Labor vs. Capital Incomes in Transition Economies. What Would Karl Marx Say?

Alexei Izyumov and John Vahaly
University of Louisville
U.S.A.

ABSTRACT

The paper analyzes linkages between models of capitalism that emerged in the newly market economies of Eastern Europe and ex-USSR and the outcome of transition for labor in terms of national income distribution. It is based on estimates of the Marxian rate of surplus value (rate of exploitation), share of labor in national income and other indicators of labor income performance during the period of 1992-2008. We find the rate of surplus value in transition economies to be 1.5-2 higher than comparable estimates for "mature market economies" of Western Europe but lower than similar indicators for non-transition developing economies of the world. Among the transition economies, distribution of national income was found to be more favorable for labor in East European countries and more favorable for capital in Russia and other countries of the former USSR. Based on the estimates of the rate of exploitation and other indicators we argue that even before the accession to the European Union workers in East European countries through trade-union activity and political participation were able to influence the formation of a model of capitalism, where their economic interests were reasonably well protected. At the same time, workers in the countries of the former USSR did not take an active role in the formation of the new capitalist system and suffered the consequences in the form of suppressed wages, unfavorable fiscal re-distribution, and sharper inequality.

Keywords: Capital, Income distribution, Transition economies, Inequality.

1. INTRODUCTION

The transition of some thirty countries of Eastern Europe and Asia from socialism to capitalism should be a subject of great interest to Marxian economists. However studies of transition economies (TE) done in the Marxian tradition have been relatively scarce. In particular, it relates to the analysis of outcomes of national income distribution and re-distribution in the course of transition. One of the main reasons for this deficiency is the difficulty of estimating capital and labor income in newly-market economies. Existing cross-country studies of national income distribution in both heterodox and mainstream literature typically exclude TE from their analysis (Poterba 1998, Wolff 2001, Dumenil and Levy 2002, Gollin 2002, Jayadev 2007, Caselli and Freyer 2007). A few relevant papers on TE known to authors are individual country studies, such as papers analyzing rates of profit in Russia (Menshikov 1999, Izyumov and Alterman 2005) and China (Bai et al. 2007, Bai and Qian 2010).

In Marxian framework of analysis the main outcome of income distribution under capitalism is measured by the rate of surplus value– the ratio between capital and labor incomes (Marx [1867] 1967). Another closely related indicator sometimes used in the literature is labor share - the share of labor compensation in national income or GDP (see for example, Poterba 1997, Diwan 2001, Holscher 2006, Jayadev 2007). Both of these measures at an aggregate level can indicate how favorable to labor (working class) a model of capitalism operating in a particular country is.[1]

The main research questions of the study are as follows:
1. What are the levels and trends of labor shares and rates of surplus value in TE? How do they compare to similar contemporaneous indicators in mature market economies and developing economies?
2. How significant are the differences in labor shares and rates of surplus value *among* TE? How do these differences correspond to the types /models of capitalism emerging in these countries?
3. Are secondary income distribution outcomes in TE similar to the outcomes of primary income distribution?
4. Is there a convergence in national income distribution outcomes as measured by trends in shares of labor and rates of surplus value among the TE, and between them and mature and developing non-transition economies?

The study covers the period of 1994-2008. The choice of the starting point was a compromise between data availability considerations and a conceptual issue of how can one put a date on the "birth" (or "rebirth") of capitalism in any formerly socialist country. In most East European countries radical market reforms started in 1989, while in the former countries of the USSR they started in 1992. However, in none of the TE was the dismantlement of the communist economy a one-time event. In many of them the transition to capitalism proceeded in fits and starts and took a good part of the 1990s. Placing an exact date on the transition of any formerly communist country to capitalism is probably impossible. One option for selecting a symbolic "threshold" is to choose a year, when the share of private sector in the GDP of a formerly communist country surpassed 50% According to this criterion, most of European TE converted to capitalism around 1994-95.

In our paper, following the transition literature, we consider three main models of capitalism that evolved during Post-Communist transitions: (i) "democratic capitalism" in Central East European, Baltic (CEB) and select South East European (SEE) countries (Czech Republic, Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia); (ii) "autocratic capitalism" followed by the majority of Central Asian states (Kazakhstan, Kyrgyz Republic, Turkmenistan, Uzbekistan) and the Republic of Belarus in the Commonwealth of Independent States (CIS) and; (iii) "clan capitalism" dominating in the rest of the in the CIS (Armenia, Azerbaijan, Moldova, Russia, Tajikistan, Ukraine), Georgia and most of the South East European (SEE) countries (Albania, Bulgaria, Bosnia and Herzegovina, Macedonia, Montenegro, Romania, Serbia). The distinction among models of capitalism in this classification is based on differences in key institutional characteristics of their political and economic systems – including the degree of

[1] Here and elsewhere in the paper, the term "working class" is used in the broad Marxian sense as being synonymous to "labor" or "working population")

competitiveness of the political process, the rule of law, separation of powers, freedom of the press, as well as the extent of privatization, level of competitiveness, and openness of the economy and the extent of control of the government by special interests. (A more detailed description is presented in the following section).

Based on the analysis of a position of labor under different capitalist regimes we argue that both the primary (before taxes and transfers) and secondary income distribution should be most favorable for labor (the working class) in countries of democratic capitalism and least favorable in countries of clan capitalism. In autocratic capitalist countries, where ruling bureaucracy dominates both the labor and the capital, the state could directly influence income distribution, for instance for the sake of political stability, making the outcome more ambiguous but possibly more favorable for labor than in clan capitalist economies.

The paper consists of seven sections. Following this introduction, Section two discusses *models of capitalism* that emerged in countries of Eastern Europe and the former USSR in the wake of transition. Section three evaluates data and discusses computation methodology. Section four provides estimates of labor shares and rates of surplus value in TE and comparator countries. Section five analyzes economic positions of labor *vis-à-vis* capital in three groups of transition economies in terms of primary income distribution. Section six discusses secondary income distribution and income inequality under the different capitalist regimes in TE. Section seven concludes.

2. MODELS OF CAPITALISM IN TRANSITION ECONOMIES

The disintegration of the socialist economic system in Eastern Europe and the former USSR has led to the emergence of several distinct models of capitalism. Table 1 summarizes some of the main institutional characteristics of the three such models most often distinguished in the transition literature (Boycko et al 1996, Blasi et al. 1997, Hellman 1998**,** Menshikov 1999, Spechler 2002, Goldman 2003, Marangos 2004, Aslund 2005, Beck and Laeven 2006, Acemoglu 2006, Havrylyshyn 2006, Hodgson 2006, Holscher 2006, Stefes 2006, Zweynert and Goldschmidt 2006, Baumol 2007, Lane and Myant 2007).

While different authors suggest somewhat different categorization of individual TE few argue that the early EU accession countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia) can be classified as “democratic capitalist”. For the rest of the TE group classification can be more difficult. Due to rapid political and economic changes during the reform period models of capitalism in some of the CIS and SEE countries have undergone serious transformation. As a result some countries with “borderline” institutional characteristics could fit more than one type of capitalism. This for example refers to the recent experience of Bulgaria, Romania, Georgia and Ukraine, which have features of both clan and democratic capitalism, or to Russia, which under the rule of Vladimir Putin demonstrates both autocratic and clan characteristics. In our study classification of capitalist models refers to the period of 1992-2003, during which insider-dominated clan capitalism in all of these countries was still dominant.

The overarching difference between the models of capitalism in TE consists in the strong role of the civil society and effective separation of economy and polity found in democratic capitalist TE in contrast to very weak civil society and lack of such separation in autocratic and clan capitalist countries. Weakness of the civil society in the latter two capitalist regimes allows their governments controlled by special interests to exercise effective control over the economy, including redistribution of incomes.

Table 1. Models of Capitalism and Their Institutional Characteristics in Transition Economies

		Democratic Capitalism	**Autocratic Capitalism**	**Clan Capitalism**
POLITICAL SYSTEM	**Representative country**	Poland	Kazakhstan	Russia
	Separation of powers	Present	Formally present, but effectively absent	Present, but executive power dominates
	Rule of law	Strong	Very weak	Weak
	Party system	Multi-party	Effectively one-party	Multi-party
	Freedom of the press	Present	Absent	Present but limited by state control
	Control over government by special interests	Not significant	Significant	Very significant
	Role of law-enforcement services	Limited	Very important	Very important
	Civil society	Strong	Very weak	Weak
	Index of political freedoms*	8-10	0-2	6-8
ECONOMIC SYSTEM	**Extent of privatization**	High	Low	High
	Model of privatization	Relatively open, foreigners allowed	Government dominated, foreigners not allowed until later period	Insiders dominated, foreigners not allowed until later period
	Property and contract rights	Strong	Very weak	Weak
	Entry barriers for new businesses	Low	High	High
	Separation of economy from polity	Strong	Very weak	Weak
	Shadow economy (% of GDP, estimate)**	Relatively small (26.8)	Large (41.8)	Large (45.6)

*Polity democracy index for 2000 on the scale of 0-10, as presented in Hodgson 2006: 877
**Average for each group in 1995-2000, author's computation based on Johnson et al 1997: 183; Schneider and Klinglmair 2004: 11.

