to grapple with the Reform Party's political successes after they were implemented. Instead of the more popular platform of spending more and taxing less to boost the economy, Estonia radically reigned in spending to the point of teetering on destroying the government's social welfare obligations. Reassessing the market and socially embedding it back into the government, a la Polanyi's double movement, was unlikely because there was little desire to do so. The few protests that emerged as a result of Estonia's three austerity packages in 2009 were quite impotent. Nor was the government receptive to such pressures. Low levels of SMotE and the primacy of its markets should be thought of in terms of positive feedback loops between voters and political decisions rather than as tracked in with very little room to maneuver.

From below, especially, there was little direct input on austerity. As Feldmann (2017) iterates, organized labor was not consulted nor negotiated with as measures passed through Estonia's parliament. In fact, "the government reneged on various commitments made in its national social pact prior to the crisis and included planned increases in unemployment benefits and changes to the eligibility criteria for unemployment insurance" (Feldmann 2017, 15). These measures were very impactful on voters as they raised the VAT tax and gutted social spending by placing the costs on employers through higher unemployment taxes (Raudla and Kattel 2011).

Estonian parties did not resort to populist rhetoric or state capture either (Friedrich and Reiljan 2015; Feldmann 2017). A benefit of its status as a small and externally dependent

economy with strong liberal economic policies and institutions. Unlike Poland, which possessed large swaths of ownership over the financial sector as a means of stabilizing growth and production, the Estonian government had very little access to manipulate the economy. Its currency was pegged by independent control boards and its financial sector was near completely dominated by foreign owners. Estimates suggest that foreign owned banks make up approximately 75 percent of Estonia's banking sector and comprise almost 98 percent of all transactions (Friedrich and Reiljan 2015; World Bank 2022). Dependence on foreign owned banks meant that domestic lending and credit was higher in Estonia compared to all the former communist states of Europe (Drozdowicz-Biec 2011, 46).

Firm dependence on foreign capital was also a boon for Estonian spending. The global downturn led to fewer dollars coming in, but the Estonian government was insulated against having to issue bailouts for banks or other underwater companies as they were mostly foreign owned. As a result, no bailouts were issued or thought of as necessary since the mainly Scandinavian owned banks were likely to receive government restitution domestically. The Estonian government's strict constitutional limits due to budgetary obligations and the kroon's fiscal levers being outside of the government's direct control impeded political party's from engaging in interventionist policies in the first place (Feldmann 2006, 846).

By 2010, the crisis had been overcome and Estonia had caught back up to its precrisis GDP by 2014 (Friedrich and Reiljan 2015, 38). Many Estonians felt that the high growth rates and accession to the eurozone validated their government's draconian approach to the crisis (Feldmann 2017, 16). Not everyone saw the path as an ultimate positive however and there would be lingering issues that would come to ahead in the following decade. Popular protests to austerity mobilized more frequently as the economy recovered and desire for more social

protections increased. However, the Reform Party's dedication to retrenchment in the wake of global financial crisis had lingering post hoc affects. Estonia was able to avoid some of the clientelistic, personalistic, and populist pitfalls that have now befallen its democratically declining neighbors. The government's hands off approach, intentional or not, has produced very few popular demands or parties who advocate for higher levels of SMotE or attempt direct vote buying with their platforms. Estonia has achieved a level of liberal market primacy that sees the state as an illegitimate actor in the realm of economic control.

6.7.1. Does Market Size Matter?

Estonia was resistant to bringing the state back into the economy. As the economy collapsed several percentage points, the government remained resolute in its dedication towards liberal market ideals. Unlike Poland in 2010 or Russia in the 2000s, the economic crisis was not enough to push the government towards state-capitalism as seen across Central and Eastern Europe. This was because of ideological commitments towards Western Europe, joining the eurozone, lower levels of SMotE, and little demand from below for parties to change course. Yet, these three cases vary in regard to population size and market share. Surely this could be a confounding factor as to why Estonia could maintain such retrenchment policies in the first place. I argue precisely the opposite. Population and market size does not intervene in this model because clientelistic parties are concerned only with the cost efficiency of buying off the middle class relative to the amount they can offer.

Firstly, I do not consider that the size of Estonia's population as relative to the demand for economic protection through clientelism in a country. In fact, it may make a parliament more susceptible to popular interference rather than less as smaller societies tend to be more consociational and tightknit (Lijphart 1980). As such, we should expect to find higher rates of

patrimonial and clientelistic practices shared informally between these smaller groups and more institutionalized power sharing in larger populations. Veenendaal and Demarest (2021) find this effect when looking at the countries of Nigeria and Suriname. However, Estonia presents the opposite case. Its small population has been resistant to corrupt practices while the much larger countries of Poland and Russia are especially vulnerable. Russia, with a population of 144 million is more indicative of informal power sharing among elites and materialist side transfers to the population writ large.

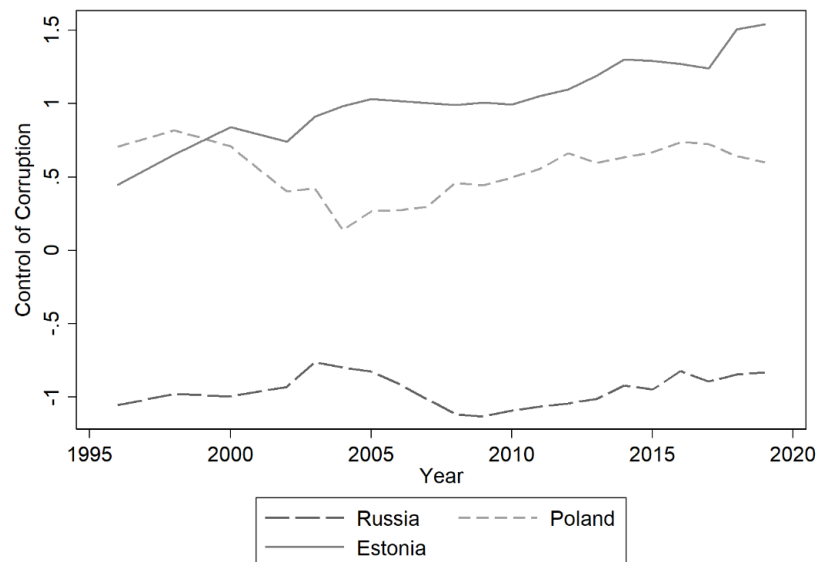


Figure 6-4 Control of Corruption Scale by Country and Year

We can measure Estonia's proclivity towards corruption and clientelism, or lack thereof, by using the World Bank's Governance Indicators (2022). The WBGI provide a factor scale of total corruption control by country on a yearly basis. Scholars have used this as a useful guide for assessing clientelism and corruption over time and between countries (Kraay, Kaufmann, and Mastruzzi 2010). The index is scored from -2.5 to 2.5, with the highest score representing the most control of corruption in a country and the lowest indicating elite state-capture. I present the three countries from this dissertation and their WBGI score over time in Figure 6-4. Estonia

overtook Poland's corruption control estimate in 2000 and has maintained a score positive of one since.

Estonia challenges expectations of population size beyond clientelistic terms. Its smaller market should make it more vulnerable to economic crises as it is highly dependent on outside investment dollars arriving at its shores. This fact is no different than the economic dependence on foreign investment in the case of Poland, but Estonia has less leeway in regulating the market and to still be targeted by investment dollars. However, here the investment dollars were already localized in Estonia. The country's approach to deregulated market capitalism made it a target destination for capital since the 1990s. Very few obstacles were available to foreign investors to act as owners and with profit repatriation of 100%, Estonia is an ideal setting.

Consequently, investments in Estonia are likely to be of a vertical nature with a focus on utilizing its skilled labor market advantages (Cieřlik and Gurshev 2021). This gives parent multinational enterprises (MNEs) more flexibility regarding their investments as less of their production chain is hosted within country. Compared to Poland, which has a much larger market size, vertical and horizontal investments are much more critical. This gives MNEs in Poland access to Polish production chains and resources with simultaneous access to its market (Cieslik 2019). This also places corporations more directly under Polish law and restricts the MNE's capacity to avoid or contest regulatory policies. This is not the case in Estonia.

Another aspect that size may impact Estonian policy is in relation to company size. Smaller to Medium sized corporations proliferate the Estonian market which has had several long-term benefits in relation to its low SMotE. For one, during independence and reform it made SOEs easier to sell off as the assets were more widely affordable and the profits of selling them were more favorable than if they were kept or too large to sell. This made Estonia's

privatization process more consistent, less contested in terms of openness to outsider investors (Feldmann 2006, 847). Foreign ownership expanded rapidly and now dominates nearly all sectors of the economy as a result.

Population can't alone predict such economic outcomes, however. In a recent comparative study, Feldmann (2017) compared Estonia and Slovenia. These are two countries that are similar in size but are split over economic policies with Slovenia possessing higher levels of market coordination, wage bargaining, and corporatist policies. This division in policy, despite comparable population sizes, highlights the fallibility of assuming liberal policy trends as a result of country size. Size should not be viewed as a path dependent recipe for liberal economic reforms.

While this variable cannot be fully disassociated from my argument, I have expounded on what the limits population size could yield on my theory. My expectation is that middle class voters can become a cost-efficient source of voter loyalty in exchange for patronage when they are vulnerable, and the party has access to state resources. The size of a country should not theoretically confound a party's ability to determine what a legitimate clientelistic response may be during a crises as opposed to the interacting variables I've described. It may be that the size of Estonia's guided its approach to liberal reform and market-based policies during the independence movement and economic transition of the 1990s, but these can hardly be seen as a full gone conclusion of size dictating outcomes.

6.8. Estonian Middle class Vulnerabilities

A clearer picture of Estonia after the 2008 financial crisis is beginning to emerge. Despite the economic downturn and losses suffered by Estonian workers, especially those in the middle class, there was little to no desire to socialize Estonia's market. Three waves of austerity

measures, the destruction of much of Estonia's welfare spending, and the raising of taxes surely would have been enough to compel a middle class crisis in response to government retrenchment. The lack of a counter-cyclical response was not because Estonians were any less damaged than Polish or Russian middle class voters. As will be shown below, they were just as likely to suffer from economic instability. More so in some cases. Instead, there was a lack of motivation to compel state intervention because the government and politicians were in no position to compromise the economy's independence or offer solutions to that effect. Unlike Poland, there was no back door to the economy for the government to begin redistributing rents. As such, there were very few parties even offering state intervention solutions to middle class voters.

The simple math that Estonia resisted brining the state back into economic affairs due to the disparate impact of the financial crisis is not complete. Estonia's embrace of its total conversion to free markets and liberal economic policies perhaps made Estonians, who depended on employment to maintain their livelihood, even more vulnerable. The middle class were much more susceptible to the slings and arrows of market degeneration and with very little parliamentary will power to interfere on their behalf. In the words of Helemae and Saar (2012, 53) "political decisions had radical economic consequences: the Estonian political elite delegated economic power to the 'invisible hand of the market', resulting in a very thin welfare state". The results were staggering for workers. Job tenure in Estonia is one of the lowest in Central and Eastern Europe (Feldmann 2006, 841). Emphasis on vocational training and general skills placed Estonians at a disadvantage in terms of marketing their skills for employment opportunities (Feldmann 2006, 842). In short, Estonian dependence on the market makes them more likely to absorb the full weight and impact when markets soured.

