



**NETWORK CAPITAL IN CAPITALIST, COMMUNIST,
AND POST-COMMUNIST SOCIETIES**

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ABSTRACT

The term 'network capital' comprises the use of a wide variety of personal networks: for example, altruistic, long-lasting, multipurpose relations; balanced, short-term patron-client relations; instrumental barter; and exploitative unequal exchanges such as bribery and corruption. Every society can be characterized by a particular level and form of network capital, based on its culture and on its historically and structurally determined organizational framework. The scope and role of network capital is a simultaneous function of already existing network capital and the changing economic situation. This paper's first hypothesis is that the size of network capital is greater under communism than capitalism because of the differences in cultural, historical developments and because there are greater socioeconomic pressures in communist societies that give network capital more opportunities to operate. The second contention is that in the course of transition from communism to capitalism—i.e., in the postcommunist period—networking actually becomes more widespread, although the previous hypothesis might seem to suggest that it would diminish.

RESUME

El término 'capital de red' comprende una amplia variedad de redes personales: por ejemplo, relaciones de múltiples propósitos, altruistas y duraderas; relaciones patrón cliente, equilibradas y de corto plazo; trueque instrumental; intercambios desiguales y de explotación tales como cohecho y corrupción. Toda sociedad puede ser caracterizada de acuerdo con un nivel y forma particular de su capital de red basado en su cultura y en su marco organizacional histórica y estructuralmente determinado. El alcance y rol del capital de red es una función simultánea del capital de red ya existente y de la cambiante situación económica. La primera hipótesis de este artículo es que el tamaño del capital de red es mayor bajo el comunismo que bajo el capitalismo, como resultado de diferencias en los respectivos desarrollos culturales e históricos y porque en sociedades comunistas existen presiones socioeconómicas más grandes, dando así mayores oportunidades para operar al capital de red. La segunda afirmación es que en el curso de la transición de comunismo hacia el capitalismo—es decir, en el período post-comunista—la constitución de redes deviene más frecuente y extensa, aunque la hipótesis previa parecería sugerir que disminuiría.

What is worse than communism?
 What comes after it.
Hungarian humor, 1991

Discussions have appeared in the literature from time to time on differences among societies in the number and role of personal networks, particularly between capitalist and communist systems. For example, in the final part of their analysis of community ties and personal support networks of affluent East Yorkers, Wellman and Wortley (1990), stress that personal support networks in 'comfortable First World milieus' differ substantially from those in less secure milieus characterized by shortages, predatory states, or poverty.

Lomnitz (1988), comparing informal exchange networks in Chile, Mexico, and the Soviet Union, emphasizes the pervasiveness of informality and its roots in the formal structures at both the top and the bottom of society. She concludes that centralization normally increases the growth of informality.

Finally, Eisenstadt and Roniger (1984) compare patron-client relations throughout the world and conclude that they

are probably more widespread and pervasive in Communist than in other industrial societies... The emergence of fully fledged clientelistic patterns would be contingent, above all, on the weakening of the political center and on the changes in the patterns of its legitimation, without the development of more autonomous social strata (190–91).

This paper tests two tentative hypotheses regarding the scope and role of network capital in communist, capitalist, and postcommunist societies. In the first part I outline the basic definitions and propose two hypotheses to compare the scope and role of network capital in capitalist versus communist societies and in communist versus postcommunist societies. In part two I examine the two hypotheses in more detail. In the final section I draw some conclusions regarding the main characteristics of the future of postcommunist societies in Eastern Europe.

1. Definitions and Hypotheses

By communist and postcommunist societies I refer to the Eastern European countries before and after the transition of 1989–90. By capitalist countries I mean the 'core' of the world economy, that is, the affluent societies of Western Europe and North America. The term network capital includes any type of personal network and its use in all sorts of functions and according to any kinds of principles. In other words, network capital includes long-term altruistic kin relations,

balanced reciprocity, lasting and multipurpose patron-client relations, and instrumental barter, as well as corrupt exchanges.

In theory, the size of an economic actor's network capital (whether this be an individual, a household, an organization, or a society) is equal to the sum of the existing networks that the actor is able to mobilize when needed. The value of one's network capital is a function of the number and availability of network members, of their network capital, and of the resources the network members possess.

The hypotheses I work with refer to ideal types instead of concrete societies. I do not compare particular societies but ideal types of communist, capitalist, and postcommunist societies. Using a simple statistical example, my hypotheses allow me to say only that the average size of network capital under communism is greater than under capitalism and is greater under postcommunism than under communism, and that the variance among 'real' societies within these ideal types is smaller than it is between the ideal types.

The mode of analysis I use consists of examples and case studies, which I consider to be illustrations rather than proofs. In other words, I do not test the validity of my hypotheses but instead argue that if my assumptions are correct regarding how network capital operates in ideal-type societies and if the illustrations I use are robust, then I can draw certain conclusions regarding the magnitude of and trends involving network capital.

Every society is characterized by a particular level and form of network capital based on its culture and its historically and structurally determined organizational framework (Granovetter 1985, 1992). The scope and role of this network capital at any particular time is simultaneously a function of the already existing networks and the changing economic situation. If we accept that every society is characterized by a particular level and composition of network capital, that the latter is related to that society's culture, history, and polity, as well as to its institutional-organizational structure, and that it is influenced by the frequency and type of external challenges the society faces, then two hypotheses can be formed regarding the size of network capital in capitalist, communist, and postcommunist societies.

a) Network capital is greater under communism than under capitalism because of differences in their cultural heritages and their historical and political developments. Moreover, communist societies are characterized by considerable socioeconomic pressure, which provides a favorable environment for network capital.

b) Paradoxically, I also assume that in the postcommunist transition from communism to capitalism, networking becomes more widespread rather than less. The reason for this paradoxical increase is that network capital under communism does not automatically decrease when communism is displaced. This is because of the short-term inertia of network capital's cultural-structural basis, and because both crises and opportunities occur at least as frequently

under postcommunism as under communism. As a result, there is considerable room for networking as a means of coping and grabbing.