From a Marxian perspective different models of capitalism that emerged in post-communist economies can be evaluated based on the place and role of the capitalist class, labor (the working class), and the government.[2]

Prior to the massive privatizations of the 1990s, countries of Eastern Europe and the USSR did not have a distinguishable class of capital owners. However, in Marxian terms, all nominally socialist countries could be viewed as exploitation-based societies with the role of exploitators performed by the ruling communist bureaucracy or *nomenclature* through its collective ownership and exploitation of state assets. (Trotsky [1937] 1967, 1941; Djilas 1957; Horvat 1982; Voslensky 1992). In a simplified form, the class structure in a socialist/communist society could be represented as consisting of just two classes: communist bureaucracy at the top and labor (working population) at the bottom.[3]

In the course of post-communist transition, the two-class system expanded to make space for the newly emerged class of capitalists. In the more advanced of the East European countries this happened through the incorporation of capitalists as powerful but not dominating partners on the economic and political arena. Privatization of state property proceeded in these countries in relatively orderly manner with sales of government assets benefiting not only the new owners (often foreigners) but also the population at large.[5]

Economic integration with Western Europe, including massive inflows of foreign investment and the promise of eventual accession to the EU worked as powerful external factors for this development (Marangos 2004, Holscher 2006, Havrylyshin 2006, Bitzenis and Marangos 2007). Not surprisingly, the resulting "democratic capitalism" model in CEB in some ways emulated the corporatist institutional arrangements existing in Western Europe, particularly in Germany (Gabrish and Holscher 2006, O'Dwyer 2006, McCann and Schwartz 2006).

Under the autocratic model of capitalism, alternatively called "political", "state-led", or "Asian" (as it was pioneered by China in the late 1970s and followed by Vietnam in the 1980s), the communist bureaucracy never yielded the commanding heights of the economy to either capitalists or workers. With *both* labor and capital too weak to counter

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2 In Marxian literature membership in the capitalist or working class is generally determined by the primary source of income so that individuals deriving most of their overall income from profits (including interest, dividend and rental income) qualify as capitalists, while those whose primary income comes from wages and salaries are included in the working class. The issue of borderline categories, such as corporate managers, receiving high salaries and profit distributions and small businesses (proprietorship) using hired labor (e.g. farmers) can theoretically also be decided on the basis of where the majority (50%+) of their overall income is coming from. In practice this is not feasible, so in most studies corporate profits, interest and rents are all considered accruing to capitalist class while proprietors' income is divided between capital and labor in a certain proportion, often half and half (Bottomore 1983, Bowles et al. 1986, Moseley 1988, Zeitlin 1989, Mandel 1992, Wolff 2001, Izyumov and Alterman 2005).

3 Defining bureaucracy as a ruling class of the communist society remains somewhat controversial. There is no generally accepted view regarding categories of communist party members who should be included in its ranks as opposed to those who should be classified as members of the working class. This problem is somewhat similar to that of defining membership of capitalist class. One of the most authoritative studies of communist bureaucracy (Voslensky 1992) includes in it all full-time party "apparatchiks" as well as government ministers, regional government officials, managers of state enterprises and senior officers of the military and law enforcement agencies. According to this study, in the former USSR these groups (with families) accounted for 7.5% of the population.

the government, the *nomenclature* maintained a strongly authoritarian political system and from the very start of transition, was able to single-handedly rule on all principal issues of economic policy, including income distribution (Spechler 2002, Acemoglu 2006, Pomfret 2006). A significant part of the economy in these countries was not privatized and continued to be operated by the state with the ruling bureaucracy preserving overall control over the setting of wages and profits.

Figure 1. Democratic Capitalism: Central East European and Baltic Countries

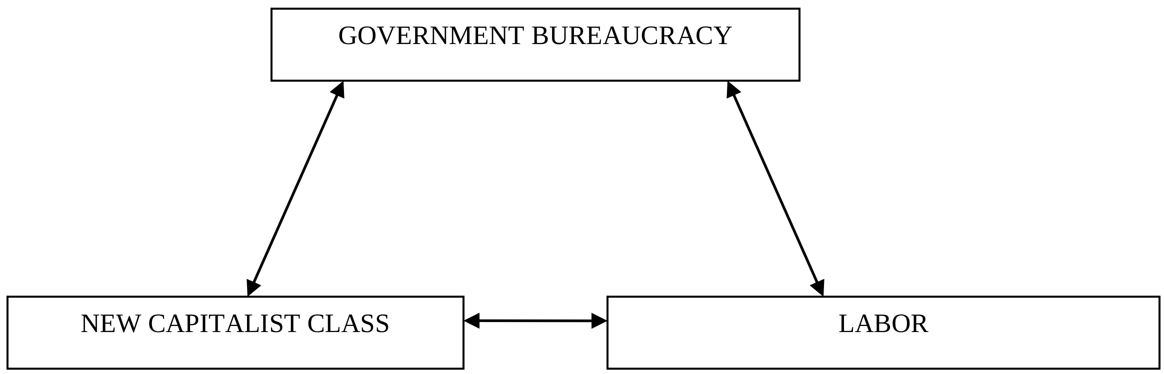
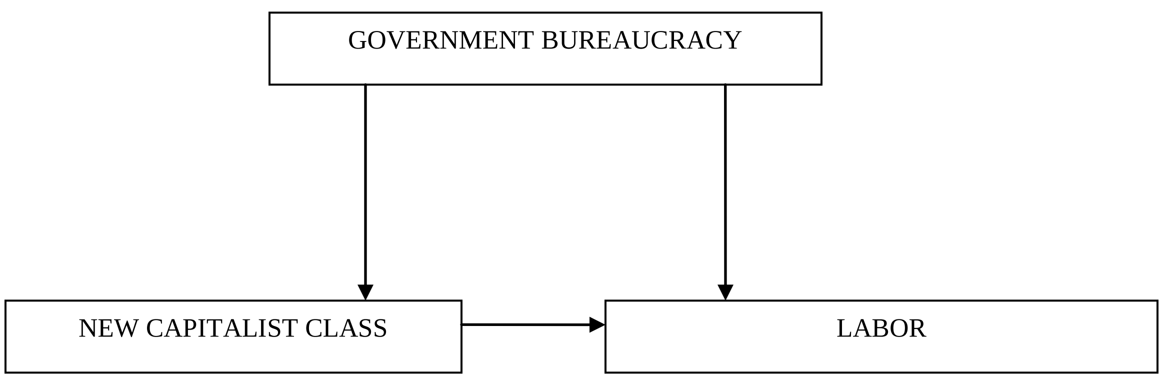


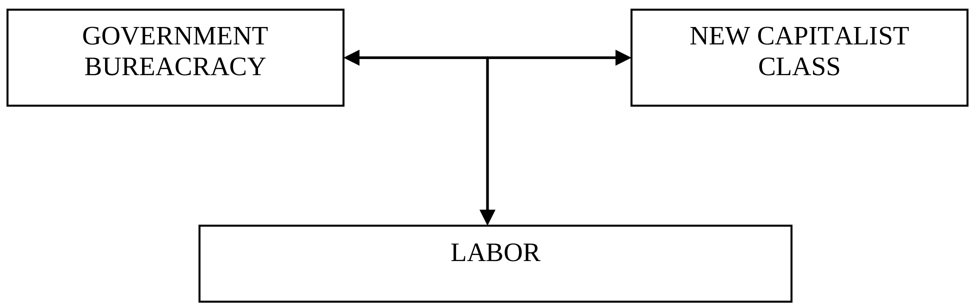
Figure 2. Autocratic Capitalism: Belarus, Central Asian States of the Former USSR



Russia and most of the CIS and SEE countries throughout the 1990s built and maintained a different model of capitalism, neither European nor Asian. On the surface, it had all the features of a democratic capitalist system. Yet here, the capitalist class, despite its youth and inexperience, was able to capture and control a significant part of the state apparatus and bend the rules of privatization and other market reforms in its own favor (Boycko et al 1996, Hellman 1998, Goldman 2003, Havrilishin 2006, Stefes 2006, Baumol

2007). Corruption flourished -- in exchange for "selling out" to capitalists, the bureaucracy enjoyed an unprecedented flow of bribes and many of its members were directly co-opted into the capitalist class. The labor was a big loser in this institutional arrangement. It was largely left out of the process of privatization of state assets and fell under the double exploitation from the new capitalists and corrupt bureaucrats. In literature, this model of capitalism is alternatively labeled, "predatory", "oligarchic", *"nomenclatura",* "clan" etc.