No more was this more apparent than the middle class. Household incomes have experienced the greatest losses in the middle in the aftershock of economic crisis (Ulbrich 2015). It is estimated that the Estonian middle class shrunk approximately 4 percent by 2014 and increased the likelihood of middle income workers to depend on welfare transfers to make up for those shortfalls (Derndorfer and Krazinger 2021, 920 & 931). The measurement of their decline is not consistent between scholars. For instance, Zickute (2013) found a different result with the middle class. She estimated they grew almost 10 percent during the crisis period. This may be due to her method of measurement which was based on consumption and living standards and doesn't account for government transfers. Zickute (2013, 186) follows up on this finding stating that, despite Estonia's 'fair' distribution of social classes, its GINI coefficient is quite high due to fact that "Estonia's minimum monthly wage is 1.5 times higher than the required amount of money to satisfy socially acceptable needs." Figure 6-5 reports on World Bank data of Estonia's GINI score from 2005 to 2018 (2020). The peak score of 35 was reached around the time of Zickute's publication. From 2013 onwards, Estonia's GINI score crashed back down towards pre-crisis levels but still remains relatively high by EU standards.

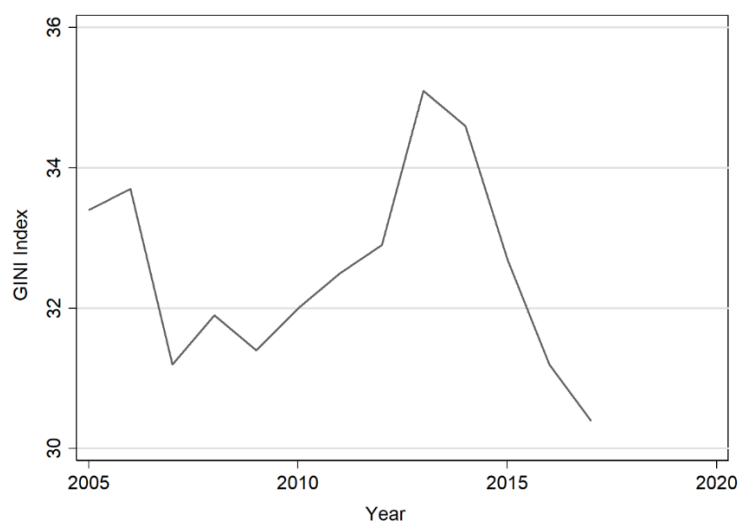


Figure 6-5 GINI Index from 2004 to 2018

The impact of the economic downturn was not just felt in Estonian's wallets. Consumer credit underwent some severe challenges as well. From 2000 to 2010, consumer credit exploded from approximately 500 million euros a year to nearly 8 billion euros. Credit and private loans were lent at a much higher rates in Estonia compared to its CEE neighbors (Kattel 2010, 44). The proliferation of international banks and their primary focus to loan to individuals and SMEs made debt easy to acquire. For middle income workers, much of this debt was acquired through home buying. The 2008 housing bubble in Estonia compromised many of these loans when the housing market corrected in 2007 (Raudla and Kattel 2013, 428).⁸⁸ As credit dried up in 2008, many Estonian homeowners found themselves with devalued asset compared to their incurred debt. The percent of debt-to-GDP among consumers declined 10 percentage points in two years (CEIC DATA 2020).

The financial crisis in Estonia produced a vulnerable middle class who experienced income and credit instability along with higher levels of market exposure in repercussion to the government's destruction of its social spending obligations. However, despite these changes there was very little reaction or protest (Kuokštis 2011). Instead, confidence in the government remained quite stable despite the "draconian" measures implemented (Feldmann 2017, 16). In fact, the austerity promoting parties like the Reform Party, Union of Fatherland, and Res Publica gained electoral seats in the subsequent elections of 2010 and 2011. Even among political parties that trended more towards the left and advocated for social spending there was little was little pushback except in the form of demands for more taxes to cover the shortfalls in the budget (Feldmann 2017).

⁸⁸ Like many other countries at the time, Estonia experienced a housing boom that accounted for doubling of real estate prices over the span of five years (Lamine 2009, 26).

Protests, when they did occur, were typically not aimed at market volatility or the crisis, *per se*. Instead, the biggest strike in Estonian history would occur in 2012 after austerity and the crisis had ended. The protest was comprised of 17,000 workers from the education sector who mobilized for better wages after their incomes had been slashed by budget cuts. This strike prompted several ‘sympathy strikes’ which forwarded the debate over the legality of such cross-sector bargaining and solidarity between industries and between the public and private sector (Feldmann 2017). In the end, the government made several concessions. The economy was already experiencing a full recovery and extensive popular sympathy for the educators simplified the calculus of the government. In fact, several labor market reforms took place during the early 2010s that gave more bargaining power towards labor (Eamets 2013, 8). During this period, a University of Tartu survey found that collective agreements rose substantially (Kuusk, Staehr, and Varblane 2017). However, this should not be regarded as a shift towards organized labor as a favored status. Participation remains quite low to this day (Eamets and Tiwari 2019).

Estonia presents a case where crisis occurred and spared very few in the population. What mobilization that did occur was only a protest by government workers for pay raises which the majority of the population was open to. This also implicated a shift in the party preferences with the electorate. The gains in popularity for the social democratic parties have pushed the ruling Reform Party to cooperate more directly with the more social welfare-oriented parties in Estonia’s parliament. Data from the Euro Value Survey validates this point as well. I compare across income groups in the 2017 to 2020 wave and find that middle income groups, in the last five years of reporting, are likely to depend on welfare subsidies but not as much as lower income or Russian families. The data is presented in Figure 6-6 and shows that lower income

respondents have a much higher welfare dependence probability.⁸⁹ Popular pressure may be shifting towards more social and economic intervention on behalf of middle class families, but it is not outpacing any other group's need except the highest earners.

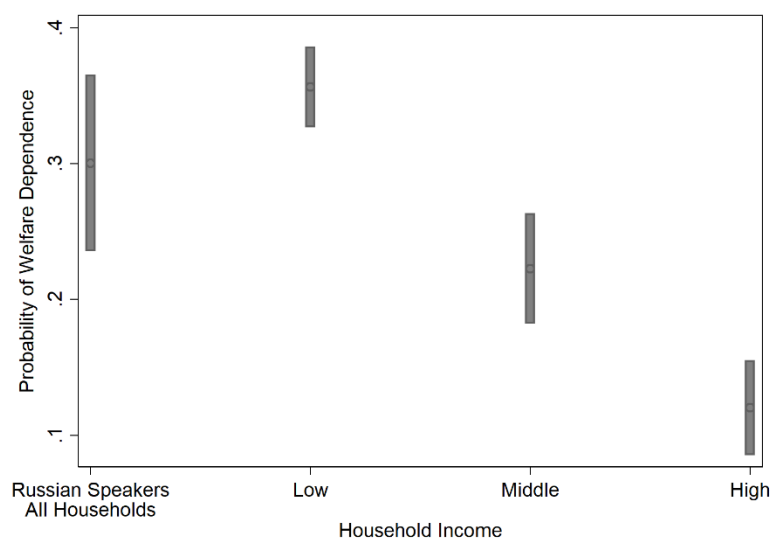


Figure 6-6 Probability of Income Group and Welfare Dependency in 2018

6.8.1. Ethnic Vulnerabilities

Market dislocation among the middle class did not compel Estonians to reimagine their capitalist system. There was very little desire amongst the polity or elected officials to push for radical economic change or to reembrace the state as an economic actor. This innervation from below allowed the Reform Party to continue its path of Estonia's laissez-faire economics while also coopting popular demands such as welfare, and issues of nationalistic concern when they saw fit. It is important to include some measure here of ethnic vulnerability as a substitute for class competition. While a subsequent lower, middle, and upper class developed during the transition into a liberal market economy, the discourse around socioeconomic status remains fixed on ethnic competition and conflict (Hellemae and Saar 2012, 53).

⁸⁹ See Appendix E.1 and E.2 for questions and coding.

The logic here would reduce Estonian tensions to one of an ethnic modality. Instead of the middle class pressing back against market volatility, it would be Russian speakers who have the least to gain from free market institutions. This is because Russian speakers lost out the most in Estonia's transition which favored ethnic Estonians with property redistribution and electoral access after 1990 (Andersen 1997). As a result, ethnic Russians and Russian speakers tend to proliferate more frequently in the bottom rungs of society. The changes to the labor market would also go on to hamper Russian speakers as well. During the Soviet era, non-Estonians were predominantly in the industrial while Estonians were the majority of agriculture and bureaucratic workers. By 1998, the trend had reversed. The non-Estonian share of the work force was concentrated in less skilled jobs while ethnic Estonians were entering professional, and white-collar careers at much higher rates (Pettai and Hallik 2002, 518). This can be connected to Russian speakers lack access to higher education opportunities which require proficiency in Estonian, and the geographical concentration of Estonian Russians that allows business capital to be strategically concentrated in ethnically Estonian locals, like Tallinn and Tartu.

The labor market is very much tied into these ethnic vulnerabilities as well and instabilities can be estimated as due to how jobs are unevenly distributed in Estonian society. Using data from 1993 to 2008, Hansson and Aavik (2012) released a study in 2012 which found that earnings and job security were correlated highest with Estonian men and lowest among Russian women. I explored this distinction myself using income data from the EVS from 1990 to 2017 waves with surveys taken in 9-year intervals. The results in Figure 5-7 determine how bounded, in terms of incomes, Russian speakers are compared to all Estonians.⁹⁰ After 2010, there was no difference in probability that a Russian speaker in Estonia would be in the middle

⁹⁰ Figure 5-7 was generated by interacting income groups with Russian speaker variable. See Appendix A.1 and E.1 for questions coding.

or lower income. The probability of a Russian speaker being in the highest income group has the lowest probability. Another interesting result of Figure 6-7 is the decline in proportion of Russian to Estonian speakers over time.