2. Why There is More Network Capital under Communism than under Capitalism

Network capital has two uses: it is a substitute for the market and the state, and it superimposes the market and the state.

2.1 Network Capital as a Substitute for the Market and the State

Two examples of using nonmarket elements of network capital as a substitute for market contracts or redistributive state allocation are the reciprocal exchange of labor (REL) and managers' reciprocal transaction (MRT). The first describes the relevance of network capital in the household economy; the second shows that these transactions are just as important in the formal economy.

2.1.1 The Reciprocal Exchange of Labor (REL)¹

The reciprocal exchange of labor denotes those transactions in which households exchange their labor for that of other households on a 'nonmarket' basis. REL is an everyday experience and network capital is an important asset in a rural community.

The combination of culture and history (tradition), ecology (small size and closeness), and structure (inertia, rationality, and lack of better market or redistributive alternatives) explains the ubiquity of REL in such settings. The constant uncertainty of living under the double oppression of a hostile nature and society, together with a restrictive ecology and constrained communication with the outside world, encourage people to develop and maintain relatively intact communities as a defense mechanism. This process takes place more or less irrespective of the 'main culture' and is a hotbed for the development of 'small cultures.' The inertia of these 'small cultures' and of the community itself, including the dense and overlapping systems of personal networks, is the cultural and structural basis of the ubiquitous REL.

Some 222 households (about 10% of the total) in the Hungarian village of Veszto were interviewed in 1989.² The most important finding for our purposes is that every household was

¹ For further discussion, see Sik (1988a).

² Both husbands and wives in each household answered the same questions. Control questions analyzing their relations were answered by them separately. These involve social relations, gift sharing, and exchanges of labor market information. Questions relating to 'troubleshooting' were divided between them depending on whether the case was a household chore or a 'man's job,' such as lending tools or building houses.

either a donor or a recipient of interhousehold transactions. As shown in the first column of Table 1, this is mainly due to reciprocal social care, the 'gift economy,' and frequent REL transactions in part-time farming.

TABLE 1

Frequency and Direction of Transactions by Types of Transactions

Transaction	Frequency (100% = all households)	Symmetric (100% = households characterized by given transaction)
Reciprocal care	87	64
Gifts	87	77
Taste of food	86	85
Pig killing	82	64
Repairs	73	41
House building	68	67
Lending tools	67	42
Finding jobs	61	40
Giving advice	56	40
Help in trouble	54	26
Farming	54	47
Lending money	49	27
Lending assets	48	26

Source: Sik (1994c)

As shown in the second column of Table 1, the overwhelming majority of transactions are symmetric in nature, that is, the household is involved in reciprocal getting and giving. The principle of symmetry means that households try to establish a balance with one another between giving and receiving.

Because 'troubles' are everywhere in the rural setting, REL becomes a constant form of 'troubleshooting.'³ Troubles stemming from problems needing immediate attention result in an exchange of services and lending of tools and household items. Usually these services and items

Veszto is a large village—compared to average Hungarian villages—located in the southeast, close to the Hungarian-Romanian border on the edge of the Hungarian Great Plain. The number of inhabitants approaches 10,000 and the distance between the two farthest points of the village is about 20 km. The surrounding area is populated by isolated farm houses.

³ Trouble is defined as a) minor, unforeseen problems in everyday life, e.g., something breaks down, the household runs out of some small item, or a particular tool is missing; b) cases that present some foreseeable difficulty and therefore can be anticipated in the economic activities of the household but that rarely occur, e.g., building a house, agricultural work, pig killing; c) unexpected major emergencies, e.g., cash shortages, natural disasters, accidents, and diseases, that is, troubles that sometimes occur in affluent communities, but are part of everyday life in the small settlement.

are so unpredictable in nature and small in value that they are impossible to buy at the time they are needed—no entrepreneur would seek to provide them given the cost and uncertainty of doing so.

The other typical situation calling for REL is the rare but carefully planned economic activity that cannot be done without it, such as self-help house building and small-scale agricultural production. In the case of self-help building, households can only afford to pay for the building materials and those basic construction works that are provided by the mortgage. Hence households have to borrow additional money from other households, reduce consumption spending, and do extra paid work in order to build their own houses. Rising costs of land and building materials impose a large and increasingly severe burden on households' financial resources in three ways. First, local monopolies operate 'black markets' for land and building materials which are in permanent short supply. Second, official prices are often above the rate of inflation (which was 20% to 50% annually in the period of research into REL). Third, it is increasingly expensive to find and transport scarce building materials in rural areas that lack transportation systems.

The average rural household is not able to do the work necessary to build a house on its own. At most the household consists of two 'full-time' men—one adult and an older son—and one or two 'part-time' persons, typically women, younger children, and the elderly. This is not enough labor for many phases of house building. Moreover, the labor power of the male members is already occupied on weekdays for an average of eight to ten hours. It is also the duty of men to organize house building and to obtain the necessary materials and permits. This takes up considerable time during the construction period and crucially affects costs (Kenedi 1985).

However, in self-help house building there is always some urgency to complete the job. House building disrupts the lives of all household members. Their whole leisure time—weekends, evenings, and holidays—is devoted to planning and carrying out the project. They drive themselves to do the work, subordinating all other household activities. The situation is even worse when the household has to live in cramped living conditions and perhaps even move several times during the construction. This creates a special 'construction way of life,' which may actually pauperize the household if it lasts too long. Given these facts, it is easy to see that ordinary rural households are unable to build houses using either the labor of household members or that bought in the labor market alone.