Figure 3. Clan Capitalism: Russia, other CIS and SEE in the 1990's



(Blasi et al. 1997, Menshikov 1999; Goldman 2003, Aslund 2005, Kosals 2007).[4] We will be using the term "clan capitalism" as it seems to better reflect the group-based system of ownership and control that dominates in these TE.

In some TE countries, clan capitalism proved to be unstable and prone to mutation into other models. Thus in Russia, under President Putin (2000-2008), the bureaucrats have been wrestling control of the commanding heights of the economy away from the new capitalists partially subjugating them to the government. The state capture in Russia is being replaced by "business capture" (Oleinik 2006, Yakovlev 2006, Kalantaridis 2007) making the overall institutional arrangements somewhat closer to that of an autocratic capitalist model. At the same time, such countries as Ukraine and Georgia in the CIS or Bulgaria and Romania in SEE, under the pressure of public discontent, corrupt bureaucratic regimes retreated and started to evolve towards the democratic capitalism model (Aslund and McFaul 2006, Demes and Forbrig 2007, Myant and Drahokoupil 2011). [5]

[4] World Bank experts diplomatically call the state-dominated capitalist systems – "non-competitive political regimes" and clan capitalist systems – "concentrated political regimes" (Transition: The First Ten Years 2002: 98).

[5] Factors that brought about the diversity of capitalist models in place of the relatively uniform socialist systems of the pre-reform period are discussed in a number of recent works (Gratchev and Izyumov 2003, Marangos 2004, Boyer 2005, Zweynert and Goldschmidt 2006, Havrylyshin 2006, Hodgson 2006, Myant and Drahokoupil 2011). Among these factors are differences in geography and natural resource endowments, religion, ethnic composition, and authoritarian traditions. For example, the origin of democratic capitalism in the CEB countries is often linked to the cultural and religious (Protestant and/or Catholic) heritage shared with West European neighbors, as well as the homogeneity and compact distribution of their population and relative shortness of the communist experiment. At the same time, the roots of autocratic and clan capitalism in the CIS and SEE countries are traced to authoritarian tendencies of Orthodox and/or Islamic religions, a

From the Marxian perspective the design and sequence of policies that led to the creation of specific models of capitalism in particular TE could be impacted by political power of labor, specifically by its ability to influence government policy via political participation, trade-union activity, collective bargaining, strikes, and other forms of class struggle (Gordon 1980, Bowles et al. 1986, Kotz 2003, Wolfson 2003, Zafirovsky 2004, Philps et al 2005). In the CEB countries, in the period leading to market reforms labor was quite vocal and grass-roots organizations, such as the “Solidarity” trade union in Poland and “Charta 77” in Czechoslovakia, were important players in the political arena. As a result, the working population in these countries could count that its interests, including job security, wages, retirement benefits, and welfare programs, would be incorporated into the reform program. In contrast to that, in most of the CIS and SEE countries practically all power on the eve of reforms was concentrated in the hands of the communist party bureaucrats, managers of large state enterprises and leaders of the law-enforcement bodies (Boyko et al. 1996, Hellman 1998, Layard 1998, Goldman 2003). At the same time, civil society in these countries was weak. Labor in particular was largely disorganized, uninformed and leaderless, and thus had no power to defend its rights and had little role in determining the reform agenda (Clarke et al. 1993; Boone et al. 1998; Clarke and Borisov 2006; Ashwin 1998, 2004; Myant and Drahokoupil 2011).[7]

The reasons for weakness of labor in the SEE and in particular in the CIS countries are numerous. Among them is the Soviet tradition of subservience of trade-unions to the government and management; steep fall in trade-union membership; low level of labor solidarity and lack of experience in defense of labor rights via collective bargaining, strikes, etc; harassment of trade unions by management and new private owners; poor representation of labor interests in the political system and in the media. Additional factors undermining willingness of workers to stand up for their rights or quit their jobs altogether include the existence of enterprise-based benefits, such as subsidized housing, child care and health insurance and wide propagation of various sources of additional income such as employment in shadow economy, subsistence farming, and intra-family transfers. Private safety net provided by these secondary incomes made workers in the CIS less willing to risk their official jobs via strikes and other open protests (Ashwin 2004, Temnitskii 2006, Roberson 2007, Clarke 2007, Leibovich and Shushkova 2007, Izyumov 2009).

The extreme weakness of labor movement in the CIS in the period of reform is reflected by the steep fall in trade union membership and low level of strike activity. For example, in Russia between 1993 and 2005 trade union membership dropped by almost 50% (Clarke 2007, 283). The poor bargaining position of labor vis-à-vis capital in the CIS countries was most explicitly manifested by the delays in payment of wages, which during the 1990s often lasted for several months or even a year. In Russia at the peak of non-payment crisis in 1998 wage arrears reached two thirds of the total wage bill (Mitra and Yemtsov 2006, 11). One recent survey-based study of workers in the Russian industrial heartland of Urals concludes: “It has turned out that blue-collar industrial workers, disunited, socially weak, and dependent on the voluntary action of manufacturers, have been cast onto the periphery of today’s social world…. So far they do not represent the social force the capital would have to reckon with.” (Leibovich and Shushkova 2007, 34).

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traditionally large role of the state in the economy of these countries prior to communist period, a high degree of ethnic diversity and the geographical dispersal of their populations.

Based on differences in the models of capitalism, as described, we expected primary income distribution outcomes during the transition to be most favorable for labor in countries of democratic capitalism and least favorable in countries of clan capitalism. In autocratic capitalist countries, the extremes of income distribution could be moderated by the strong state bureaucracy interested in social stability. Therefore we expected labor income indicators there to fall somewhere in between those of democratic and clan capitalist systems. At the same time, for all of TE, we expected the division of income to be less beneficial to labor compared to that found in mature market economies but similar to those in developing countries of similar level of GDP per capita.

3. LABOR VS. CAPITAL INCOMES: ANALYTICAL FRAMEWORK AND DATA ISSUES

To measure national income distribution we used two indicators traditional for Marxian literature: the share of labor income in the GDP and the rate of surplus value, defined here as a ratio of all profit-type incomes to labor compensation.

$$LS = W/ Y_n, \qquad (1)$$

$$RSV = \Pi /W \qquad (2)$$

where LS is the labor share; W is the annual labor compensation (in current prices); Y_n is nominal value of gross domestic product; RSV is the rate of surplus value; Π is profits or capital income (sum of profit-type incomes, in current prices).

The data for the GDP, capital, and labor incomes were compiled from the United Nations National Accounts Statistics Database. In this database, components of GDP are compensation of employees paid by corporate and government-owned enterprises (henceforth CGE), inclusive of supplemental payments and benefits, gross operating surplus (gross profits) of these enterprises, gross mixed income (gross value added) of private unincorporated enterprises (henceforth UE), including self-employed, and indirect taxes corrected for subsidies on production and imports:

$$Y = GOS_{CGE} + COMP_{CGE} + GMI_{UE} + T_{ind} \qquad (3)$$

Here Y is the GDP, GOS_{CGE} is the gross operating surplus of CGE; $COMP_{CGE}$ is compensation of employees in the CGE; GMI_{PUE} is the gross mixed income of UE; T_{ind} is indirect taxes (See: UNNA database).

To better approximate the Marxian measure of profits, we used a broad measure of capital income combining gross corporate profits before deduction of taxes and interest with profits generated in UE sector.[6] The problem in computing the latter is that profits of the UE sector are not reported by UNNA or any other statistical agency as separate items.