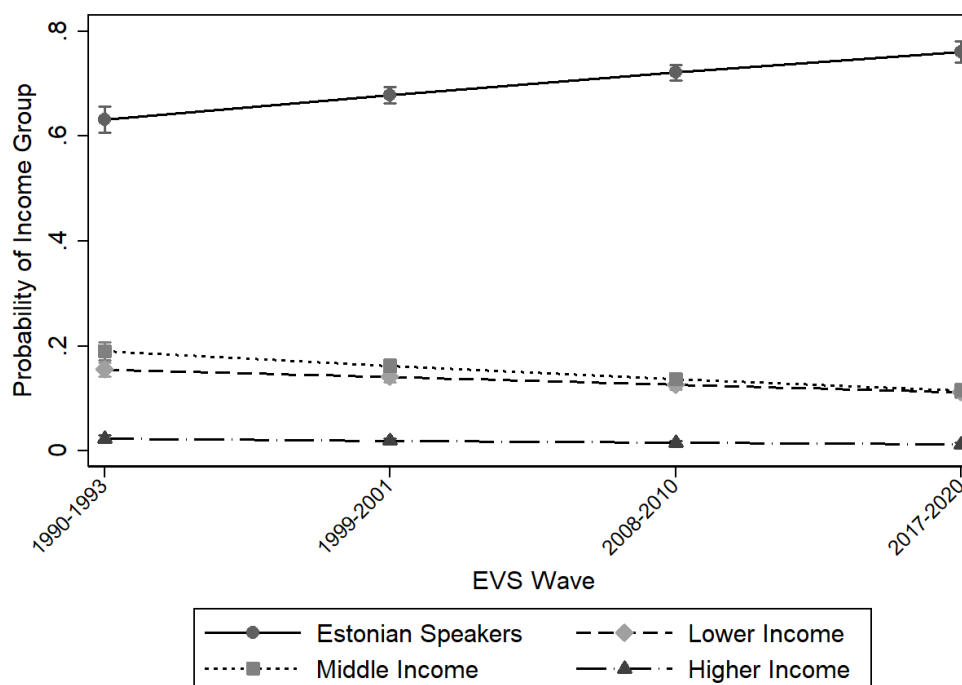


Figure 6-7 Probability of Income Group for Russian-Speaking Estonians

The post-independence shift towards ethnic Estonians in terms of material and political advantages has also created a higher level of dependency for nonethnic Estonians (Pettai and Hallik 2002). These individuals frequently assess their life prospects to be much lower and are often more likely to be dependent on the state for welfare benefits and support. However, Estonian policy has not been overly inviting to these fragile groups. The immediate limitation of political rights for nonethnic Estonians followed by a policy that nudged Russian speakers to “emigrate” back to their home country all served to create a less than welcoming environment for non-Estonians. Many of whom were born and have lived in Estonia their whole life making such returns less feasible as time goes on. Even today, many Russian minorities still exist in a

quasi, extra-legal citizenship status referred to as ‘undefined citizenship’.⁹¹ Individuals can become naturalized citizens in Estonia if they pass an Estonian language test that many have never studied. However, alienation and lack of interest means many of these individuals have little interest to do so or are motivated to emigrate to Russia (Greene 2010).

It is unclear whether Estonia should be interpreted as defined by ethnic or class cleavages. Many scholars have made the point that Estonia has a decisive cleavage along language lines, yet the saliency of political interests is not as clearly defined. For one, Estonia has been very open to providing non-citizen and residents the right to vote which has allowed Russian speakers to participate in the electoral process. In doing so, most Russophones vote for welfare parties, rather than Russian speaking ethno-parties. Their political interests are often identified along these welfare and economic issues and are shared with fellow Estonians.

For instance, on the issue of immigration, for instance, Russian speakers, regardless of class, are closely tied to the perspectives of lower income Estonian speakers. EVS data in Figure 6-8 presents respondents answers to immigration questions that were collected from 1999 to 2018.⁹² Lower income respondents and Russian respondents are closer together when asked about their concerns for immigration with the greatest difference at the “very much” level. However, even at this extreme level, Russian speakers are still closest to the lower income survey participants. This provides some indication that Russian speakers, like lower income households, feel more vulnerable to immigrant populations in Estonia and who they see as more likely to compete for lower income positions.

⁹¹ Undefined citizenship is a term for residents of Estonia who have failed to attain new citizenship in the wake of the USSR’s collapse.

⁹² See Appendix E.3 for questions and coding.

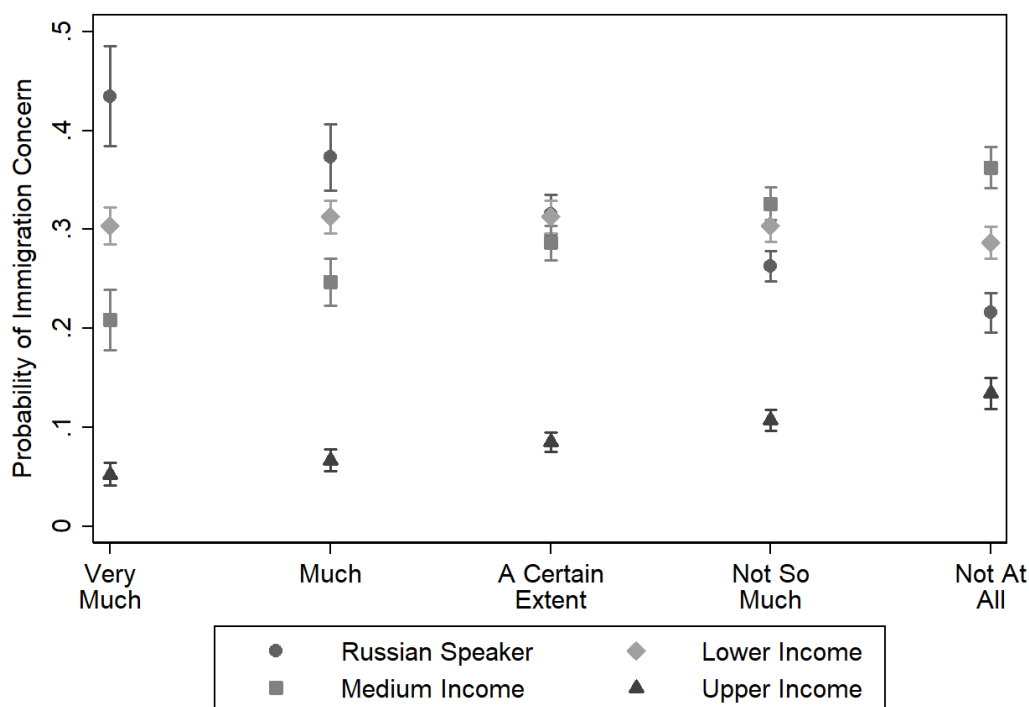


Figure 6-8 Probability of Response to Immigration Concerns by Income Group and Russian Speakers

6.9. Clientelism in Estonia

Estonia was able to resist state capture by elites and populist parties because there was very little of the state to capture for clientelistic purposes. The government's adherence to free market and liberal economic principles kept the state's access to the economy at minimal levels. Low amounts of SMotE was resistant to each crises, whether it was the transition in the 1990s or in 2008. As a result, there are few ways for elites to fuse their party with the state or dispense clientelistic rents to their constituents. What little of the state's economy that could be harnessed for this purpose. The state-owned sector is extremely small relative to Estonia's GDP, there are very few public jobs to exchange as patronage, and Estonia's governance quality for corruption monitoring makes clientelism cost inefficient and unpalatable to the general public. However,

some populist parties have gained in recent years. Their brand of social and nationalist offerings is unique compared to the welfare populists previously discussed in the paper.

The vulnerability of the middle class, while economically real, is not as visible. Nor is there a discursive motive in Estonian politics to express these problems in terms of clientelist solutions. Parties, instead, opt for programmatic offerings that distribute public goods as widely as possible. In response to the changes in political and economic climate of the 2010s, the Social Democrat Party gained more seats in the Riigikogu which prompted the formation of a new coalition with the Reform Party. While the coalition was short lived, it demonstrates that political competition is still a relevant factor after the financial crisis. It also highlights the Reform Party's ability to cooperate with other parties which ensures that broad swaths of the population are represented in parliament rather than only by a narrow constituency. This is a useful deterrent against the more radical and populist parties forming a stronger oppositional movements. However, the breakdown between the Social Democracy Party and Reform Party in the 2019 election has allowed populist parties, like the Conservative People's Party of Estonia (EKRE) to become more of a contender in electoral politics (Veebel 2019)).

The rapid rise of the EKRE has been a shock to Estonia's political system after the party gained 20 percentage points in popularity in the 2019 parliamentary elections. This put them at 19 members in the 101-member house and ahead of the more traditional parties like the Social Democrats, and Isamaa, or the Christian-democratic part. The populist party has its roots in ethnonationalism that had gained a lot of traction in Estonia at the end of the Soviet era. Unlike the Polish PiS Party, EKRE's political message is less geared towards culture, economic performance, and patronage. Instead, EKRE's message performs like a shotgun that is aimed at all Estonians on matters of national identity and maintenance of their sovereignty in the wake of

Russian aggression and perceived EU overreach. Although they include some social policies in their platform, their broad nationalistic aims mean the EKRE has very little appeal in urban centers and so the party focuses on rural, and poorer areas that desire more social spending and protection (Puddington 2019). Even with Estonian politics more fractured than they were ten years ago, the EKRE is not part of the current coalition government made up of the Reform and Centre Party (Veebel 2019). Nor would it be likely that a populist party could shift Estonian politics towards clientelism given the limited offerings available for patronage and strong anticorruption practices.

Estonia is resistant to corruption on both an institutional and societal level. There are powerful audit institutions which exposes the majority of government business to public scrutiny. High levels of institutional oversight being the result of intense political competition as parties seek to monitor all abuses and hold their rivals to account (Grzymala-Busse 2008). This overwatch capacity places Estonia's corruption ranking quite high at 13th globally in 2021 according to the Corruption Perceptions Index. The effect on clientelism is obvious. According to Ornebring (2012, 40), Estonia ranked somewhere in the middle of their 87-country analysis of clientelism and corruption indices in 2012.

Strong governance and anti-corruption measures prevents political parties from coopting or abusing access to insider trades and backroom deals with private companies as well (Kasemets 2012). The passage of monitoring laws such as the Ombudsman Act of 1993 and Public Information Act of 2000 made it much easier for day-to-day business affairs to be scrutinized by the public and analyzed more closely by government accountants. Whether this was indicative of Estonian culture, the historical legacy of an inherited Germanic bureaucracy, or because of actor exposure, Estonians are largely intolerant of corruption in politics. In 2021, Prime Minister Juri

Ratas of the Centre Party resigned along with his entire cabinet as his party was implicated in a corruption scandal involving real estate sells (Henley 2021). It is important to note that the implication of impropriety was enough to bring down the entire government as a result of some very thorough investigative journalism rather than actual proof of wrongdoing.

This cooperation between anticorruption measures and open governance makes abuses unlikely even among individuals. The Global Corruption Barometer in 2021 reported that only 18 percent of surveyed Estonians thought corruption was getting worse in their country while 63 percent said it stayed the same or the situation was improving. There is very little outside of universalistic public goods the state could generate in exchange for electoral support, however. For instance, job patronage opportunities in the public sector are very limited. It is estimated that public sector employment accounted for only 4.2% of the entire workforce in 2019 (The Baltic Course 2020). Although this number has risen slightly, year-on-year, it is unlikely to see more gains as salaries lag behind the private sector with pay gaps as large as 11%.

In the bureaucracy and administrative arm of the Estonian government there is also limited patronage to be offered. The past five years has seen Estonia engage with the digitization of its bureaucracy which has pushed most of its business and citizen affairs online. Estonia's e-bureaucracy provides the cutting-edge digital democracy by making its systems more directly accessible and accountable to its citizens (Kirka 2018). One outcome of this digital bureaucracy is higher amounts of government trust because the civil society has streamlined access and efficiency. The other outcome has been a lack of government jobs due to centralizing online and shrinking government's physical presence.