Households are thus torn between the Scylla of self-exploitation and the Charybdis of financial impossibility. The only way they can realize new home construction is through the use of reciprocal labor. Therefore, the main reason for the widespread use of reciprocal labor is not that it is cheap, pleasant, or efficient, but that there simply is no better alternative. It is no surprise that

the proportion of house building using reciprocal exchange of labor increased during the late 1970s and early 1980s (see Table 2).

Year	State	Market	Self-help	Total
1977	58	17	25	100
1980	58	15	27	100
1982	55	14	31	100
1985	46	14	40	100
1987	43	14	43	100
1989	32	16	52	100

Source: Farkas and Vajda (1989)

2.1.2 Managers' Reciprocal Transactions (MRT)⁴

Managers in communist enterprises were fully aware that for their own survival they had to maintain barter-type networks. In contrast to the general ineffectiveness of contractual law among enterprises in the communist economy, and to the bureaucratic, prodigal, and expensive distribution by state authorities, this network created a reliable source of information. By ensuring reciprocity, it helped overcome a permanent shortage of goods and over- and underregulation of the redistribution system.

The main principles of MRT are as follows:

a) A transaction's primary aim is to facilitate the operation of the firm. It is a personalized form of interfirm policy networks. The managers personify the interests of their economic units in the course of these transactions.

b) In the course of MRT there are no officially accepted procedures (e.g., bureaucracy, formal hierarchy, written commitments). At the same time a system of norms exists that provides security to the parties involved, guarantees the performance of the agreement, and reduces the risk entailed by an unofficial transaction. It is a 'gentlemen's agreement' strengthened by personal trust, widespread defencelessness, interdependence, and illegality. This managerial behavior pattern can be seen as a group consciousness that implies solidarity, loyalty, and well-understood and acknowledged ceremonies.

⁴ For further discussion, see Czakó and Sik (1988).

c) These firm-centered transactions are embedded in personal networks among managers. This overlapping of personalized policy networks and personal networks increases the efficiency of both but also distorts them because it is not possible to separate transactions between two intertwined networks. Whether a specific MRT was hierarchical⁵ or horizontal was based on personal relationships and originated through common schools, places of work, association memberships, and origins, and was concomitant with official positions. To initiate an MRT the partners make use of both their personal relationships and their official positions. This means that MRT is neither a private affair nor a purely official contact.

d) As regards its function, MRT can be of two kinds: ceremonial or troubleshooting. The purpose of ceremonial MRT is to preserve and strengthen the underlying personal network. This means that the partners meet and keep in touch even when there is no need for mutual help. This is a form of preventive investment which anticipates the necessity of MRT and knows that only well-founded and well-kept contacts can be of use to managers who seek to uphold their positions. The forms of 'keeping in touch' are not strictly prescribed. Any kind of transaction may be applied that preserves the warmth of the relationship: friendly greetings, courtesies, symbolic favors, smaller gifts, and invitations. The norms observed in ceremonial transactions are not very strict, but violating them entails some risk: the deterioration of cordial relations may cause a manager to be excluded from receiving benefits from a partner; that is, he will slip down the 'waiting list.'

The function of troubleshooting transactions is to solve unexpected problems and adverse consequences involving purchases, production, or sales which the manager or the firm cannot solve alone. The goal is to eliminate concrete problems.

The object of a troubleshooting transaction can be anything that helps settle the issue, including information, labor, products, money, or services. However different their forms, transactions must comply with the rules of financial accounting. Most frequently, they involve loan transactions, hiring out, leasing, free resources, and selling a product originally not meant for sale. In transactions that concern products or money, the partners mutually accept some risk: the assisting partner temporarily surrenders a resource that he might need later, so he must get it back eventually. This is why honesty and reliability are highly valued in troubleshooting transactions; they ensure observance of the basic norm of reciprocity. A breach of this norm entails severe

⁵ It is called 'soliciting,' a vertical transaction in which a manager solicits the help of a higher manager on behalf of the solicitor's firm. Because the organizational power of managers involved in soliciting differs greatly, so do the results. But both eventually win. Firms procure resources (gratis or cheap, jumping the queue for goods in short supply, better-than-average quality) and allowances (looser deadlines, longer-term credit, foreign exchange plan revisions), and in exchange the central organization earns the gratitude of the enterprise in forms such as voluntary plan overfulfillment, loyalty in organizational transformation and personal policy, production of shortage goods, etc.

sanctions in troubleshooting transactions: the partner who fails to meet his obligations expels himself from the network, i.e., from the circle of mutual help.

As Table 3 shows, the network is widespread among managers and MRT is used frequently. The partner organizations listed are formally (legally) of equal rank with the examined economic unit, but the direction of realized transactions clearly reveals that, as partners, their relations are not in equilibrium. Agricultural firms are unequivocally patronizing towards local communal organizations, but are at the mercy of trading companies.

TABLE 3

The Use of MRT by Partner Organizations

(percentage of managers of agricultural cooperatives involved in MRT transactions in a given year, N = 501).

	got transaction	gave transaction
Agroker ^a	77	33
Production system ^b	70	93
Local school	46	79
Police	43	32
Military	35	26
Village council	29	75
Village party organ	21	31

Source: Czakó and Sik (1988)

^a Oligopolistic state-run commercial firms that handle all kinds of agricultural goods.

^b Nonprofit associations of agricultural firms. They determine allocation of the means of production (high tech) and the innovation of flow.

Troubleshooting MRT is widespread in every layer of management: at least 95% of managers engaged in loan transactions; 85% in other transactions such as hiring out, surrendering resources freely, or selling a not-for-sale product. One-third give and one-fourth get help weekly or more often. Monthly transactions have the highest share.