[6] The role of UEs sector is relatively small in HDC but is sizeable in many TE and is large in LDC, where it can reach up to 50% of the GDP and up to 70% of the labor force

In existing literature, treatment of UE output (mixed income) varies from counting all of it as profits (Menshikov 1999, Diwan 2001) to considering 100% of it as labor income (Moseley 2000). The majority of authors, however, split mixed income between profits and wages on the assumption that some part of it should be treated as labor compensation (Hall and Jones 1999, Wolff 2001, 2006; Dumenil and Levy, 2002b; Izyumov and Alterman 2005, Guscina 2006, Jayadev 2007). Following the methodology used in a number of the recent cross-country studies we have chosen to allocate mixed income between capital and labor in the same proportion as they are distributed in the corporate sector of a respective country (Bernanke and Gurkaynak 2001; Gollin, 2002; Caselli and Freyer 2007). Thus for actual computation of labor shares and rates of surplus value we used the following formulas:

$$LS = (COMP_{CGE} + \alpha{*}GMI_{UE}) / (Y - T_{ind}) \qquad (4)$$

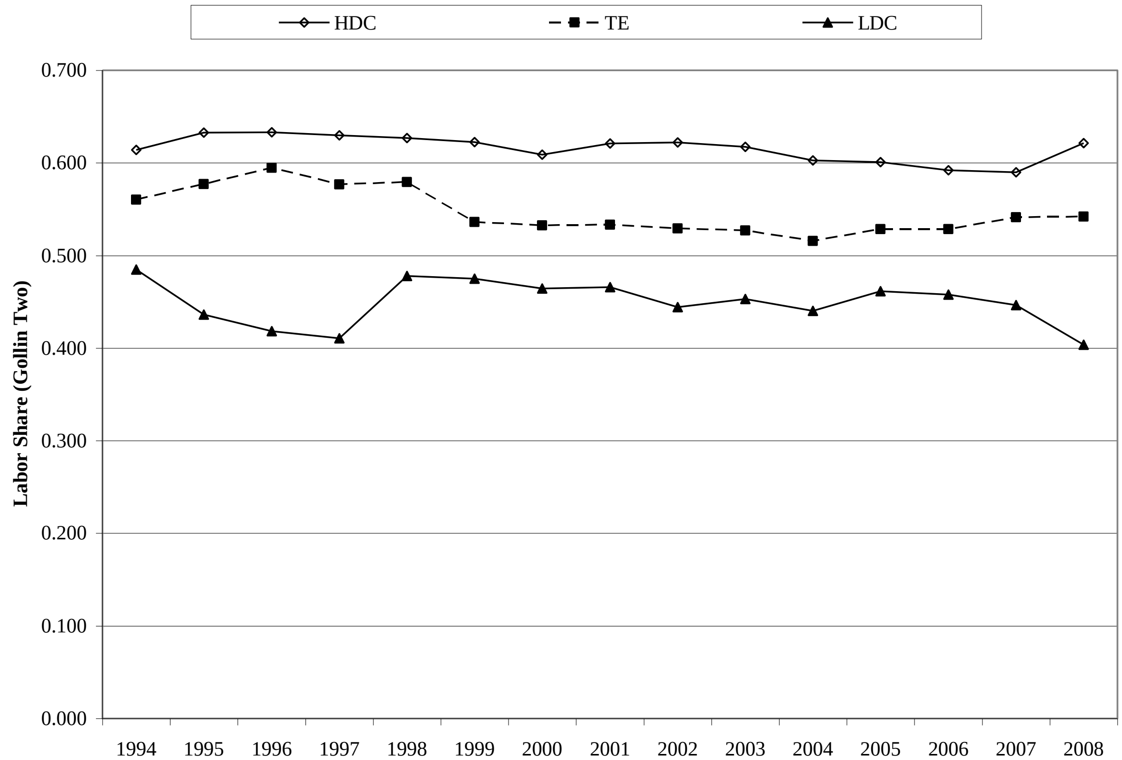
$$RSV = (GOS_{CGE} + \alpha{*}GMI_{UE}) / [COMP_{CGE} + (1-\alpha){*}GMI_{UE}], \qquad (5)$$

Here α - is a share of labor income in the output of corporate sector of the economy In the denominator, GDP is taken at cost and is therefore reduced by indirect taxes on production and imports.

4. TRENDS AND LEVELS IN LABOR SHARES AND RATES OF SURPLUS VALUE: INTERNATIONAL COMPARISON

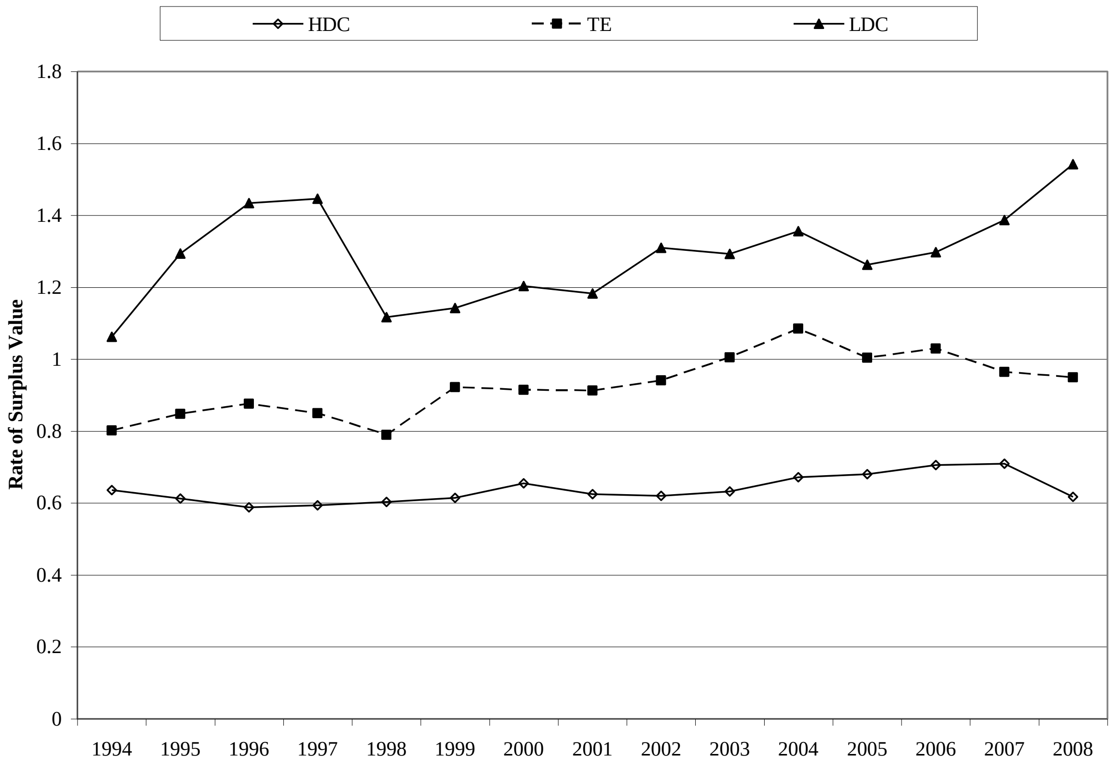
Figures 4 and 5 and Table 2 present data on trends and levels of labor shares and rates of surplus value for developed, developing and transition economies during 1994-2008. The results largely confirm our expectations. The average level of labor share in TE (0.53) was found to be higher than in LDC (0.46) but lower than in HDC (0.61). During the period of observation the level of the labor share in TE demonstrated no clear trend (See Figure 4).

Figure 4. Labor Shares in Developed, Developing and Transition Economies: 1994-2008



Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

Figure 5. Rates of Surplus Value in Developed, Developing and Transition Economies: 1994-2008



Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

Table 2. Labor Shares and Rates of Surplus Value in Developed, Developing and Transition Economies: 1994-2008

	Country	Labor Share	Rate of Surplus Value
Highly-Developed Economies (HDC)			
	Australia	0.58	0.73
	Austria	0.63	0.59
	Belgium	0.63	0.58
	Canada	0.57	0.75
	Finland	0.60	0.68
	France	0.63	0.59
	Germany	0.62	0.61
	Greece	0.52	0.92
	Ireland	0.51	0.96
	Italy	0.54	0.87
	Japan	0.59	0.71
	Luxembourg	0.60	0.67
	Netherlands	0.60	0.66
	Norway	0.55	0.83
	Portugal	0.68	0.48
	Spain	0.62	0.61
	Sweden	0.65	0.54
	Switzerland	0.73	0.37
	United Kingdom	0.65	0.54
	Unites States	0.67	0.49
	Average	*0.61*	*0.66*
	Standard Deviation	*0.05*	*0.15*
Transition Economies (TE)			
	Armenia	0.43	1.32
	Azerbaijan	0.31	2.23
	Belarus	0.57	0.77
	Bulgaria	0.47	1.14
	Croatia	0.63	0.60
	Czech Rep	0.56	0.80
	Estonia	0.53	0.89
	Georgia	0.36	1.96
	Hungary	0.60	0.67
	Kazakhstan	0.48	1.14
	Kyrgyz Rep	0.68	0.50
	Latvia	0.57	0.78
	Lithuania	0.51	0.95
	Moldova	0.60	0.68
	Mongolia	0.38	1.62
	Poland	0.58	0.74
	Serbia	0.62	0.62
	Slovakia	0.56	0.78
	Slovenia	0.66	0.51
	Russian Federation	0.55	0.85