Along with a smaller, more resource efficient government is a lack of SOE's in Estonia. Estonia was successful in uprooting state management out of its economy across nearly all

sectors. What remains is a fraction of its once vast ownership of assets and firms which are now concentrated in major utilities and infrastructure companies. Compared to other European countries, Estonia's private sector accounts for the bulk of its GDP with only several hundred SOE's still owned by the government. These assets are not likely to be coopted by political parties as tools of patronage or rent capture any time soon. The corporate boards of these enterprises tend to be directly managed by the government, but transparency and disclosures are extremely high and reflective of OECD benchmarks (Mortensen 2021).

This approach has also kept Estonian SOEs as profitable assets. According to European Bank Group (Mortensen 2021) they estimated that from 2014 to 2016 SOEs delivered a 4 percent return on assets and showed an average 1.5 percent profit compared to current GDP and over that same period. Estonia's value-added enterprises have led to higher public scrutiny and trust in the ability for the government to manage its SOEs. Over 60 percent of respondents in a 2020 Baltic Institute of Corporate Governance poll agreed that the government's management of SOEs was producing profitable enterprises. That same poll reported that respondents were more incredulous that the government makes overall good managers while expressing high levels of trust in the auditing and accounting processes.

State capture by elites in Estonia is does not a present a hazard to its democracy. It is able to maintain strong democratic governance because there is very little access for parties to dip into the government's coffers and weaponize rents for electoral gains. Nor is there much tolerance for this within society. As will be seen in the following section, voters were not forced into a strategic dilemma of having to choose the state over capitalism as a result of the market's foibles. Good governance may have been a deciding factor in this outcome, but without the reciprocal effect of parties and political elites seeking to meet the demand of vulnerable middle

class constituents there has been little desire by elites or the citizenry to breakdown Estonia's democratic institutions.

6.10. Strategic Non-Dilemma for Voters: Estonia

The resultant lack of clash between government and free market forces places Estonia on a unique path. Without high levels of SMotE, I conclude that state capture by elites would be both inefficient and costly despite the presence of a vulnerable middle class in Estonia's polity.

Targeted clientelism has been thoroughly hamstrung by forces outside the control of political parties. Those forces are the primacy of the market which the majority of voters, across the class spectrum, depend on. As organized labor is quite frail and political parties are unable to alleviate economic hardships by transferring rents to their popular constituents, Estonia should be regarded as programmatic in their party system. Democracy is an effective tool for interests to compete and monitor abuses but offers options for populist rent redistribution.

Had Estonia embraced more state intervention during the 2008 financial crisis it may have led to some breakdowns of their democratic norms. For one, state selectivity for welfare and bailouts would likely have been heavily influenced by ethnic biases. The determinants of welfare dependence and advocacy in Estonia's liberal political economy are highly correlated with this language division. This theoretical move would likely have opened the door for clientelistic practices and policy corruption when the redistribution of goods to constituents was most politically expedient. Instead, Estonia avoided this pitfall because of the liberal market embeddedness had extirpated most of the state from the economy and allowed very little opportunity for its return. Middle class voters were less likely to see the state as their deliverer and therefore the demand for intervention was minimal.

For labor, especially middle class labor, credible options to switch between are limited. Similar to the Russian case except with market primacy instead of state dominance. Middle class workers aimed to promote voice in politics and exit between individual firms and industrial sectors as a viable strategy for maintaining their economic standing in society. Low regulation and welfare support has put most of the country to work under a bargaining status that is almost completely managed on an individual basis. This can be seen in Estonia's retention rate amongst its employees. Nearly one in four employees leaves a job every year to seek out alternative employment, one of the highest in Europe (The Baltic Times 2018). The lack of a state sector alternative in the economy induces the middle class to use their access to institutions and good governance as a counterbalance against the political weight of foreign and domestic firms.

6.10.1. Evidence for Weak Clientelistic Support

Since independence, elites in Estonia have not pitted the middle class against capitalist or free market interests. Instead, they elevated the free market in a way which instigated Estonian voters to respond with pro-market leanings that results in more democracy rather than less. This corresponds with high rates of individualism, competition, responsibility, and an acceptance of the market as the main source of economic power in the country (Baliga and Santalainen 2006). These factors bleed over as reluctance to accept the state's management of the economy. A recent Baltic Institute of Corporate Governance survey (Mortensen 2021) indicates very little trust in the state to manage SOEs or engage in the economy effectively. For example, the survey results showed that 60 percent of respondents disagreed with the statement that "SOEs performed as well as their private sector counterparts".

With the preliminary evidence in mind, I predict that Estonia should not present correlative effects between the middle class clientelism or participatory corruption. For one,

confidence in public goods and services should not be discriminatory between groups and its effect should be indistinguishable between groups. Second, corrupt practices are quite difficult to achieve in a country with such high levels of transparency and anti-corruption institutions. Finally, it may be that these factors present more of a pattern when controlling for Russian speakers. I do not expect that Russian speakers are more likely to engage in this behavior mostly due to limited access and the state's resources being focused on ethnic Estonians. I estimate this effect, nonetheless.

To estimate the validation of these arguments I use EVS data collected from 2017 to 2020. I again create two factor composite scores using maximum likelihood around clientelism and corruption.⁹³ The clientelism score is enabled by confidence measures of public goods and services that include civil services, social security, health care, courts, and the police. These were evaluated at 1 to 4 where 1 is the highest level of confidence and 4 the least. So, a lower score should correlate with higher clientelism values. The corruption score was built using questions regarding the justification of accepting unearned benefits, bribes, as well as cheating on taxes, and fares. These were ordinally scored 1 to 10 from least to most justified. I run these two variables against several larger models but restrict my analysis to my two main terms for Estonia: income grouping and ethnicity.⁹⁴ Middle income respondents were identified the same way as the previous chapters with 4th to 7th household income deciles and coded as 1. Ethnicity was coded as a 1 if the survey was conducted in Russian.

Table 6-1 demonstrates supporting evidence for what I suspected in Estonia: middle class clientelism and corruption is a relevant phenomenon.⁹⁵ At least, not according to the statistics

⁹³ See Appendix E.4 for maximum likelihood Factor Analysis breakdown.

⁹⁴ See Appendix E.5 for Summary of Statistic Table.

⁹⁵ See Appendix E.6 for robustness check with controls.

presented in the composite score regressions. This finding goes a long way to support my middle class clientelism thesis as a relative effect of the state's proportion of the economy they control. Russian speakers were not statistically more likely to participate or possess clientelistic levels of confidence in public goods as well.

Table 6-1 Regressions of Clientelism and Corruption by Middle Income and Ethnicity

	Clientelism Score	Corruption Score
<i>Middle Income</i>	-0.025 (0.063)	0.047 (0.057)
<i>Russian</i>	-0.104 (0.074)	-0.088 (0.066)
<i>Constant</i>	0.039 (0.042)	-0.005 (0.038)
<i>N</i>	845	845
<i>R</i> ²	0.002	0.003
Note: OLS Regression with robust standard errors in parentheses. * $p < 0.10$ Negative value for clientelism means higher confidence. Positive value for corruption means more justified.		

The evidence that Estonia is a non-case of middle class clientelism seems quite strong. However, a little more analysis is necessary in this regard. I recoded the income deciles to reflect each class group: lower (1-3), middle (4-7), upper (8-10). With this new coding, the middle income respondents were out, and the models were executed again to see what effects each other income group has on clientelism and corruption composite scores. The results are in Table 6-2 and show that corruption does have some commiserate relationship when disaggregating income deciles.⁹⁶ Clientelism score does not correlate with either lower- or upper income respondents. However, the corruption score does. Lower income respondents are less likely to see corrupt

⁹⁶ See Appendix E.6 for full model robustness checks.

behavior as justified compared to middle income respondents. Meanwhile, upper income respondents are more likely to see the behavior as justified in some conditions. This pattern may indicate an element of access to particular methods of abuse that lower income respondents don't actively have at their disposal. The probability loadings presented in Figure 6-9 supports this contention.⁹⁷ Higher income individuals are much more likely to have the highest corruption composite scores while middle and lower households were trending downwards.

Table 6-2 Regressions of Clientelism and Corruption by Lower- and Upper income Groups and Ethnicity

	Clientelism Score	Corruption Score
<i>Lower Income</i>	0.076 (0.069)	-0.157* (0.062)
<i>Upper Income</i>	-0.071 (0.082)	0.156* (0.073)
<i>Russian</i>	-0.12 (0.074)	-0.055 (0.066)
<i>Constant</i>	0.018 (0.052)	0.035 (0.046)
<i>N</i>	845	845
<i>R</i> ²	0.006	0.024
Note: OLS Regression with robust standard errors in parentheses.		
* $p < 0.05$		
Negative value for clientelism means higher confidence.		
Positive value for corruption means more justified.		

⁹⁷ Probabilities based on a ordered logit of Corruption Score and income grouping.

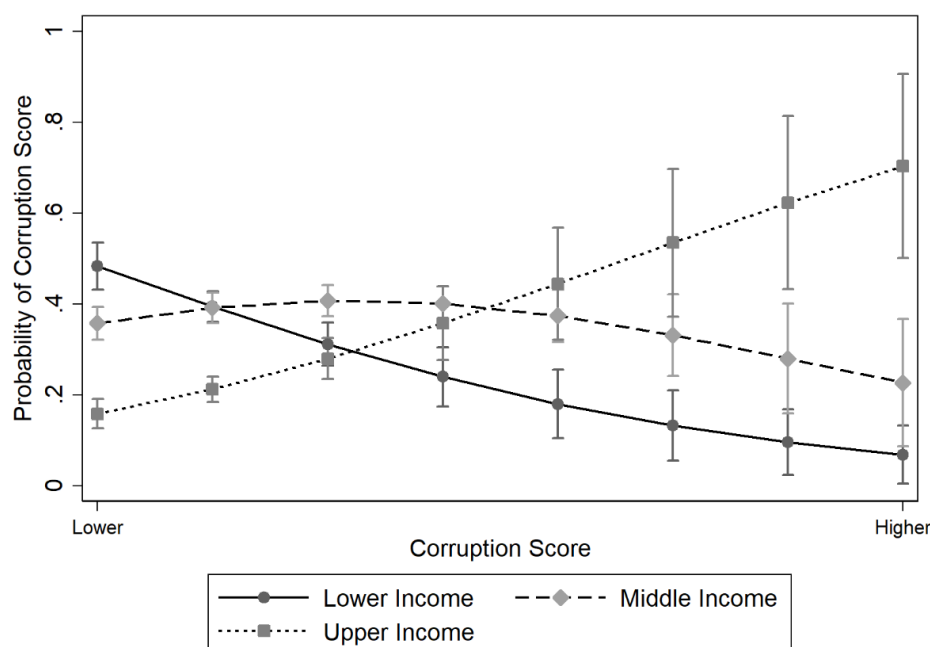


Figure 6-9 Probability of Income Group and Corruption Score

6.11. The Future of Estonia's Democracy?

As the Estonian government has given way to free markets and the decision making of private companies, the Riigikogu remains an important aspect of Estonian society. It is less likely that the average Estonian would want to empower one party, or one ruler to a position where they could capture the state. Even if it meant better economic conditions for those particular voters. There is much to consider in regard to Estonian democracy given its penchant for ethnic cleavages, the economic instability for workers, and a more aggressive Russia on its borders. I consider some of these elements looking into the future of Estonia's democracy.