2.2 Network Capital Superimposed on the Market and the State

Another way to use network capital to cope or grab is to 'reorganize' the market and state allocations. Monopolies and oligopolies, cartels and cliques, Mafia and clan, patron-client and

long-lasting seller-customer relationships, bribery and corruption are all forms of network capital used to cope with a lack of power for enforcing legal rights and a lack of trust in the first economy. They are used to secure scarce resources in a resource-constrained economy and as 'grabbing means,' i.e., to grab the opportunity (to cheat both the state and the customer).

2.2.1 Network Capital in the Social Science Labor Market⁶

The casual labor market for social science professionals in Hungary is characterized by a labor supply that is, to an increasing extent, larger than demand. As a result the typical employee has at least a college degree and a full-time job but an income barely large enough to get by on.

People obtain employment in this market through a loose network that interconnects employees and employers. Not only do the transactions of the casual labor market weave this network, but the employees are often friends, husband and wife, former cohabitators, colleagues and partners. It seems that the smallest unit of organization of this labor market is the nonmarket primary group.

In addition to traditional (households, kinship, neighborhood) and modern (friends, colleagues, recreational partners) primary groups, others are found within the casual labor market. The importance of these patron-client primary groups is multiplied by the fact that it is impossible to enforce common interests any other way (no trade union has power in this market), and no information channels exist other than the personal networks.

Why does this personal network dominate the allocation of jobs in the casual labor market for social scientists? Without any order of importance, I enumerate some of the reasons:

a) The autonomous nature of nonmanual work. It cannot easily be regulated, and it is difficult to assess the employee's capability in advance. I agree with Dornstein (1977) that the white-collar job market for professional and executive services is inherently closed or semiclosed and highly personalized and particularistic, as in the case of 'sponsorship' and 'referral systems.' These characteristics introduce a high level of uncertainty which organizations and individuals have to face and overcome.

b) The tradition of 'status' (in a Weberian sense) in the labor market. In Dornstein's analysis, sponsorship and referral systems are meritocratic; that is, they maximize market efficiency and at the same time minimize risk. But the system may also serve to keep the privileged in power. In this case it is either restricted to traditional primary relations or produces modern primary groups in a way that maintains clan-type inequalities between patron and client or patron and patron. Labor market efficiency is irrelevant and only a matter of ideological legitimacy; the real objective is enforcement of long-term, intergenerational, and group interests.

⁶ For further discussion, see Sik (1987).

c) The inertia of nonmarket primary groups. I have said that the majority of transactions in the casual labor market are embedded in the actions of nonmarket primary groups. This is the result of a territorial and educational homogeneity among employers and employees who already know each other before they meet in the casual labor market.

Childhood acquaintances are frequent. Nonmarket primary groups are formed at school, on the soccer field and tennis court, in seminars and poker parties, as well as through love affairs and sharing flats and rooms. Finally, being in both the same workplace and traditional primary group is perhaps the strongest factor; such employee groups appear as 'gangs' in casual labor markets.

d) Internal casual labor markets and oligopolies increase the importance of modern nonmarket and patron-client primary groups but do not hinder the existence of traditional primary groups.

e) From a sociological perspective, employees in the casual labor markets constitute a specific subculture. The reasons for this are socialization within similar primary groups, the breadth and strength of closed organizations in labor markets, and the effects of 'small world' and networks.

2.2.2 The Spread of Bribery

Galasi and Kertesi (1987) offer a model of how bribery spreads. They use an example from game theory to demonstrate the catch that is inherent in corrupt situations. The subject of their analysis is how to get a cup of high-quality espresso. The starting point is a bribe-free situation in which the official price of espresso is three forints and one goes to a coffee shop and gets three forint's worth of coffee.

However, an institution emerges involving the so-called extra espresso: those customers who wish to have a better (stronger) coffee pay two additional forints. This extra amount goes to the waitress who makes the coffee and therefore prepares five forints' worth of espresso for the briber. Since she only has so much coffee in stock, which she gets through the official channels, the transaction is possible only if she can 'economize' on the coffee she gives to nonbribers. Thus those who pay the official price of three forints get only one forint's worth of coffee. The waitress does well because she earns two forints for every bribe, without doing any extra work or incurring any additional cost. The bribers also do well because they get five forints' worth of coffee for their five forints, whereas if they had paid three forints they would have gotten only one forint's worth of coffee. Nonbribers, by contrast, fare badly because they get one forint's worth of coffee for three forints.

But, in the long run, bribers find themselves on the losing side. There is always the risk that the other actor will act upon his desire for better coffee and also choose bribery, and, as a

result, all actors will try to 'preempt' the others to gain the advantage. It is highly probable, therefore, that everybody will opt for corruption, which leads, first, to a decrease in the advantage of bribing and, second, to a gradual decrease in each actor's net utility—except, of course, that of the coffee makers.

The spread of bribery, as Galasi and Kertesi describe it, seems to have prevailed in the market for important goods and services under communism. In each instance in which there is no competition, and when the seller is able to influence the quality of goods and services, or to cut the waiting time in the case of shortages, the working of the previous model emerges. Moreover, once the custom of giving tips, bribes, and 'thank-you money' has, for some reason, become part of a given culture, it will, for purely rational reasons, gradually spread over the entire society—even though the selective advantages it provides inevitably disappear into thin air.

From the perspective of this model, certain external factors can speed or slow this network process and modify its degree of inertia. Network capital inertia can speed up the process considerably, and information concerning the rules of the game, the amount due, and the elements of etiquette, can spread quickly through personal networks. Moreover, the inherent inertia of the networking process itself increases the chance that even if the original actors change their behavior (cease to corrupt or decrease the amount of corruption) 'latecomers' will not necessarily continue such changes.

As to the role of culture, the actors socialize each other—and, through their networks, the rest of the society—in how to behave. Thus the emerging norm spreads quickly through networks, socializing other actors and producing a new cultural trait. But not just the rules of behavior spread out. Acceptance of bribery as a fact of life actually decreases the cognitive dissonance of committing a sin; a pro-bribery culture emerges or is reinforced.