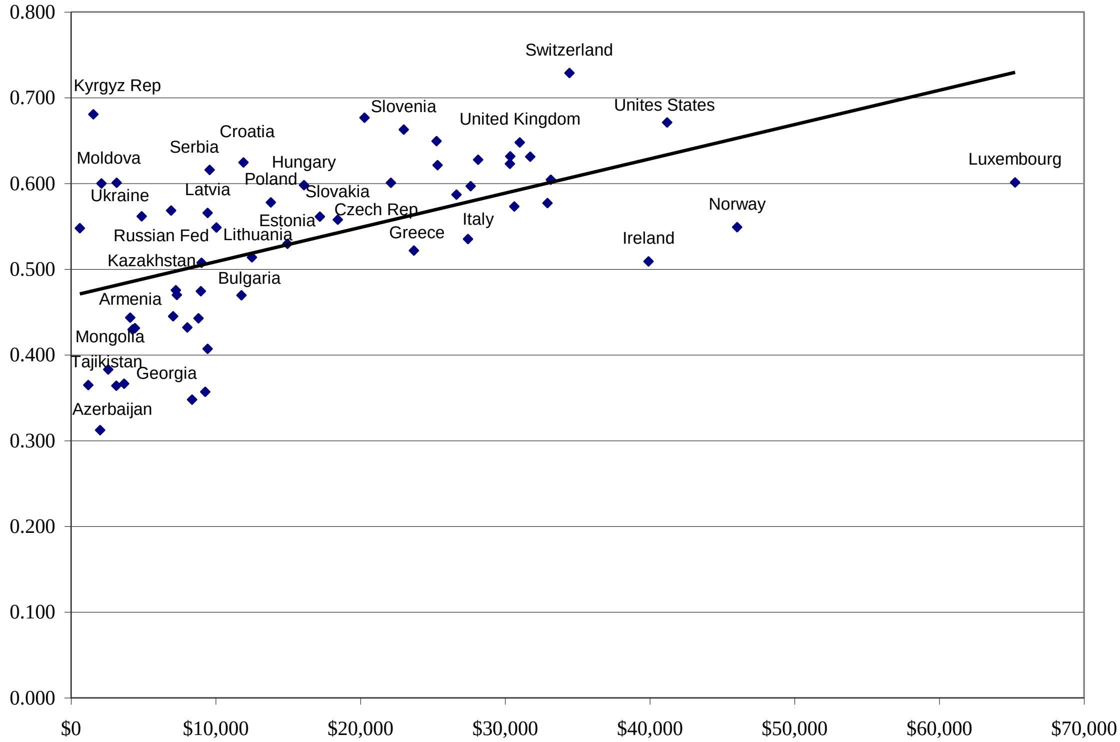
	Tajikistan	0.37	1.88
	Ukraine	0.56	0.84
	Average	*0.53*	*1.01*
	Standard Deviation	*0.10*	*0.49*
Less-Developed Countries (LDC)			
	Argentina	0.36	1.80
	Bolivia	0.37	1.76
	Brazil	0.47	1.11
	Chile	0.47	1.14
	Columbia	0.45	1.25
	Cyprus	0.60	0.69
	Egypt	0.43	1.36
	Guatemala	0.44	1.26
	Honduras	0.60	0.67
	Iran	0.35	1.90
	Mexico	0.44	1.27
	Niger	0.55	0.83
	Panama	0.43	1.32
	Uruguay	0.51	0.99
	Venezuela	0.41	1.48
	Average	*0.46*	*1.25*
	Standard Deviation	*0.08*	*0.38*

Source: World Bank, World Development Indicators 2010 and authors' calculation.
Note: Data used for calculations are not available for all countries for all years.

Matching the results for the labor share the rate of surplus value was the highest in the LDC (1.25) and the lowest in HDC (0.66) countries. In TE it is found to be in between these two - 1.01 (see Table 2).

Over the whole period of 1994-2008 the levels of the rate of surplus value in TE countries as a group demonstrated high volatility but have generally showed no trend. (Though it did trended up between 1998 and 2008). No convergence in national income distribution patterns can be observed among in TE, LDC and HDC. However distribution of output between labor and capital in newly capitalist countries of TE seems to broadly match national income distribution patterns of non-transition economies of similar development level. This is illustrated by the location of TE on scatter plot (see Figures 6 and 7) showing the relationship between labor shares and/or rates of surplus value and GDP per capita for individual countries.

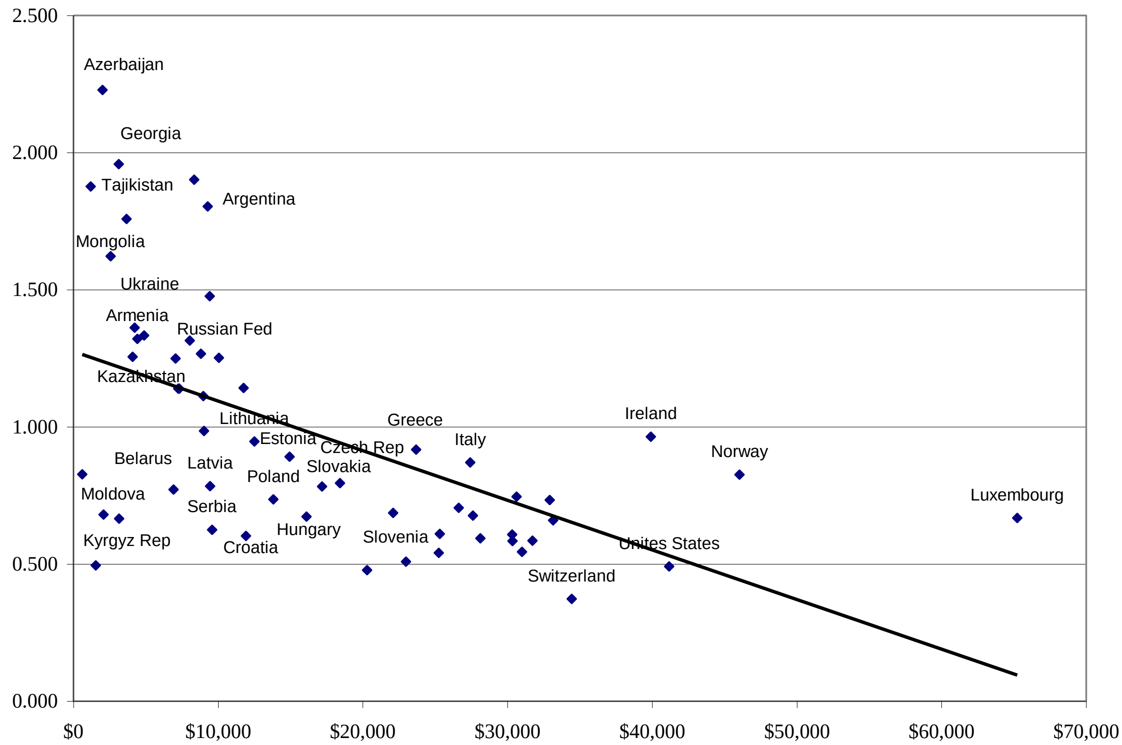
Figure 6. Labor Shares and GDP per capita in Developed, Developing and Transition Economies: 1994-2008



Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

Data in Figure 6 show a statistically significant positive relationship between average labor share and real GDP per capita (.99 confidence level). For average real GDP increase by $1,000, labor share will rise an estimated .3 percentage points.

Figure 7. Rates of Surplus Value and GDP per capita in Developed, Developing and Transition Economies: 1994-2008



Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

Data in Figure 7 shows a statistically significant negative relationship between average rate of surplus value and real GDP per capita (.99 confidence level). For average real GDP increases of $1,000, average rate of surplus value fall an estimated -.018.