Clientelistic reactions to class vulnerability, as expressed in neighboring CEE countries has not reached Estonia, though there are some inklings that it may. After 2014, demand for higher social protections saw the Reform Party shift to advocate for more social policy on top of its dedication to liberal market identity. Yet there have been very little gains for any one party to target its platform at single electoral groups. A reflection of the fact that political parties in

Estonia have remained competitive. While the Reform Party remains the most powerful party since 2005, there has yet to be an occasion where one party has been able to effectuate total control, as in the cases of Russia and Poland. Shifts in the popularity of welfare and social policies amongst Estonians has kept the partisan landscape in the country towards cooptation and cooperation. The Estonian government is also in a strong position to offer more. It has the lowest debt to GDP ratio in all of EU which makes them more adept when responding to social needs of the population (Feldmann 2017, 18). This change led to gains for welfare parties at the expense of the Reform Party in 2019.

There are indications of breakdowns in the system, however. The success of the EKRE party, which surpassed the Social Democratic Party in the 2019 elections for representation in the Riigikogu, were evocative to say the least. While the EKRE has yet to gain much of a foothold in the rest of Estonian politics, there are reasons to believe that this party could enjoy more success in the future. For one, the 2021 scandal that brought down the Centre Party's coalition reshuffled Estonia's politics. The Centre and Reform Parties that were able to form a government in the scandal's aftermath, this time. In the future, if the EKRE continues to gain representation, it could mean that they become a major partner in coalition deals.

This hinges on whether or not the EKRE continues to gain seats in the future. While the Reform Party has shown adaptability in coopting social policies as Estonia's economy continues to grow, the EKRE's welfare platform tends to target the more rural, and poorer population centers. However, their nationalistic rhetoric may find firmer footing as international politics continues to destabilize in the wake of Russian aggression in the region. It is unclear what Putin's overall plans are for the former Soviet territory, but ongoing conflicts and threats have

heightened Estonia's fears. Its long history of being absorbed by the Russian Empire and Soviet Union may be enough for the EKRE to convert Russophobia into political hay.

This highlights the other point of contention within Estonian politics: Russophones. The large population of ethnic Russians who remain, whose citizenship status is already quite shallow, provides Moscow with ample fodder to interfere with Estonian politics. While the EKRE has exacerbated the issue by insinuating that the Russian population represents a potential 'fifth column', it is unlikely to spill out into outright conflict (Puddington 2019). Instead, it is more likely that Russians organize an oppositional party which may overburden the Riigikogu with ethnic polarization and more instability.

There also remains the minefields of Russian hybrid warfare that concentrates on hitting Estonia's digital assets (Stoicescu 2021). Estonia is extremely vulnerable to electronic warfare as much of their government is dependent on technology. This has also been a useful tool after the advent of Covid-19 which caused much of the world to lockdown. The availability of government resources online meant Estonians enjoyed less destructive lockdowns as a result (Petrone 2022). Much of the technological infrastructure was already in place for Estonia to aggressively shift its citizens to use electronic government systems. The prevalence of small to medium technology firms in Estonia even served to meet the demands by locally sourcing application development for the government.

6.12. Conclusion

Estonia presents an interesting paradox. On the one hand, its population is quite dynamic in terms of incomes and those same earners have suffered greatly in the aftermath of the 2008 financial crisis. Earners in the middle of Estonian society endured a similar fate to their counterparts in Poland and Russia. However, the outcome was different. SMotE is low and has

remained low since the 1990s. State capture was resisted in Estonia, not because of Maart Laar's libertarian ideals in the 1990s, but because his successful reforms meant there was *no* state economy to capture. No parties emerged that took up the cause of the middle class as a specific group that could be catered to in exchange for political support. As a result, Estonia remains quite democratic to this day.

The reason behind this was quite simple. Low levels of SMotE acted as a screen that stomped out clientelistic offerings from political parties before they could materialize. Demand from constituency groups may have been available. Certainly, the vulnerabilities of the middle class were readily apparent, but supply was deleteriously low. Estonian parties have little to offer in terms of clientelistic public goods nor can they directly target constituent groups effectively. Institutional oversight prevents most corrupt practices from gaining traction which further hampers these efforts. The middle class presents as a cost inefficient target for clientelism and is likewise unlikely to be courted by parties. The results presented in this chapter suggest that it's not just the middle class. Lower and higher income earners are unlikely to correlate with better access and interactions with public goods because of those same limitations.

Estonian democracy seems locked in at the moment. Its economy is doing quite well and its approach to electronic bureaucracy is ideal for avoiding the pitfalls of clientelism and democratic erosion. Of course, there are opportunities for change in the near future. Populism, like the rest of Europe, is on the rise to a certain extent. However, it would be wise to point out the limitations that populist parties in Estonia must operate under. Furthermore, the ethnic cleavages in the country operate as a likely culprit for future polarization rather than the middle class demand particularistic goods and patronage from their elected representatives.

7. CONCLUSION

In this dissertation, I have laid out a novel theory and hypotheses in regard to middle class clientelism. By emphasizing economics within previous theories of state capture, I have highlighted that clientelism is not merely a function of political will power but instead emblematic of specific vulnerabilities within a country. I was motivated to understand why democracy was doing so poorly in Eastern Europe, despite its economic gains. I believe I have provided a reasonable, and empirically grounded assessment as to why that is the case. However, it is worth highlighting the limitations of my argument as well as provoke additional cases that may further test the legitimacy of its finding.

7.1. The Argument in Brief

In summation, my argument is as follows: the quality of democracy in CEE countries is dependent on the intersection of how much of the economy the state controls and constituent vulnerabilities within the middle class. The strategic dilemma of vulnerable voters provides openings for political elites to engage in state capture practices which arrests and erodes democratic institutions. Most importantly, though, in order to exchange goods for loyalty there must be a degree of the state's rents that can be captured and redistributed for political gains. The most important takeaway from this paper is that large state-run economic sectors operate as a backdoor for political elites to capture and then disperse for political gain. This is not a claim that state investment in the economy inevitably leads to democratic erosion or failure. Instead, it operates as a vehicle of state capture that populist parties, and enterprising elites can operate in exchange for popular support.

Constituent vulnerabilities, in these cases, have manifested as a weakening of middle class material and psychological wellbeing. This was due, in large part, to the financial crisis of

2008. Along with financial instability, organized labor was totally gutted as a component of liberalization and reform during the 1990s. I have argued that these two aspects have created strategic dependencies amongst middle income workers. This group that is critical for the function of the democratic state as they represent the confluence of educated and material status that makes them politically potent but not immune to political and economic changes. Their loss of status, since the 2000s, has incurred negative repercussions when parties and political elites were able to take advantage.

State capture should be thought of as an economic phenomenon and so too should clientelism. The arrangement of economic forces in the state and the governance capacity of its institutions for managing its economy all serve to limit or enhance the capture of those functions for clientelistic and corrupt purposes. If we conclude that rents to constituencies is the main elements of state capture, then we should consider what elites are able to offer in the first place. Without state hands in the economy, there is very little political elites can bargain with in exchange for support and vice versa. Instead, we should imagine the state in those instances of paucity as a grabbing nub rather than a grabbing hand. The fusion of party to the state serves to embolden the state-economy management relationship as those parties that are able to leverage their position in exchange for rents will require access to additional rents in the future.

This argument also rejects notions of state capture being a unidirectional phenomenon. Previous theories have declared that poorer members of a polity are cost effective targets of patronage when politicians seek to gain political power. I've countered this argument promoting the middle class as an additional culprit of democratic unraveling because they should be a lynchpin of democratic attitudes and be more likely to challenge anti-democratic behavior. Instead, strategic vulnerabilities have allowed them to be less costly for parties to exchange

goods for loyalty with. The middle class's material advantages allow parties and elites to discreetly target the shortfalls that vulnerability induces. This makes them a more cost effective group to patronize than once hypothesized. It also provides a means of loyalty maintenance as the middle class becomes dependent on state resources to maintain their own status into the future.

Lastly, this argument moves away from treating populism as a causal variable. This argument contends that populism as a political platform is just a means to an end for plebiscite demands. While populist parties have the propensity to be destructive for democracy, I emphasize that it is the admixture of state control over large swaths of the economy and a vulnerable middle class that defines the state capture associated with democracy failure in CEE countries.

7.2. Primacy of the State

In such instances where the state dominates most sectors of the economy there is very little room for countervailing forces in the electorate to achieve or maintain their status independent of the government. State capture is a relatively simple affair when vulnerable groups in society require additional assistance. In this case, they trade patronage for support, which allows nearly all aspects of the state to be taken over by the elite leadership. Critical aspects of SMotE support this hegemony. High levels of corruption keep many interactions and exchanges informal and beyond institutional control. A lack of potency in the private sector annihilates any strategic decision making by middle class voters who, when in a vulnerable economic state, must seek out a patron to ensure their status in society.

The Russian case provided a clear example of this confluence of variables. Its experience in the 1990s was one of polarized reform leading to a disjointed and corrupt outcome for its

socialist economy. While the state did engage in ‘shock therapy’ reforms, the manner in which it did so kept private industry relatively weak and state in control of the commanding heights of the economy. Social classes began to materialize and coalesce after this great swing to liberalism which led to a proliferation of a few economic winners and many losers in the new economy. The growth of the Russian economy in the 2000s and its subsequent shrinkage provided Putin and the United Russia party enough room to leverage middle class dependency in exchange for more political and economic control. The grabbing hand of the state has kept private firms from countermobilizing and made the strategic dilemma of the middle class quite simple. Support Putin with votes and continue to receive patronage and access to restricted public goods in Russia’s ailing economy. Democracy never fully actualized in Russia because state capture was too potent.

Russia is not the only CEE case where democracy failed to take root nor is it the only case of a state dominated economy. Ukraine, Belarus, Azerbaijan, Kazakhstan, and most of the Central Asian republics are permeated with weak democracies and deeply imbedded governments in their economies. In such cases it would be of great importance to test this theory against their history of reforms, the status of their middle class core constituencies, and how they may collide to stifle democracy. Moving beyond CEE countries, cases like China provide further tests of the theory. Party capture of the state is emblematic of the Communist Chinese Party’s control over the country and its economy. The rising middle class has provided fodder for many academics who seek to explain why democracy has failed to take hold in the country.⁹⁸ I would suggest looking at the dependent connections between the state’s economy and how economically dependent the middle class is as a client constituent group for the CCP.

⁹⁸ For relevant examples of middle class democracy in China see Chen and Lu (2011), or Miao (2016).

Furthermore, we should engage in understanding how organized labor in Chinese society functions and whether a case of middle class vulnerability is a dominant factor.

7.3. Hybrid Economies and State Capture

The state does not always engage in the economy with ham-fisted measures of near total control. I have argued that gradations exist between state control of the economy and the effects of state capture. Those cases that permit enough state control over the economy while also possessing a capable and effective independent private sector represent an interesting dynamic that both rigorously tests and supports my hypotheses. In those cases that have a vulnerable middle class, there is a polarized strategic dilemma for which voters may see the state or private sector as a potential ally to coordinate with. This polarization provides an opening for state capture by elites and parties who turn those elements of the economy that are managed by the government to their electoral advantage. Democracy can be undermined and retrograded, especially when more and more pieces of the government are captured by those party forces when they proceed to buy off portions of the middle class.