2.2.3 Network Capital in a 'Command Economy'

Montias and Rose-Ackerman (1981) describe the Soviet-type economy as a 'complete hierarchy' (CH), with the Politburo commanding the entire economy from the top through a hierarchy of deputies and lower-level agents. At the bottom and under the control of this hierarchy are the economic enterprises, their only task being to carry out the plan. The authors argue that in a CH, the activities of the organizations are imperfectly coordinated. Much information is lost and distorted as it travels up the hierarchy. Subordinates, responding to a variety of moral, career, and material incentives, are only imperfectly controlled by their superiors. Lower-level agents may have several superiors and often receive contradictory commands.

Regarding the system-specific characteristics of the 'Soviet-type' CH, the authors emphasize the relevance of shortages, and the relative ease with which the lower echelons can

violate the rules due to a lack of control and scarcity of proper agents, which makes their replacement costly and risky and gives them power.

They argue that certain kinds of corruption occur in both capitalist and communist countries, such as bribery to get jobs or to prevent the police from reporting traffic violations. Several other types of system-specific cases occur only in communist countries, such as distorting the rationing system, cheating the plan, and bribing to get scarce production goods. But the opposite, bribery to sell products, is rare.

First Conclusion

Network capital is certainly an important form of social capital in every society including the affluent, core capitalist societies. Four points support this thesis.

First, one can argue that to build networks and manipulate them, to cooperate, to help others and to invest in gift relationships, is a basic human characteristic, a sociobiologically predetermined behavioral pattern or a genetically driven instinct (Kropotkin 1972). Although the extent to which these characteristics are present in any particular culture can differ, network capital is still one general form of social capital, as are human capital or wealth (Mars 1982; Thompson et al. 1990).

Second, in every society there are situations (minor troubles, temporary imbalances) when networking is the best means of coping because it is less costly, more effective, and more easily and rapidly accessible than the alternatives, e.g., 'oikos,' market or redistribution (Polanyi 1957). Therefore, investing in network capital would be a rational choice, and to the extent these troubles are present in affluent capitalist societies, network capital would be found as an auxiliary capital.

Third, because groups of economic actors also face long-term hardships in the most advanced capitalist societies, network capital as a means of coping is found in the lower or marginal echelons of every capitalist society. Examples include migrants in Los Angeles (Light and Bonacich 1988), and the poor generally in the United States (Liebow 1967).

Finally, network capital is useful not only for coping but also for grabbing opportunity, and can be used not only defensively but offensively. Moreover, in some situations it has advantages over other forms of capital and therefore is worth investing in and carefully cultivating. Examples are numerous: 'Greek' fraternities at elite universities, referral systems in editorial and consulting ventures, craft- or guild-like groups in professional labor markets, such as those for physicians and engineers in the United States. Moreover, we know that in core capitalist economies, network capital is often routinely superimposed upon markets, including personal networks between

sellers and buyers in local markets (Mintz 1961; Fabermann and Weinstein 1970) and contract-avoiding behavior by businessmen (Maccauley 1992).

In light of these arguments and examples it is not surprising to find that case studies from the capitalist world are similar to those from the communist world. REL and network capital in general are found repeatedly in rural areas of core capitalist societies: in the United States (Arensberg and Kimball 1949), in Switzerland and Italy (Cole and Wolf 1974), in Canada (Kohl 1976), and in the United Kingdom (Rees 1950; Williams 1956).

Several sources indicate that throughout the world, network capital is an important source of information, playing a crucial role in providing would-be employees access to jobs and in helping employers recruit employees and conduct business. For example, in the United States, Granovetter (1974) found that 58% of respondents used personal contacts to get a job. Rees's (1966) analysis of 'used cars,' Granovetter's (1974) of 'weak ties,' and Dornstein's (1977) of 'imperfections' offer general, nonsystem-specific explanations of clientele and referral systems. MRT also is well known in capitalist countries as lobbying and interlocking directorships. Finally, bribery and corruption can hardly be described as unique features of communism.

If network capital is so widespread in capitalist society, why isn't my first hypothesis wrong? I will try to show that although it is a crucial and nonsystem-specific form of social capital, certain cultural, historico-political and structural sociological facts validate the hypothesis that network capital is more widespread in communism than in capitalism. The logic of my argument is that a) due to cultural and historical factors network capital was more widespread in communism than in capitalism, and b) for structural reasons the pressures and opportunities associated with communism give good reason for maintaining and further developing existing network capital, with the result that it becomes even more widespread.

Communism came into power in the eastern semiperiphery of Europe, historically composed of peasant and rural societies.⁷ To live in a peasant society meant to live in a specific type of production system: one that is household- and community-based, characterized by seasonal and labor-intensive agricultural activity, and a closed culture. Living in a rural society entails conditions of a settlement system in which villages and small towns dominate. This implies an underdeveloped infrastructure and, more often than not, a low standard of living. Household and kinship orientation are key cultural elements in peasant societies and personal networks tend to be strong. The rural element adds small size and closeness of communities, with special emphasis on locality in culture and personal networks, e.g., neighborhood 'circles' (Ott 1981), and

⁷ The proportion of peasant farms of less than five hectares between World Wars I and II was 84% in Hungary, 75% in Romania, 64% in Poland, 68% in Yugoslavia, 63% in Bulgaria, and 70% in Czechoslovakia. In 1930 the figures were 80% in Bulgaria, 79% in Yugoslavia, 74% in Romania, 65% in Poland, and 51% in Hungary. Compare these to 7% in England, 17% in Belgium, 29% in Germany, and 36% in France and in Sweden (Berend and Ránki 1976).

in patron-client relations (Fél and Hofer 1973). Communism generally came into power in postpeasant and small-town societies in which the population had a well-maintained network capital.⁸

In societies like these, communism can destroy tradition and change occupational and, to a lesser extent, settlement structures. But it cannot—in a generation—change culture and precommunist network capital. Moreover, the half century of communism both weakened and strengthened the precommunist, network-oriented culture. Some elements of communism fit well into the cultural background of the precommunist period, and its organizational culture was not entirely alien to that of any other modern bureaucracy.