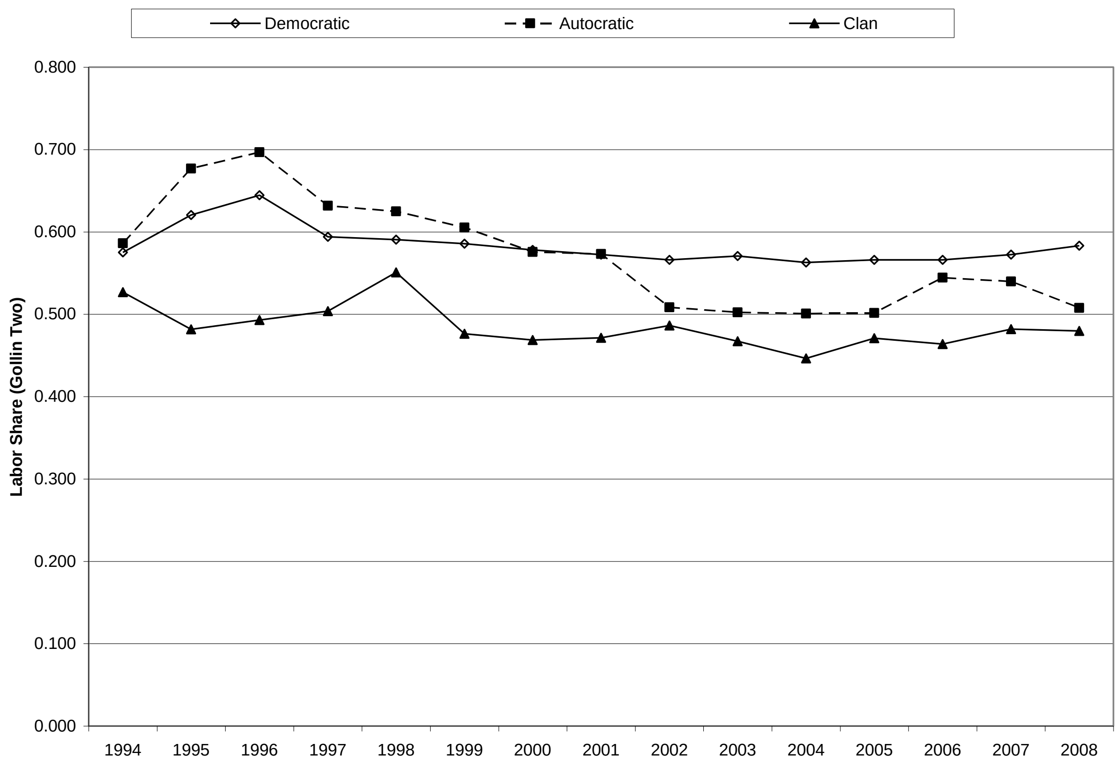
5. NATIONAL INCOME DISTRIBUTION UNDER DIFFERENT MODELS OF CAPITALISM

As discussed above we consider three main models of capitalism that evolved during Post-Communist transitions: (i) "democratic capitalism" dominating in Central East European countries; (ii) "autocratic capitalism" followed by the majority of Central Asian states and the Republic of Belarus in the CIS and; (iii) "clan capitalism" dominating in the rest of the in the CIS and some of the SEE countries.

Figures 8 and 9 and Table 3 present data on trends and levels in labor share and the rate of surplus value for three groups of TE distinguished by different models of capitalism. The results largely confirm our expectations. Labor share was found to be the lowest in the clan capitalist countries (0.47) but similar in democratic capitalist (0.58) and autocratic capitalist (0.58) countries. In all three groups of TE the shares of labor income were lower than in the mature capitalist countries.

Matching the TE results for labor shares the average rate of surplus value was the lowest for the democratic capitalist group of TE, where it stood at 0.75, and the highest in the clan capitalist group, where it was 1.40. In autocratic capitalist countries somewhat surprisingly the rate of surplus value was close to that of democratic capitalist TE (0.80).[7]

Figure 8. Labor Shares in Three Groups of Transition Countries: 1994-2008



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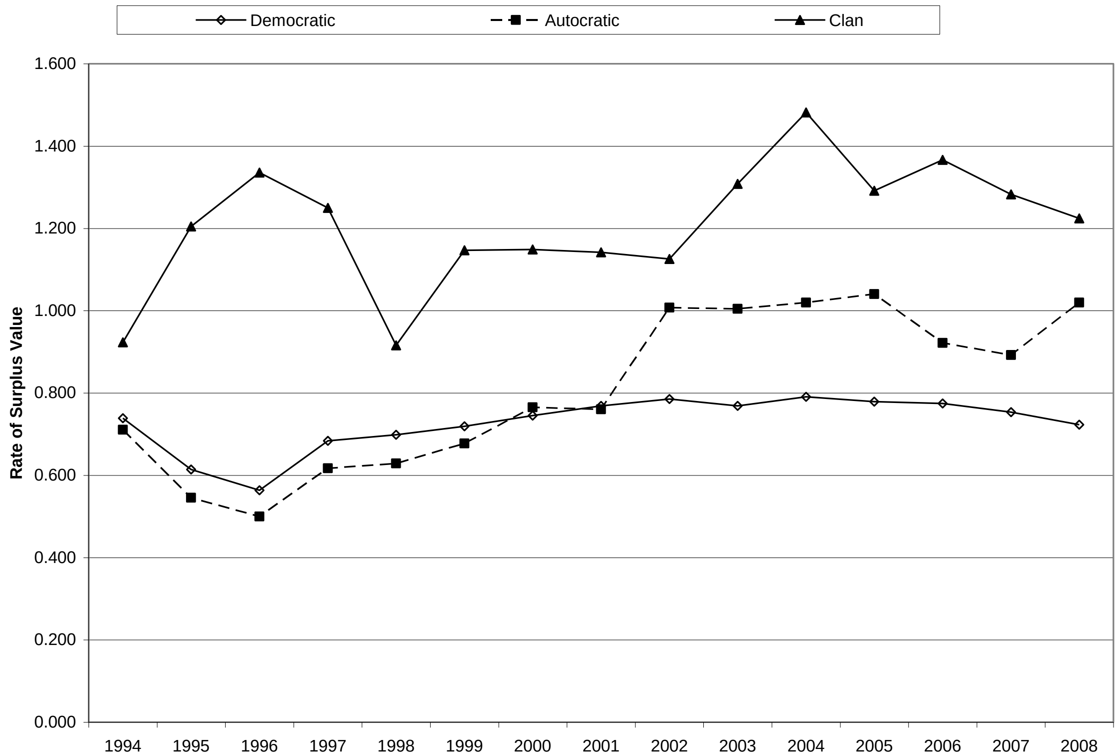
Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

[7] It should be noted that due to data limitations the results for authoritarian capitalist group are based on a sample of only three countries and thus are less reliable than those for democratic and clan capitalist groups.

Figure 9. Rates of Surplus Value in Three Groups of Transition Countries: 1994-2008



Source: Source: World Bank, World Development Indicators 2010, United Nations National Accounts Statistics Database and authors' calculation.

Table 3. Labor Shares and Rates of Surplus Value in Three Groups of Transition Countries: 1994-2008

Democratic Capitalist		Labor Share	Rate of Surplus Value
	Croatia	0.62	0.60
	Czech Rep	0.56	0.79
	Estonia	0.53	0.89
	Hungary	0.60	0.67
	Latvia	0.57	0.78
	Lithuania	0.51	0.95
	Poland	0.58	0.74
	Slovakia	0.56	0.78
	Slovenia	0.66	0.51
	Average	*0.58*	*0.75*
	Standard Deviation	*0.05*	*0.14*
Autocratic Capitalist			
	Belarus	0.57	0.77
	Kazakhstan	0.48	1.14
	Kyrgyz Republic	0.68	0.49
	Average	*0.57*	*0.80*
	Standard Deviation	*0.10*	*0.32*
Clan Capitalist			
	Armenia	0.43	1.32
	Azerbaijan	0.31	2.23
	Bulgaria	0.47	1.14
	Georgia	0.36	1.96
	Moldova	0.60	0.68
	Mongolia	0.38	1.62
	Russian Federation	0.55	1.25
	Serbia	0.62	0.62
	Tajikistan	0.36	1.88
	Ukraine	0.56	1.33
	Average	*0.47*	*1.40*
	Standard Deviation	*0.11*	*0.53*

Averages are unweighted.
Source: United Nations National Accounts Statistics Database and World Bank, World Development Indicators 2010, and authors' calculation.

Over the whole period of 1994-2008 the levels of labor share in TE countries demonstrated high volatility and have generally trended down (Figure 9). Matching this increase, the rate of surplus value in all groups of TE trended up. Thus, both measures of labor income performance point towards a certain weakening in positions of labor vis-à-vis capital in the course of transition. The result is somewhat counterintuitive. It could be expected that national income distribution would be less favored to labor earlier in the transition period when deep transformational recessions and massive unemployment weakened the bargaining power of labor vis-à-vis capital. As these economies recovered, the increasing demand for labor, the revival of investment and the gradual elimination of structural deficiencies of TE labor markets, such as their geographical immobility, could act to increase labor shares, suppress profit shares and reduce rates of surplus value. However the trend towards tightening of labor markets and growth of real wages seem to have been dominated by the even faster growth of labor productivity in these countries. Additional pressure on nominal labor shares could have been exerted by relatively more rapid growth of prices on commodities and producer goods compared to these of consumer goods.[8]

Due to data limitations we consider these results as only tentative indicators of underlying trends in capital-labor relations in TE.