Poland provided a strong test case of this theory. For one, it was a state that engaged in successful political and economic reforms in the 1990s. It adopted the status of a liberalized, democratic state that had its focus on joining the EU and making their country an economic hub of international commerce. However, Polish reforms were not totally complete in their execution as large tracts of the state ran economy remained in place. This would become more of an issue as the material situation of the middle class deteriorated in the late 2000s. The PiS Party used the vulnerability of middle class voters to their advantage by offering goods in exchange for electoral victories. This exchange was highly successful and led the PiS to dominate Sejm to this day. It is unclear how long the PiS can retain this lead though. State capture will only be as deep

as the state's reach is into the economy. In the case of Poland, it allows them to informalize and use clientelism to high degree but not to the same extent as Russia. Democratic quality has declined in recent years, but this trend is reversible should competitive politics be reintroduced, or the middle class's position greatly improves.

The Polish and hybrid state capture case provides the most startling implications for democracies on a global scale. With middle class prosperity on the wane as a near universal phenomenon, it becomes a potent tool for entrepreneurial political elites and political parties to design their platforms around and engage with. Exchanges of goods through side transfers, the abandonment of programmatic parties for clientelistic linkages, and outright corruption will likely increase in the future. The questions are: to what degree and for how long? Cases outside of Central and Eastern Europe abound as to where this argument can be applied. Western Europe, North America, and Latin and South America provide useful testing grounds to examine how variance in state management of the economy can lead to differing levels of state capture when there is a vulnerable constituent group that can be effectively targeted. Scholars must pay much more attention to where government's reach goes and how political parties parlay that into political advantage.

7.4. Primacy of Markets

It would be easy to dismiss this paper as a diatribe of the pros of neoliberal economies for the promotion of democracy against the cons of state investment. The relationship between the government's reach into the economy and the lack of state capture as a result would support this theoretical narrative. However, this is reflective of a commonsense position that state capture requires political elites to offer patronage in exchange for political support. Without rents to exchange, there is very little political elites can therefore offer. The middle class Estonians were

vulnerable, but the lack of a state economic alternative did little for parties to organize themselves around clientelization of this group. The strategic dilemma for voters, in this case, is to rely more on democracy as a tool to balance the interests of private companies and to ensure no one party is able to dominate the system.

The Estonian case provided a rare glimpse into a CEE country that not only underwent reform but went further than most of its neighbors. Its commitment to the Washington Consensus in the 1990s and austerity during the Great Recession provides for a unique case. There was little pushback by the middle class, who endured hardships on par with their CEE neighbors. Nor were there motivated political parties who attempted to parlay dissatisfaction with the government into a clientelistic system of exchange for votes. Indeed, state capture did not occur because there was no 'state' to be captured. Good governance, high levels of audit protection, and very few government assets suggest there is very little enterprising elites could legitimately offer to voters in exchange for support in Estonia.

The main question that comes to mind after explaining Estonia's case is whether this represented a rare aberration in Comparative Political Economy with very little comparative utility. Social spending retrenchment and austerity is often dismissed in the wake of financial crisis in favor of pro-cyclical and quantitative easing measures. Further analysis is necessary. Testing Estonia against the other two Baltic countries, Latvia, and Lithuania, would be one starting place. More fertile ground would be begin examining liberal market economies who are more likely to have low amounts of SMotE and see where the Estonian case can advance our comparative knowledge.

7.5. Looking Forward

I can say with some confidence that higher levels of state management of the economy coupled with middle class vulnerabilities is likely to present parties with a cheap constituency to clientelize. This has the potential to lead to higher degrees of state capture and lower democratic quality. Despite the inherent limitations of the argument, the use of Central and Eastern European countries provided an ample testing ground and opportunity to develop my theory of economic state capture. It permitted me to control for as many confounding aspects that are part and parcel with a cross-case analysis, but no analysis is perfect. There remain some aspects of the theory that need to be further developed and tested.

For one, my argument was limited down from its original scope due to exigent circumstances related to covid. More in country research would be useful along with supportive interviews of elites in business and government to truly isolate the causal mechanisms. The use of supplemental survey data was effective, but the data is starting to show its age as the latest rounds were collected in 2018 to 2020. The occurrence of a global pandemic and the economic instability it left in its wake provides ample suspicion that a shift in public opinion may have occurred since 2020. However, this shift is likely to reinforce my argument as the government has become more involved in managing the affairs of its citizens through the economy than ever before.

An additional limitation lies in the measurement and operationalization of important variables. This argument would be greatly improved by devising more accurate ways to measure state capture directly rather than democratic quality, governance, or individual voter preferences by proxy. This weakness is beyond the scope of this dissertation, but it demands more attention in the future, nonetheless. The use of in country experimental designs trailblazed by Wantchekon

(2003) would greatly enhance this argument too. It could provide a more direct measure of clientelism and patronage by exposing participants in political systems to a more rigorous, and formal evaluation of these concepts with higher levels of reliability.

I wish to reiterate that high levels of state management of the economy are neither a bad nor a good thing for democracy. It highlights the *potential* reach that state capture can have. Ultimately, state capture is undertaken by elites and with some level of acquiescence of their voters. In the case of a vulnerable middle class, some aspects of society actively encourage state capture as a rational, measured, and strategic choice. The quality of democracy, in these cases, is ultimately up to the voter who has the unenviable task to choose between long term democratic stability and short-term economic payoffs.

APPENDICES

Appendix A: Chapter 1

Appendix A.1: Income Deciles and Middle Income Measurement for models

European Values Survey and World Values Survey use the same coding scheme.

X047_WVS;_EVS - Scale of incomes

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 Lower step
- 2 second step
- 3 Third step
- 4 Fourth step
- 5 Fifth step
- 6 Sixth step
- 7 Seventh step
- 8 Eighth step
- 9 Ninth step
- 10 Tenth step
- 11 Highest step

Deciles -5 through 0 were dropped from the analysis.

Middle Income was coded as 1 for all values 4 through 7. All other values were coded 0.

Lower Income was coded as 1 for all values 1 through 3. All other values were coded 0.

Upper Income was coded as 1 for all values 8 through 10. All other values were coded 0.

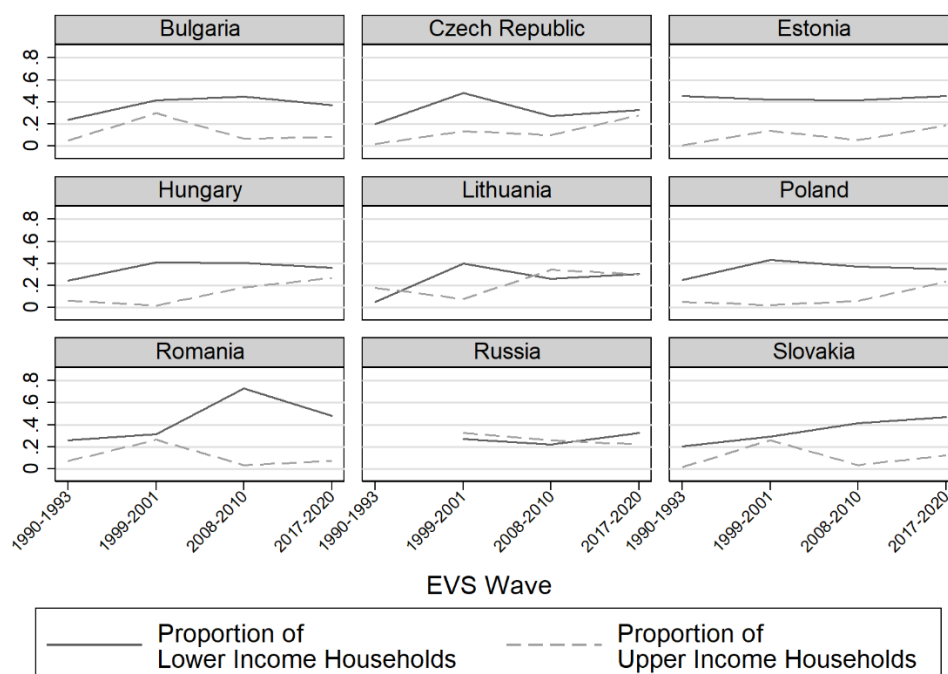
Note: 11 Highest step was not included in any models as it is from an older coding scheme.

Appendix B: Chapter 3

Appendix B.1: Figure 3-3 Supplemental

Figure 2-2 Supplement was produced by taking the means of lower and upper income

households per EVS Wave and by participant CEE country.



Appendix B.2: Figure 3-4 Middle Class Perceptions of the Economy

EU Election Survey (2019) Questions and Coding

D7 If you were asked to choose one of these five names for your social class, which would you say you belong to - the working class, the lower middle class, the middle class, the upper middle class or the upper class?

<Source: EES2009 Q114>

- 1 working class
- 2 lower middle class
- 3 middle class
- 4 upper middle class
- 5 upper class
- 6 other

Recoded as values 2-4 are Middle Class (1) all others are (0).

Q19 What do you think about the economy? Compared to 12 months ago, do you think that the general economic situation in the <country name>

<Source EES2014 QPP15> 1 a lot better

- 2 a little better
- 3 stayed the same
- 4 a little worse
- 5 a lot worse
- 98 dk

Recoded as 4 and 5 (1) Worse and all other values as (0).

Q20 And over the next 12 months, how do you think the general economic situation in the <country name> will be? Will it....?

<Source EES2014 QPP16> 1 get a lot better

2 get a little better

3 stay the same

4 get a little worse

5 get a lot worse

98 dk

Recoded as 4 and 5 (1) Worse and all other values as (0).

Appendix C: Chapter 4

Appendix C.1: Figure 4-2 Family's Material Improvements Over a Year

Russian Election Study (1996) Questions and Coding

How has your family's material situation changed over this past twelve months?

1. Improved a lot

2. Improved a little

3. Remained unchanged

4. Worsened a little

5. Worsened a lot

7. HARD TO SAY

8. REFUSAL

Values 7 and 8 were dropped from the analysis.

103. How much money in total have all members of your family made in this past thirty days? Sum up everything--wages, bonuses, profits, pensions, allowances, material aid, incidental pay, and other monetary income. Include in this hard currency, but convert the hard currency into rubles.

_____ rubles

7. HARD TO SAY

8. REFUSAL

Values 7 and 8 were dropped from the analysis. Rubles were then split into quartiles for model.

Appendix C.2: Figure 4-3 Second Round Vote Choice by Monthly Income Quartiles

Russian Election Study (1996) Questions and Coding

118. Would you mind saying for which candidate you voted in the second round of the election, for Yeltsin or Zyuganov?

1. FOR YELTSIN

2. FOR ZYUGANOV

96. VOTED AGAINST BOTH CANDIDATES

97. HARD TO SAY -----> Qu. 122

98. REFUSAL -----> Qu. 122

Values 96, 97, and 98 were dropped from the analysis.