For example, state-dominated economies characterized the precommunist period in most of these countries. This was true not only of overdeveloped central and local administrations but also of banking and manufacturing, especially in the pre–World War II period when both German influence and the war economy were strengthened. This situation favored bureaucratic procedures on the one hand, and corruption and clientelism on the other.

Major differences mark the pre- and the postcommunist societies, due largely to fierce resistance against any kind of civil organization, the anticommunist cultural tradition, and as a result of modernization, statism, and urbanization. For example, the peasant community and work culture is gone, voluntary and charity associations have been destroyed, and occupational and settlement structures are entirely new. However, as Szelenyi (1988) showed in his book on ‘re-embourgeoisement,’ the rural-peasant culture partially survived communism and surfaced again when the time was ripe. He does not consider the mechanisms by which parts of the precommunist peasant stratum survived communism, but I would argue that what he describes as culture actually could not have operated without the continuity of personal networks and unchanging patterns of (often amoral) familism and locality and kin orientedness.

The structural reasons why network capital is likely to be greater in communism than capitalism are:

a) In some situations network capital is equally important in both, such as labor market search, rural networking and migration, but certain conditions cause it to spread faster in communism, e.g., smaller settlement sizes, a more closed economy and community life, and more clientelist local bureaucracies;

b) Markets are bureaucratic and often malfunction in capitalism, and as a result network capital can be a useful means of coping or grabbing for individuals and organizations. But the failures of both distorted and subordinated markets, and of over- and underorganized state

⁸ Even capital cities, the largest of this region, are small and their populations consist of first-generation urbanites with close ties to their rural origins. This encourages active network capital maintenance in the form of gift giving, mutual visits, and aid.

bureaucracies, are still much greater under communism. Therefore, networking to superimpose or substitute for them occurs more frequently.

3. Why Is There More Network Capital under Postcommunism than under Communism?

The following cases show that network capital as a means of both coping and grabbing, is important to individuals, households, and firms, in postcommunism.

3.1 Coping with Crises

If we accept that communist countries are characterized by family- and network-oriented culture, and by already well-established and maintained interhousehold networks, then it is reasonable to assume that household and interhousehold networks offer a means of low-cost coping for those in various crises situations in postcommunism. In other words, in social circumstances where the family is the 'natural' unit of reproduction, where the household is the 'normal' unit of small-scale production, and where interhousehold networks already exist, there is no cost in establishing these institutions, learning and teaching how to use them, and searching for them. Table 4 shows the breadth and variety of such networks in the postcommunist world.

	Bulgaria	Czechoslovakia	Hungary	Poland	Romania
Household production ^a	94	91	81	75	95
Reciprocity ^b	76	53	60	49	56
Connection ^c	70	33	37	48	48
Bribe ^d	30	13	17	38	60

Source: Rose and Haerpfer 1992

^a One or more of the following time uses: growing food, building or repairing the house, queuing an hour or more a day.

^b Exchanging help with friends in growing food, building or repairing houses, shopping, baby-sitting, or transportation.

^c Using connections to get things done without formal payment.

^d Using connections to get things done involving money payments.

The household is at the core of every network-oriented economic activity and therefore is the most widely used means of coping. The reciprocal 'extensions' of domestic service, care, and production are the second most common, except in Romania, where bribery seems to be more widespread.

The transactional cost approach explains why households frequently choose domestic work and interhousehold transfers as ways of coping with crises.⁹ The costs of operating, organizing, monitoring, and evaluating existing household and interhousehold networks are low due to certain structural characteristics: loyalty, boundedness, altruism, and closeness. The market is less and less an alternative for needy households because prices are increasing and their disposable incomes are decreasing. Moreover, since the mid-1980s the state's welfare (Sik 1988b) and protection systems¹⁰ have been shrinking and by now are far from being able to offer solutions for masses of people in trouble.

3.2 Networking as a Means of Coping and Grabbing by New Entrepreneurs

Capital pooling via personal networks is the major form of channeling money into business in countries where wealth and state credit are lacking. The rules of the game may be simultaneously over- and under-regulated, i.e., a massive bureaucracy is there to control the emergence of the new entrepreneurial stratum, but also is ready to be corrupted. And the legal system may be changing so that no one can be sure what is legal and what is not, in which case both the corruptive network capital established during communism and the later networks become important in grabbing good opportunities.

Obviously, if network capital proves important to new entrepreneurs, it is even more so for those who do business in the informal economy. For them trust, is crucial—their very existence depends on it (as the Georgian example shows; see Altmann 1989). Networking offers a vital defense against state authorities and an attack force against other clans.

It is not surprising, then, that the most active networks in informal economies are organized along personal networks (as we saw among intellectuals in the casual labor market).

⁹ Two remarks are in order with regard to the limits of the transactional cost approach. First, it emphasizes the lack of economies of scale and efficiency in domestic production. In 'troubleshooting' or coping with crises these economic aspects are of less importance in evaluating the role of households and interhousehold networks.

Second, this approach focuses entirely on individual household networks and ignores those of interhouseholds. This institution can soften considerably the obstacles to domestic production: greater labor pools, more diverse human capital stock, more flexibility in organizing and timing domestic production, decreasing the negative effects of spill-overs.

¹⁰ There are several signs that different groups of households (gypsies fighting with skinheads, rural and suburban inhabitants) are redeveloping or reinforcing self-defense networks to try to keep pace with growing crime rates. At the same time criminal networks are spreading and becoming more organized.