6. SECONDARY INCOME DISTRIBUTION AND INEQUALITY

Major differences in the primary income distribution, as measured by labor share of the GDP and the rate of surplus value, can be reversed, moderated, or further increased by regulatory and re-distributive policies of the government. From Marxian (and Veblenian) perspective, the secondary income distribution should depend upon the bargaining power of labor as much or more than the primary income distribution (Marx [1948] 1967, 1969; Veblen [1899], 1994; [1904] 1965). Assuming that labor shares and rates of surplus value are accurate measures of the relative strength of labor in different TE, one should expect workers in democratic capitalist countries to achieve better treatment and workers in clan capitalist counties to do worse at the secondary income distribution level. For countries of autocratic capitalism, the secondary distribution outcomes are harder to predict because here ruling bureaucracy can favor larger income transfers to labor for the sake of political stability.

During the transition period, the impact of the state on income distribution and redistribution was transmitted through numerous mechanisms, including labor market regulations, liberalization of prices and monetary policy, as well as fiscal and welfare policies (see Table 4).

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[8] The labor share can be represented as a function of productivity, real wages and price deflators for consumer goods and GDP. From the definition of labor share as a ratio of labor compensation to the nominal GDP follows:

$$W/Y = w\, P_w / yP_y, \qquad (7)$$

where w is real wage rate, y is productivity, L - employment, P_w - consumer price index, P_y - the GDP deflator. This decomposition allows to present the observed level of labor share as a product of "real" variables (a ratio of real wage to productivity) - and price-induced determinants:

$$W/Y = (w/y)^* (P_w / P_y). \qquad (8)$$

Table 4. Public Policies Affecting Income Distribution

		Democratic Capitalism	Autocratic Capitalism	Clan Capitalism
LABOR MARKET REGULATION	**Unemployment benefits**	Relatively generous	Meager	Meager
	Wage protection	Relatively strong	Weak	Weak
	Trade union legislation	Favorable to workers	Effectively anti-labor	Effectively anti-labor
	Support of small-business	Relatively generous	Weak	Weak
MACROECONOMIC AND WELFARE POLICIES	**Mode of reforms**	Mostly "shock therapy"	Mostly gradual	Mostly "shock therapy"
	Monetary Policy	Moderately inflationary	Highly inflationary	Highly inflationary
	Fiscal policy	Moderate reduction of spending, high effective taxes, major redistribution to the poor	Moderate reduction of spending, high effective taxes, moderate redistribution to the poor	Major reduction of spending, low effective taxes; weak redistribution to the poor
	Welfare policy	Generous pension benefits, targeted subsidies, generous spending on health and education	Moderate pension benefits, poorly targeted subsidies, reduction of spending on health and education	Meager pension benefits, untargeted subsidies, sharp reduction of spending on health and education

From the start of reforms, countries operating under different capitalist regimes conducted very different labor market policies. In countries of the democratic capitalist group, governments maintained relatively high unemployment benefits. In most of the CIS and SEE countries, however, unemployment benefits were meager. For example, in Slovakia during the 1990s, unemployment benefits generally ranged between 40-50% of the average wage, while in Russia they were less than 15% (Boeri and Terrell 2002, Vodopivec et al. 2005). Similarly while in the CEB countries, the minimum wage was set at 30-40% of the average wage. In the CIS group it was allowed to shrink from close to 30% in 1990 to less than 10% in 1996 and less than 7% in 2002. In Russia, as late as in 2006, the minimum wage was 1,100 rubles a month or just 10% of average wage (Goskomstat 2006: 186).

High minimum wage and relatively generous unemployment benefits helped workers in the democratic capitalist countries to restore their real wages relatively fast. In contrast to that, in the clan capitalist countries of the CIS and SEE, due to the absence of the effective wage floor, real wages continued to decline until mid 1990s losing up to 40-50% of their pre-reform value. Wages in the CIS countries recovered somewhat in 1995-

1997, but dropped dramatically in the wake of the 1998 ruble crisis. Since 1999 they have been increasing again but as late as in 2005 still remained lower than in the pre-transition period.

Additional pressure on real wages came from highly inflationary monetary policies. In the first years of reforms, in the wake of price liberalization, inflation in all of the TE was severe. However, in the democratic capitalist countries, the average inflation rate in 1992-2003 period was less than 20%, and the worst annual inflation rate was on the order of 100-200%. In the same period, in countries of autocratic and clan capitalism, the average inflation rate reached 100-124% and in some years many of these countries suffered inflation of 1000% a year or above (see Table 5). In Russia, for example, inflation tax on households resulting from depreciation of their savings estimated to total 12% of GDP (Mitra and Yemtsov 2006, 14). Different outcomes of monetary stabilization efforts were largely predetermined by the balance of political forces. Governments of the democratic capitalist TE, operating under national consensus and controlled by strong civil societies, were able to contain inflation relatively quickly. In contrast to that, in autocratic and clan capitalist countries, the struggle with inflation was undermined by powerful political lobbies. In many of the CIS countries during the first years of reforms enterprise directors secured massive flows of state subsidies and government credits to their firms, which helped to fuel the hyperinflation.

Table 5. Selected Indicators of Monetary and Fiscal Policy in Transition Economies

Democratic Capitalist	Average inflation (%), 1992-2008*	Taxes on profits, and capital gains (% revenue). 1992-2008	Government spending as % of GDP, 1989-1990	Government spending as % of GDP, 2001-02	Gov't spending in 2001-02 as share of 1989-1990	Gov't pension spending as % of GDP, 1999 - 2002
Croatia	134.4	9.3	na	na	na	na
Czech Rep	5.1	17.2	61.7	36.8	0.6	9.8
Estonia	15.9	12.4	39.5	35.4	0.9	7.0
Hungary	12.7	19.5	59.1	45.4	0.77	9.7
Latvia	29.5	12.2	52	32.8	0.63	10.2
Lithuania	36.7	19.0	50	29.6	0.59	7.3
Poland	13.5	14.4	41.4	38.1	0.92	15.5
Slovakia	7.1	12.3	61.7	41.6	0.67	9.1
Slovenia	9.2	14.0	42.2	45.1	1.07	13.6
Average	***29.3***	***14.5***	***51.0***	***38.1***	***0.75***	***9.7***
Autocratic Capitalist						
Belarus	310.2	9.9	43.5	44.9	1.03	7.7
Kazakhstan	147.4	29.9	43.5	22.5	0.52	5.0
Kyrgyz Republic	14.0	18.5	43.5	20.4	0.47	6.4
Average	***157.2***	***19.4***	***43.5***	***29.3***	***0.67***	***6.4***
Clan Capitalist						
Armenia	313.2	15.7	43.5	17.1	0.39	3.1
Azerbaijan	249.2	23.2	43.5	21.5	0.49	2.5
Bulgaria	93.5	14.9	58	37.7	0.65	7.3
Georgia	21.0	9.3	43.5	na	na	na
Moldova	16.6	3.3	43.5	20.6	0.47	7.5
Mongolia	33.8	23.9	51.1	na	na	na
Russian Fed	105.2	5.3	43.5	37.3	0.86	5.7
Serbia	37.7	10.1	na	21.3	na	na
Tajikistan	15.6	4.0	43.5	na	na	na
Ukraine	390.5	13.3	43.5	33.5	0.77	8.6
Average	***127.6***	***12.3***	***46.0***	***29.5***	***0.63***	***5.8***

Averages are unweighted.
*Consumer Price Index
Source: United Nations National Accounts Statistics Database and World Bank, World Development Indicators 2010, and authors' calculation.

The impact of the state on the secondary income distribution was transmitted most directly through fiscal policies. Transition to the market has led to a significant reduction of the fiscal role of government in all of TE. However, both the extent of the “fiscal retreat” and its implementation were very different under each type of capitalist regime. In the democratic capitalist countries government revenues and expenditures fell less drastically: between 1989-1990 and 1999-2002, government spending as a percentage of GDP declined there on average from 51.0% to 38.1%, or by about one quarter. In autocratic capitalist and clan capitalist countries in the same period, it fell by more than a third – from 43.5% to 29.3% and from 46.7% to 29.5% respectively (see Table 5).