103. How much money in total have all members of your family made in this past thirty days? Sum up everything--wages, bonuses, profits, pensions, allowances, material aid, incidental pay, and other monetary income. Include in this hard currency, but convert the hard currency into rubles.

_____ rubles

7. HARD TO SAY

8. REFUSAL

Values 7 and 8 were dropped from the analysis. Rubles were then split into quartiles for model.

Appendix C.3: Figure 4-4 Percent of Population in Third Quartile of Earners

HSE Russian Household Survey (1994-2020)

J57 IEA—Income Last 30 Days

99999997 Does not know

99999998 Refuses to answer

99999997 No answer

Values 99999997-9 were dropped from the analysis. Rubles were then split into quartiles and recoded as 1 if in the 3rd quartile.

Appendix C.4: Figure 4-6 Predicted Margins for Educational Attainment

World Value Survey (1999-2017)

X025 - Educational level respondent: 8 categories

Response categories in EVS Trend File:

-5 Missing; Unknown

-4 Not asked in survey

-3 Not applicable

-2 No answer

-1 Don't know

1 Inadequately completed elementary education

2 Completed (compulsory) elementary education

3 Incomplete secondary school: technical/vocational type

4 Complete secondary school: technical/vocational type/secondary

5 Incomplete secondary: university-preparatory type/secondary,

- 6 Complete secondary: university-preparatory type/full secondary
 7 Some university without degree/higher education - lower-level tertiary
 8 University with degree/higher education - upper-level tertiary

Values -5 through 0 were dropped from the analysis. Values 1, 2, 3 were coded as 1. Values 4, 5, 6 were coded as 2. Value 7 was coded as 3. Value 8 was coded as 4.

For Income Variable see Appendix E.1

Appendix C.5: Figure 4-7 Probability of Respondent's Satisfaction with Life

HSE Russian Household Survey (1994-2020)

J65 Satisfaction with life at present.

- 1 Fully satisfied
 2 Rather satisfied
 3 Both yes and no
 4 Less than satisfied
 5 Not at all satisfied

All other values were dropped from the analysis.

J62 Economic rank on a 9 step ladder

- 1 Lowest...
 9 Highest

All other values were dropped from the analysis. Collapsed the 9 step ranks into 3 with lowest (1), middle (2), and upper (3).

Appendix C.6: Figure 4-8 Probability of United Russia Voter

World Value Survey (2014-2019)

E179 - Which political party would you vote for first choice

If there was a general election tomorrow, which party would you vote for?

643032 RU: United Russia

United Russia coded as 1. All other Russian party values coded as 0

	United Russia Voter
<i>Middle Income</i>	0.203*
<i>Household</i>	(0.022)
	-0.014
<i>Education</i>	(0.041)

<i>Constant</i>	-0.274* (0.052)
<i>N</i>	3,201
<i>R</i> ²	0.01

Note: Probit Regression with robust standard errors in parentheses. * $p < 0.01$
Standard errors are clustered by respondent region: 9 clusters

Appendix C.7: Chapter 4 Factor Analysis Tables and Questions

WVS Data (2010-2017)

	Eigenvalue	Difference	Proportion	Cumulative
<i>Clientelism</i>	2.35952	0.51802	0.5617	0.5617
<i>Corruption</i>	1.8415	-	0.4383	1
<i>N</i>	2,883	-	-	-
<i>Parameters</i>	15	-	-	-

LR test: 2 factor vs saturated prob> $x^2=0.01$

	Clientelism	Corruption	Uniqueness
<i>Court</i>	0.8457	-0.1514	0.2619
<i>Police</i>	0.8201	-0.1795	0.2952
<i>Government</i>	0.6574	-0.0036	0.5678
<i>Civil Service</i>	0.6326	-0.0334	0.5987
<i>Benefits</i>	0.1478	0.6673	0.5329
<i>Fare</i>	0.1645	0.6293	0.5769
<i>Taxes</i>	0.2459	0.7448	0.3847
<i>Bribe</i>	0.1734	0.6239	0.5807

Clientelism Score:

Variables: E069_06 – Confidence: Police; _08 – Confidence: Civil Service; _11 – Confidence: Government; _17 – Confidence Courts

Each variable had the same prompt and coding.

Prompt: Please look at this card and tell me, for each item listed, how much confidence you have in them, is it a great deal, quite a lot, not very much or none at all?

Response categories in WVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer

- 1 Don't know
- 1 A great deal
- 2 Quite a lot
- 3 Not very much
- 4 None at all

Values -5 through -1 were dropped from analysis. Original coding kept.

Corruption Score

Variables:

F114A – Justifiable Claiming Benefits to which you are not entitled

F115 – Justifiable: Avoiding fare on public transport

F116 – Justifiable: Cheating on taxes

F117 – Justifiable: Someone accepting a bribe

Each variable had the same prompt and coding.

Prompt: Please tell me for each of the following whether you think it can always be justified, never be justified, or something in between, using this card.

Response categories in WVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 Never justifiable
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 Always justifiable

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix C.8: Chapter 4 Summary of Statistics

Variables were generated from WVS (2008-2014). See coding analysis.

		Std.				
	Obs.	Mean	Dev.	Min	Max	Coding

<i>Clientelism Score</i>	2,883	0.000	0.931	-2.187	1.660	Factor Analysis Score (<i>App. C.7</i>)
<i>Corruption Score</i>	2,883	0.000	0.892	-1.178	3.197	Factor Analysis Score (<i>App. C.7</i>)
<i>Middle Income</i>	3,208	0.640	0.480	0.000	1.000	Middle Income Household (<i>App. A.1</i>)
<i>United Russia</i>	3,239	0.439	0.496	0.000	1.000	Votes for United Russia (<i>App. C.6</i>)
<i>Sex</i>	3,239	1.563	0.496	1.000	2.000	Is female (<i>WVS X001</i>)
<i>Religious</i>	3,239	0.704	0.456	0.000	1.000	Is religious (<i>WVS F025</i>)
<i>Savings</i>	3,239	0.435	0.496	0.000	1.000	Has savings (<i>WVS X044</i>)
<i>Education</i>	3,231	0.477	0.500	0.000	1.000	Has university degree (<i>App. C.4</i>)
<i>Occupation</i>	3,239	0.360	0.480	0.000	1.000	Has government job (<i>WVS X052</i>)
<i>Town Size</i>	3,239	0.669	0.471	0.000	1.000	Town>20,000 people (<i>WVS X049</i>)

Appendix C.9: Full Model Robustness Tests Table 4-1

	Clientelism Score	Corruption Score
<i>Middle Income</i>	-0.136* (0.047)	0.071* (0.031)
<i>United Russia</i>	-0.341** (0.032)	-0.091* (0.039)
<i>Sex</i>	-0.094* (0.034)	-0.027 (0.028)
<i>Religious</i>	-0.143* (0.048)	0.037 (0.048)
<i>Savings</i>	-0.035 (0.032)	0.06 (0.038)
<i>Education</i>	-0.08 (0.065)	0.122* (0.042)
<i>Occupation</i>	-0.039 (0.052)	-0.29** (0.023)
<i>Town Size</i>	0.009 (0.074)	0.091 (0.063)

<i>Constant</i>	0.548 (0.098)	-0.036 (0.068)
<i>N</i>	2,859	2,859
<i>R</i> ²	0.058	0.045

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$
 Standard errors are clustered by respondent region: 9 clusters
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

Appendix C.10: Models with Upper and Lower Income Households

	Clientelism Score	Corruption Score
<i>Lower Income Household</i>	0.219* (0.068)	-0.195** (0.04)
<i>Upper Income Household</i>	-0.146 (0.094)	0.218** (0.045)
<i>United Russia Supporter</i>	-0.357** (0.035)	-0.121* (0.046)
<i>Constant</i>	0.102 (0.071)	-0.097 (0.048)
<i>N</i>	2,858	2,858
<i>R</i> ²	0.054	0.018

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$
 Standard errors are clustered by respondent region: 9 clusters
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

Appendix D: Chapter 5

Appendix D.1: Figure 5-1 Economic Freedom of the World Index

<https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2021-annual-report>
 (Yap, Law, and Abdul-Ghani 2020)

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property. Forty-two data points are used

to construct a summary index, along with a Gender Legal Rights Adjustment to measure the extent to which women have the same level of economic freedom as men. The degree of economic freedom is measured in five broad areas.

Appendix D.2: Figure 5-2 Unemployment by Skill Level

EVS (1990-1999)

X037_01 - Respondent experienced unemployment longer than 3 months

Are you yourself gainfully employed at the moment or not? Please select from the card the employment status that applies to you.

Response categories in EVS Trend File:

- 5 Missing; Unknown
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 Full time (30h a week or more)
- 2 Part time (less than 30 hours a week)
- 3 Self employed
- 4 Retired/pensioned
- 5 Housewife (not otherwise employed)
- 6 Student
- 7 Unemployed
- 8 Other

Values -5 through -1 were dropped from the analysis. Value 7 was coded as 1 and all other values were coded as 0.

X046 - Socio-economic status of respondent

Socio-economic status of respondent

Response categories in EVS Trend File:

- 5 Missing; Unknown
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 Ab (upper, upper middle class)
- 2 C1 (middle, non-manual workers)
- 3 C2 (manual workers -skilled, semi-skilled)
- 4 De (manual workers -unskilled, unemployed)

Values -5 through -1 were dropped from the analysis. Coding was reversed from 1 to 4 to 4 to 1.

Appendix D.3: Figure 5-6 Confidence in Major Companies Before and After Crisis

EVS (2008&2017)

E069_13 - Confidence: Major Companies

Please look at this card and tell me, for each item listed, how much confidence you have in them, is it a great deal, quite a lot, not very much or none at all?

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 A great deal
- 2 Quite a lot
- 3 Not very much
- 4 None at all

Values -5 through -1 were dropped from the analysis.

Appendix D.4: Figure 5-10 Probability of Political Alignment by Household Income

EVS (2017-2019)

E181C - Which political party would you vote for/appeals to you - lea/right scale

Which (political) party appeals to you most?

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 item not included
- 3 not applicable
- 2 no answer
- 1 dont know
- 1 lea
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10 right

Values -5 through -1 were dropped from the analysis. Values 1 through 10 were reduced down to 1 through 5 by grouping every 2 numbers.

Appendix D.5: Chapter 5 Factor Analysis Tables and Questions

EVS (2018)

	Eigenvalue	Difference	Proportion	Cumulative
<i>Clientelism</i>	2.319	0.755	0.597	0.597
<i>Corruption</i>	1.564	-	0.403	1
<i>N</i>	1,113	-	-	-
<i>Parameters</i>	19	-	-	-
<i>LR test: 2 factor vs saturated prob>$x^2=0.01$</i>				

	Clientelism	Corruption	Uniqueness
<i>Education</i>	0.4359	-0.0967	0.8006
<i>Social Security</i>	0.6865	-0.1877	0.4935
<i>Health Care</i>	0.5872	-0.158	0.6303
<i>Civil Service</i>	0.7058	-0.2086	0.4583
<i>Police</i>	0.5869	-0.1067	0.6441
<i>Court</i>	0.5184	-0.2319	0.6775
<i>Benefits</i>	0.0859	0.5112	0.7313
<i>Fare</i>	0.2035	0.4425	0.7627
<i>Taxes</i>	0.3213	0.7211	0.3767
<i>Bribe</i>	0.2232	0.6394	0.5413

Clientelism Score:

Variables: E069_03 – Confidence: Education; _06 – Confidence: Police; _08 – Confidence: Civil Service; _09 – Social Security _16 – Confidence: Health Care; _17 – Confidence Courts

Each variable had the same prompt and coding.