There is a revival of clan and ethnic ties in establishing informal businesses, such as Poles and Romanians in black marketing and smuggling, gypsies in all sort of activities, and Arabs and Turks in black currency dealings. Of course this has nothing to do with genes, but rather ethnic resources, including common cultural bases and networks, representing a low-cost and high-trust solution.

3.3 Networking as a Means of Coping and Grabbing for 'Old' Entrepreneurs¹¹

On 25 October 1990, the Hungarian government announced an official decree raising gasoline prices by 76%. By late afternoon thousands of angry cab drivers were protesting before Parliament. That evening they blocked all the bridges across the Danube. Within hours cab drivers controlled the main streets in and out of Budapest.

The next day (Friday) schools, offices, factories, and the international airport were nearly paralyzed. The Austria-Hungary border was closed to motorists in both directions. By Saturday basic foodstuffs were running low but the air was fresh; some people were afraid for the future but others held picnics in the middle of empty bridges. Each hour the tension rose. Cab drivers opened the blockades and closed them again, as new actors appeared on the scene: truck and bus drivers and private cars from all over the country joined blockades.

On Sunday, government officials and representatives of employees and employers finally met in a round-table discussion. The whole country watched the live show. Finally a compromise was reached. The government did not withdraw the price increase but reduced it and also agreed to a pardon for those who participated in the protest. The blockades disbanded within hours and an uneventful Monday followed the 'long weekend of rebellion.'

Cab drivers were able to organize a blockade and beat the system because of their essentially 'vulture' character. In Mars' taxonomy (1982) the vulture preys individually. There is neither specialization nor unequal hierarchical standing among them, but a loose network behind their individual actions which, if needed, can be activated quickly as an efficient tool. Under normal circumstances a network of this kind is useful for coordinating, training, and disciplining vultures. It has the equally important function of spotting danger immediately and giving increased efficiency of protection. Since the network is informal, there is no defined hierarchy among vultures, but a few elected representatives maintain the 'intervulture' network.

Which structural conditions of cab drivers' jobs, work, culture, and society makes them vultures? Their work organization is determined by the ways in which they get customers, either by picking them up on the street or the cab stand or by going to the addresses they are given.

¹¹ For further discussion, see Sik (1994b).

The latter form generates a centralized but very loose network of drivers working both individually and independently. A cellular radio system allocates the hires, but there is much more to the system. In the frequent event of accidents, fires, robberies, fights, and other emergencies, the network can be key to survival. In addition to being the nerve system of the work organization, the radio network is a tool in their social contacts, a means of communicating with one another, calling the family, setting up dates, searching for rare commodities, or reporting traffic jams.

A strong communication system, well-developed patterns of cooperation in the labor market, and dense friendship networks create a subculture that opens the way for a sort of 'we-consciousness,' a common self-identity that enables cooperation without formal organization.

Cab drivers could organize so effectively because of their sophisticated 'intervulture' network. Cellular radio is more developed technically than any government communication system, and the drivers' network is maintained psychologically by a sense of solidarity and socially by the organizational skills and network capital that develop in the daily drudgery of the second economy.

This cab drivers' rebellion shows that network capital can be a powerful tool in an emergency, that nonhierarchical organization can be the best solution in special situations, and that personal networks are not separate from but very much intertwined with policy networks. Network capital also is of utmost importance in organization- and occupation-specific cultures.

Network capital can be a powerful weapon in the hands of a solidaristic group intent upon beating the system, especially in unusual labor market situations, in emergencies, and in power vacuums, all of which characterize societies in transition.

3.4 Network Capital as Useful in Grabbing the Postcommunist Cake

Privatization offers a unique and temporary opportunity to make a fortune. Because the rules of the game are uncertain and changing, it is possible to seize the moment and increase one's wealth, market position, and power. But the state has retained its key position in financial and economic policy-making, and overall production and distribution conditions are unstable, so the role of connections and corruption is likely to increase.

Moreover, money is a necessary but insufficient condition for making bargains in the course of privatization and reprivatization. Only a handful of persons know the juiciest parts of the fruit and even fewer have the power or access to power centers to put their ideas into practice. Uncertainty also explains why intensive search is rational, and this implies networking. Finally, the inertia of bribery, connections, and corruption provides the cultural and structural foundations of intensive networking.

Western firms and multinationals move into the postcommunist market but have no previous experience or networks within Eastern Europe. They know neither the language nor the networks and therefore hire experts who know who and how to bribe, the etiquette of effective lobbying, and how to do network-based market research.

3.5 Network Capital and Policy Networks as Means of Coping¹²

As the next case indicates, network capital becomes especially important as a means of coping in a crisis, and migration itself is nothing less than a continuous crisis.

Eight Romanian refugees were caught in Hungary close to the western frontier with Romania and ordered returned to their country. Two of them retained a Hungarian lawyer who specialized in refugee affairs. The lawyer appealed to the county police chief to postpone the expulsion order. The policeman on duty took the document and said he would deliver it to his superior on Monday. But the prisoners were put in a car and sent towards the Romanian border anyway.

Meanwhile, the lawyer in Budapest was not idle. He contacted colleagues, the radio station, and any friends who might assist in the matter. Radio reporters had tried in vain to interview the young men waiting to be expelled. The Aliens Registration Office in the Ministry of Internal Affairs said that it was technically impossible to do anything because the car delivering the prisoners could not be stopped.

Radio and television teams proceeded to the frontier. Another lawyer, who happened to be the leader of the Young Lawyers Club and an activist in the Social Democrats, sought to help his colleague by informing both the Deputy Interior Minister and an activist from a grassroots organization. They in turn informed Matyas Szuros and Geza Kotai (the secretary and the head of Department of Foreign Affairs of the Communist Party) of the situation. As a result, at the last minute the police were ordered not to hand over the refugees to the Romanian authorities.