No less important, in the democratic capitalist TE the fiscal retreat was accomplished in a relatively orderly manner. Tax collection in these countries did not collapse, tax rates were maintained at a relatively high level, and, thanks to civil society influence, priority in spending was given to social protection. The fiscal retreat was also relatively well organized in authoritarian capitalist countries, where the ex-communist bureaucracy never yielded control of the budget to the new capitalists (Gerry and Mickiewicz 2008). In contrast to that, in most of the clan capitalist countries of the CIS and SEE at the start of transition the budgetary process literally imploded (Havrylyshyn 2006, Gerry and Mickiewicz 2008). Official tax “forgiveness” granted to many enterprises and massive tax evasion made effective tax rates there several times lower than the statutory ones. The average share of taxes on income, profits and capital gains amounted here to only 12.3% of government revenue vs. 14.5% and 19.4% in democratic and autocratic capitalist countries (see Table 5). Inability to raise revenue combined with prolonged recession undermined spending on social programs, education, and health care, particularly in the CIS countries, where real GDP fell in the 1990s by 40-70%.

The redistributive response of TE governments in the welfare area thus closely corresponded to the types of capitalism established at the initial stage of reforms. In the countries of the democratic capitalism group, governments played an active role in alleviating the costs of transition for labor. In spite of recessionary pressures, the level of social protection there was left largely intact, while the system of welfare was re-oriented towards the needs of the market economy. This was particularly true for such CEB countries as Poland, where the share of GDP spent on welfare transfers have surpassed the pre-transition levels (Milanovic 1998; Transition: The First Ten Years, 2002; Gabrish and Holscher 2006). The level of social protection was also largely maintained in some of the autocratic capitalism countries, such as Belarus. In countries of clan capitalism with their weak civil societies welfare policies were least sensitive to the needs of working population. Here, the capture of the state by special interests prevented re-distribution of income towards more vulnerable members of the society. On average, in the end of the 1990s to the beginning of the 2000s period in the clan capitalist countries, spending on pensions comprised only 5.7% of GDP vs. 6.4% in autocratic capitalist and 9.7% in the democratic capitalist groups (see Table 5).

The cumulative effect of primary income distribution, as measured by the reduction of labor share and the increase in the rate surplus value and, and redistributive impact of differences in government monetary, fiscal, and welfare policies resulted in vastly different levels of income inequality, measured at the household level. In democratic capitalist countries, where redistributive policies were relatively pro-labor, the level of inequality measured by the Gini index, increased in the course of transition (between 1989-90 and 2002) from 0.23 to 0.32 (see Table 6). [9]

Table 6. Income Inequality in Transition Economies

	Gini coefficients of inequality			
	1987-90	1996-98	2002	2002 as a % of 1987-90
Democratic capitalist				
Czech R.	0.19	0.25	0.26	137
Estonia	0.24	0.37	0.38	158
Hungary	0.21	0.25	0.35	167
Latvia	0.24	0.32	0.33	137
Lithuania	0.23	0.34	0.35	152
Poland	0.28	0.33	0.29	104
Slovak R.	0.19	..	0.26	137
Slovenia	0.22	0.3	0.30	136
Average	***0.23***	***0.31***	***0.32***	***139***
Autocratic capitalist				
Belarus	0.23	0.26	0.35	152
Kazakhstan	0.3	0.35	0.41	137
Kyrgyz R.	0.31	0.47	0.44	142
Average	***0.28***	***0.35***	***0.40***	***143***
Clan capitalist				
Armenia	0.27	0.61	0.48	178
Azerbaijan	0.28	..	0.46	164
Bulgaria	0.23	0.41	0.32	139
Moldova	0.27	0.42	0.43	159
Romania	0.23	0.29	0.36	157
Russia	0.26	0.47	0.49	188
Ukraine	0.24	0.47	0.41	171
Average	***0.26***	***0.48***	***0.43***	***165***

Source**:** Transition: The First Ten Years 2002: 9; Sukiassyuan 2007: 42; World Development Indicators 2010.

While representing a significant increase (about 39%), such level of inequality was still no higher than that observed in the majority of the European OECD countries. In contrast to that in the same period, in clan capitalist countries the Gini index increased by

[9] The role of the fiscal transfers in compensating income inequality is noted in a number of studies. Thus for Hungary and Czech Republic it is estimated to have reduced Gini from 0.5 to 0.3 in mid 1990s 1994 (Gerry and Mickiewicz 2008, 97).

65% - from 0.26 to 0.43, reaching a level of inequality similar to that found in most unequal of Latin American societies. [10]

In the autocratic capitalist countries, the Gini index rose by 43%, from 0.28 to 0.40. Here the increase in inequality was less severe than in clan capitalist group but more significant than in democratic capitalist TE.

It is important to note that the major gaps in extent of inequality between democratic capitalist TE on the one hand and autocratic and clan capitalist countries on the other hand were observed in spite of many income compensation mechanisms that were employed by households in the latter countries. These included rapid growth of employment in the shadow economy, emergence of subsistence farming, intra-family transfers, and legal and illegal migration (Seeth et al 1998, Klugman 2002, Schneider and Klinglmair 2004).

Overall the outcomes of secondary income distribution in TE as measured by inequality, followed the patterns of primary income distribution reflected by labor shares and rates of surplus value.

7. SUMMARY AND CONCLUSIONS

In the Marxian framework of analysis, the main distributional outcome of capitalist production is reflected by the rate of surplus value– ratio between capital and labor incomes as well as in the level of the labor share - the share of labor compensation in the GDP. To investigate differences in the labor income performance across TE during the transition, we tracked the rate of surplus value and wage share in 22 TE with different models of capitalism for the period of 1994-2008. The costs of capitalist transition were significantly different for labor in countries under different models of capitalism.

The main findings of the paper are as follows:

1. During the period of transition levels of labor shares in TE were generally lower and rates of surplus value significantly higher than in mature market economies. However, compared to the developing non-transition economies the outcomes of national income distribution in TE were relatively more beneficial for labor. No convergence in the levels of labor shares and rates of surplus value were observed among the TE, HDC and LDC group averages.

2. Inside the TE group distribution of national income is found to be more favorable for labor in democratic capitalist countries of East Europe, and more favorable for capital in clan capitalist countries, most of which countries of the former USSR. Income distribution parameters for countries of autocratic capitalism were found to be in between these two but

[10] High levels of income inequality in clan capitalist countries are closely linked to major increases in wealth inequality. The extremes in this process were reached in the oil rich clan capitalist counties, such as Russia, where rigged privatization schemes, subsidized government credits, non-competitive license awards, and other corrupt practices created hundreds of instant millionaires and dozens of billionaires. According to the Russian edition of *Forbes* magazine between 2001 and 2008 estimated combined wealth of Russian billionaires grew from $12.4 billion to $522 billion, increasing as a percentage of GDP from 4% to over 30%. By the number of its super-rich (110) Russia surpassed all countries in the world except the US.

surprisingly close to those of democratic capitalist countries. As expected, we found the rate of surplus value to be the lowest (74.1%) and the wage share to be the highest (50.9%) in democratic capitalist TE. In clan capitalist countries, the rate of surplus value was the highest (99.1%) and the wage share correspondingly the lowest (46.9%). In autocratic capitalist countries both indicators were in between these two groups but closer to the democratic capitalist TE.

3. The rates of surplus value in TE correlate inversely with the level of development as measured by the GDP/capita so that the more developed TE countries generally have the lowest, and the poorest countries – the highest rates of surplus value.

4. Over the period of transition distribution of national income between capital and labor was relatively stable, trending neither up or down.

5. The differences in primary income distribution, as reflected by labor shares and the rates of surplus value and the wage shares, can be affected by government redistribution activities conducted via labor, monetary and fiscal policies. Secondary income distribution was found to be relatively more pro-labor in democratic TE. In clan capitalist countries government policies were more pro-capital and possibly reinforced rather than reduce outcomes of primary income distribution. However in authoritarian capitalist TE, where both capital and labor were politically weak, the governments kept tighter control of the budget and used fiscal redistribution in favor of labor, making income inequality differences somewhat less severe than in the clan capitalist group, but still larger than in the democratic capitalist TE.

The inability of labor in the majority of TE to defend its economic positions *vis-à-vis* capital and/or government bureaucracy is explained in part by the depth of the transformational recession and massive unemployment it caused. As these economies continue to recover, the increasing demand for labor should help improve its relative bargaining position *vis-à-vis* capitalists. The revival of investment and gradual elimination of structural deficiencies of TE labor markets, such as their geographical immobility, should work in the same direction.

From a longer-term perspective, the integration of economies of the CEB and the SEE accession countries into the EU should help workers of these countries move closer to the distributional outcomes characteristic to mature market economies. However, labor in clan and autocratic countries of the former USSR can hardly reach similar goals unless it makes a concerted effort to develop its institutional strength via trade-union mobilization and political activity.

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