Prompt: Please look at this card and tell me, for each item listed, how much confidence you have in them, is it a great deal, quite a lot, not very much or none at all?

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 A great deal

- 2 Quite a lot
- 3 Not very much
- 4 None at all

Values -5 through -1 were dropped from analysis. Original coding kept.

Corruption Score

Variables:

F114A – Justifiable Claiming Benefits to which you are not entitled

F115 – Justifiable: Avoiding fare on public transport

F116 – Justifiable: Cheating on taxes

F117 – Justifiable: Someone accepting a bribe

Each variable had the same prompt and coding.

Prompt: Please tell me for each of the following whether you think it can always be justified, never be justified, or something in between, using this card.

Response categories in EVS Trend File:

-5 Missing: Other

-4 Not asked in survey

-3 Not applicable

-2 No answer

-1 Don't know

1 Never justifiable

2

3

4

5

6

7

8

9

10 Always justifiable

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix D.6: Chapter 5 Summary of Statistics

Variables were generated from EVS. See coding analysis.

	Obs.	Mean	Std. Dev.	Min	Max	Coding
<i>Clientelism Score</i>	1,133	0.00	0.895	-2.612	2.268	Factor Analysis Score (<i>App. D.5</i>)

<i>Corruption Score</i>	1,133	0.00	0.871	-0.561	6.722	Factor Analysis Score (<i>App. D.5</i>)
<i>Middle Income</i>	1,086	0.416	0.493	0	1	Middle Income Household (<i>App. A.1</i>)
<i>PiS</i>	1,352	0.314	0.464	0	1	Votes for PiS (<i>EVS E181A</i>)
<i>Middle Income(PIS)</i>	1,086	0.125	0.331	0	1	Middle Income Household and PIS
<i>Sex</i>	1,352	1.541	0.499	1	2	Is female (<i>EVS X001</i>)
<i>Religious</i>	1,339	0.921	0.27	0	1	Is religious (<i>EVS F025</i>)
<i>Education</i>	1,344	1.935	0.783	1	3	Education Level (<i>EVS X025R</i>)
<i>Occupation</i>	856	0.369	0.483	0	1	Has government job (<i>EVS X052</i>)
<i>Town Size</i>	1,352	2.572	1.4197	1	5	Size of town (<i>App. D.7</i>)

Appendix D.7: Town Size Variable

EVS (2018)

X049a - Size of town where interview was conducted (5 categories)Size of town

Response categories in EVS Trend File:

-5 Missing: Other

-4 Not asked in survey

-3 Not applicable

-2 No answer

-1 Don't know

1 2,000 and less

2 2,000-5,000

3 5,000-10,000

4 10,000-20,000: WVS 10,000-25,000

5 20,000-50,000

6 50,000-100,000

7 100,000-500,000

8 500,000 and more

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix D.8: Full Model Robustness Tests for Tables 5-1 and 5-3

	Clientelism Score	Corruption Score
<i>Middle Income</i>	0.187* (0.083)	-0.019 (0.085)
<i>PiS</i>	0.003 (0.106)	-0.247* (0.108)
<i>Middle Income (PiS)</i>	-0.418** (0.152)	0.141 (0.154)
<i>Sex</i>	-0.106 (0.072)	-0.082 (0.074)
<i>Religious</i>	0.025 (0.127)	-0.266* (0.129)
<i>Education</i>	0.095* (0.047)	-0.039 (0.048)
<i>Occupation</i>	-0.127 (0.074)	-0.109 (0.076)
<i>Town Size</i>	0.106** (0.027)	0.019 (0.028)
<i>Constant</i>	-0.307 (0.198)	0.513* (0.201)
<i>N</i>	614	614
<i>R</i> ²	0.07	0.03

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

Appendix D.9: Models with Upper and Lower Income Households

	Clientelism Score	Corruption Score
<i>Lower Income</i>	-0.173** (0.067)	-0.012 (0.063)
<i>Upper Income</i>	0.116 (0.073)	0.03 (0.069)
<i>PiS</i>	-0.256** (0.062)	-0.175** (0.058)

<i>Constant</i>	0.109* (0.048)	0.028 (0.046)
<i>N</i>	934	934
<i>R</i> ²	0.036	0.01

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$.
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

Appendix E: Chapter 6

Appendix E.1: Figure 6-3 Probability of Importance to Speak Estonian by Ethnicity

EVS (2008-2018)

S016 - Language of the interview (WVS/EVS list of languages)

In which language was the interview conducted?

132 Estonian

380 Russian

Russian value was Coded as 1 and Estonian value was coded as 0.

G036 - Important: to be able to speak [Estonian]

Some people say the following things are important for being truly [NATIONALITY]. Others say they are not important. How important do you think each this is?

To be able to speak [Estonian] [NOTE: if more than one national languages, ask the national languages]

Response categories in EVS Trend File:

-5 Missing: Other

-4 Not asked in survey

-3 Not applicable

-2 No answer

-1 Don't know

1 Very important

2 Quite important

3 Not important

4 Not important at all

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix E.2: Figure 6-6 Probability of Income Group and Welfare 2018

X037_02 - Dependency on social security during last 5 years respondent

During the last five years, have you been dependent on social security at any time?

Response categories in EVS Trend File:

- 5 Missing; Unknown
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 0 No
- 1 Yes

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix E.2: Figure 6-8 Probability of Response to Immigration Concerns

EVS (1999-2018)

E161 - Feel concerned about immigrants

To what extent do you feel concerned about the living conditions of the following groups living in your country?

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 Very much
- 2 Much
- 3 To a certain extent
- 4 Not so much
- 5 Not at all

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix E.3: Chapter 6 Factor Analysis Tables and Questions

EVS (2018)

Eigenvalue	Difference	Proportion	Cumulative
------------	------------	------------	------------

<i>Clientelism</i>	2.485	1.33	0.683	0.683
<i>Corruption</i>	1.156	-	0.317	1
<i>N</i>	930	-	-	-
<i>Parameters</i>	19	-	-	-
<i>LR test: 2 factor vs saturated prob>$\chi^2=0.01$</i>				

	Clientelism	Corruption	Uniqueness
<i>Education</i>	0.4997	-0.145	0.7293
<i>Social Security</i>	0.6535	-0.0801	0.5665
<i>Health Care</i>	0.5933	-0.1882	0.6125
<i>Civil Service</i>	0.6531	-0.0643	0.5693
<i>Police</i>	0.6409	-0.1241	0.5738
<i>Court</i>	0.6488	-0.1297	0.5622
<i>Benefits</i>	0.1536	0.4126	0.8062
<i>Fare</i>	0.1491	0.4208	0.8007
<i>Taxes</i>	0.2908	0.6063	0.5479
<i>Bribe</i>	0.2605	0.5841	0.591

Clientelism Score:

Variables: E069_03 – Confidence: Education; _06 – Confidence: Police; _08 – Confidence: Civil Service; _09 – Social Security _16 – Confidence: Health Care; _17 – Confidence Courts
Each variable had the same prompt and coding.

Prompt: Please look at this card and tell me, for each item listed, how much confidence you have in them, is it a great deal, quite a lot, not very much or none at all?

Response categories in EVS Trend File:

- 5 Missing: Other
- 4 Not asked in survey
- 3 Not applicable
- 2 No answer
- 1 Don't know
- 1 A great deal
- 2 Quite a lot
- 3 Not very much
- 4 None at all

Values -5 through -1 were dropped from analysis. Original coding kept.

Corruption Score

Variables:

- F114A – Justifiable Claiming Benefits to which you are not entitled
- F115 – Justifiable: Avoiding fare on public transport

F116 – Justifiable: Cheating on taxes

F117 – Justifiable: Someone accepting a bribe

Each variable had the same prompt and coding.

Prompt: Please tell me for each of the following whether you think it can always be justified, never be justified, or something in between, using this card.

Response categories in EVS Trend File:

-5 Missing: Other

-4 Not asked in survey

-3 Not applicable

-2 No answer

-1 Don't know

1 Never justifiable

2

3

4

5

6

7

8

9

10 Always justifiable

Values -5 through -1 were dropped from analysis. Original coding kept.

Appendix E.4: Chapter 6 Summary of Statistics

Variables were generated from EVS (2018). See coding analysis.

	Obs.	Mean	Std. Dev.	Min	Max	Coding
<i>Clientelism Score</i>	930	-0.001	0.892	-2.187	3.234	Factor Analysis Score (<i>App. D.5</i>)
<i>Corruption Score</i>	930	-0.001	0.814	-0.806	5.633	Factor Analysis Score (<i>App. D.5</i>)
<i>Middle Income</i>	1,175	0.357	0.480	0	1	Middle Income Household (<i>App. A.1</i>)
<i>Russian</i>	1,304	0.244	0.430	0	1	Russian Speaker (<i>App. E.1</i>)
<i>Lower Income</i>	1,175	0.456	0.498	0	1	Lower Income Household (<i>App. A.1</i>)

<i>Upper Income</i>	1,175	0.187	0.39	0	1	Upper Income Household (<i>App. A.1</i>)
<i>Sex</i>	1,304	0.629	0.484	0	1	Is female (<i>EVS X001</i>)
<i>Religious</i>	1,262	0.382	0.487	0	1	Is religious (<i>EVS F025</i>)
<i>Education</i>	1,304	2.163	0.662	1	3	Education Level (<i>EVS X025R</i>)
<i>Occupation</i>	1,131	0.424	0.495	0	1	Has government job (<i>EVS X052</i>)
<i>Town Size</i>	1,304	2.353	1.289	1	4	Size of town (<i>EVS X049a</i>)

Appendix E.5: Full Model Robustness Tests for Tables 6-2

	Clientelism Score	Corruption Score
<hr/>		

<i>Lower Income</i>	0.028 (0.078)	-0.01 (0.065)
<i>Upper Income</i>	-0.031 (0.089)	0.085 (0.075)
<i>Russian</i>	-0.098 (0.093)	-0.101 (0.078)
<i>Sex</i>	0.114 (0.073)	-0.432** (0.061)
<i>Religious</i>	0.024 (0.076)	-0.017 (0.063)
<i>Education</i>	-0.09 (0.054)	-0.019 (0.046)
<i>Occupation</i>	-0.084 (0.072)	-0.072 (0.061)
<i>Town Size</i>	-0.048 (0.028)	-0.019 (0.024)
<i>Constant</i>	0.273 (0.143)	0.368** (0.119)
<i>N</i>	732	732
<i>R²</i>	0.056	0.096

Note: OLS Regression with robust standard errors in parentheses.
 ** $p < 0.01$ * $p < 0.05$
 Negative value for clientelism means higher confidence.
 Positive value for corruption means more justified.

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