The first element to emphasize in this story is the crucial role played by personal network capital among the refugees. The close-knit, cohesive, and solidaristic peer group was the only means available to detect this acute crisis and then channel the information. Had this group been absent, the information would not have reached the other personal networks, let alone the policy networks, or would have arrived at much slower speed, and speed is of the essence in coping with a crisis of this nature.

If the personal network of refugees had been a closed system, the crisis could not have been resolved satisfactorily. Broad and partially overlapping circles of personal and policy

¹² For further discussion, see Sik (1992).

networks made it possible to spread the information among different organizations. Political authorities, legal bodies, and the media all contributed to this process.

Another important element in this case is the role of information or network brokers. Not only speed but also accuracy counts. Only if the correct information gets to the appropriate persons in due time can the crisis be solved. Whether that person is an expert, a high-level politician, or a devoted citizen-activist, he or she needs both a personal network and knowledge regarding the person in crisis.

Second Conclusion

Network capital is more widespread in postcommunism than in communism for two major reasons. First, because postcommunism follows communism, and since under communism network capital was very widespread, it follows that it cannot be less widespread in postcommunism unless it had been destroyed or made useless.

The transformation in Eastern Europe was surprisingly peaceful—except in the former Yugoslavia and some of the Asian Soviet Republics. Therefore I assume that the loss of network capital due to emigration or to increasing enmity and separation among ethnic groups was negligible. As to the argument that the overwhelming share of network capital invested during the communist era has now deteriorated because of turnover of elites, studies show that the net change in the former managerial elites was insignificant. I assume, however, that even where a new person did take power, the pattern of using network capital and even the original network itself survived the replacement. This is because the new patron and the former client were both still interested in developing network capital and as a result had been cooperating for some time. Even in those instances where the new patron ousted the former clients, part of their network capital could be saved if the former patron was not inactivated but instead moved into another position, transferring his/her network capital to that new position, while the new patron could count on the network subculture of the new clientele. Therefore, I conclude that network capital is as widespread in postcommunist as it was in communist societies, since great inertia characterizes both the networks and their cultural foundations. Thus, except under extraordinary circumstances, such as revolutions or other calamities, changes in the patterns and practice of using network capital occur only slowly.

The almost peaceful coexistence that prevailed for decades between the first and second economies in Hungary eventually led to a nationwide subculture and a dense personal network in the economy. These socialized the participants and organized their relations and, obviously, did not just disappear in the course of the day-to-day change. Why would they have disappeared after having been so effective for such a long time, having emerged and crystallized as the best

means of overcoming troubles, coping, and grabbing during a time of transformation and upheaval? It is hardly surprising that, as Table 5 shows, people in postcommunist countries consider personal networks to be a means of grabbing. Without exception, in every postcommunist country people believe that networking—and especially foreign networking—guarantees their success.

TABLE 5

The Role of Networking in Material Success During the Transition from Communism to Postcommunism^a

	Russians (N=2100)	Czechs (N=840)	Slovaks (N=420)	Bulgarians (N=1284)	Poles (N=982)
	(f r e q u e n c y)				
Use foreign connections	96	71	64	60	91
Use political connections	61	52	55	59	84
Lucky	76	60	67	32	66
Work hard	81	50	42	29	26
Take advantage of others	66	53	59	68	80
Help the economy grow	95	48	36	23	39
Intelligent	67	53	36	30	48
Dishonest	77	34	38	58	81

Source: Rose and Haerpfer (1992)

^a Percentage of “yes” answers to this question: With liberalization of the market, some people have been able to make more money. Which of these words do you think applies to people who are now making money?

Second, the transition involves growing uncertainty: increasing incidents of minor troubles, crises, calamities, new opportunities, changes in the rules of the game, and even new games with new players. Consequently, network capital is of increasing importance to households and firms as a means of coping and grabbing, not only because of the inertia of practices under the former system but also because people are rational and therefore rely on deeply socialized behavior patterns, skills and networks, whether to earn their bread and butter or to make a fortune. In other words, the networking culture that developed during the communist period and the continuing investments in network capital are effective assets with which to cope with economic troubles and exploit good opportunities under postcommunism.¹³

¹³ Investment in both vertical (Csanádi 1991) and horizontal (Czakó and Sik 1988) know-how, position, and network was especially crucial for those bureaucrats in party and state positions who could manage it. It is plausible to assume that experience in the second economy and hope of

Third Conclusion

But if the second hypothesis is correct—that network capital is more widespread in postcommunism than in communism— then either the first hypothesis is wrong or postcommunist society does not fall under the definition I used to describe capitalism at the outset.

I think the latter is correct. But what type of society emerges from the ashes of communism? In my view it is the society that fits the historically predetermined, semiperipheral situation. In other words, there is a trend towards high inertia in which Eastern Europe will resurrect the social characteristics of its precommunist period. The world has changed since the 1930s and 1940s, however, and that particular social order is now found in the Third World—or at least in the Balkan or Latin American states. Balkanization is seen not only in the growing importance of networking in Eastern European societies but also in the meteoric rise of the informal economy and visible trend toward the dual economy (Sik 1994a).

To summarize, and also put the argument in a global perspective, the Second World has lost its battle with the First World and now there is a chance that it will fall back to the level of the Third World. The first signs of this trend are the increasing inequality, economic dualism, and criminality sweeping Eastern Europe. In societies characterized by economic deterioration, dualism, political corruption, crime, and social segmentation, networking becomes increasingly important as a means of coping and grabbing. Network capital is the most reliable form of capital and the network itself the most useful type of institution.

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developing or extending investments into the coming informal economy was one of the reasons why some of the cadres were ready to abandon their power in the first economy. This was especially true of younger, well-educated state technocrats who spoke foreign languages, knew the protocol of the market, and whose networks extended beyond the Hungarian economy. Several examples prove that this circle of cadres was quite substantial. Such behavior obviously increased the chances for a nonviolent transformation (see Nee 1991).

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