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THE LEFT OR THE RIGHT? THE POLITICAL LOGIC BEHIND THE ECONOMIC POLICIES OF THE COMMUNIST SUCCESSOR PARTIES IN CENTRAL EUROPE

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ABSTRACT

In years following the regime change in central Europe, many communist successor parties (CSPs) have adopted relatively right-wing economic platforms. This paper explores why, upon entering the game of electoral competition, the CSPs have staked right-wing economic positions – as if trying to alienate the potential electorate among the have-nots of the post-communist transformations. Specifically, I propose that CSPs' economic policy is more representative of the interests of the parties' financial donors, rather than the electorate at large. I test this proposition by analyzing the stance that CSPs take towards signing of bilateral investment treaties (BITs). By attracting foreign investment, BITs change the competitive landscape of a host country in ways that are not always beneficial to the domestic companies, owned by supporters of CSPs. Therefore I expect CSP-controlled governments to be hesitant about signing BITs. The results of the statistical investigation support such a hypothesis, as well as the larger claim of the paper, namely, that the economic policy of the communist successor parties is primarily geared towards representing the interests of their financial supporters.

KEYWORDS

Communist successor parties, post-communist transformations, economic policy platforms, elections in Central Europe

INTRODUCTION

The countries in central Europe have undergone impressive transformations since the collapse of communism. Today, democracy and market economies define the nations that, twenty years ago, subsisted under totalitarian dictatorships. Ironically, such achievements were often accomplished by governments, dominated to some degree by the former communists. Their impressive performance as political and economic modernizers has produced a general consensus that the former communists – at least in the new EU countries – have transformed themselves into modern social democratic parties (as they supposedly have done in Hungary, Lithuania and Poland). The ones that failed to achieve such transformation have fallen by the wayside of politics (in the Czech Republic, Estonia and Latvia).[1]

Nevertheless, important aspects of the ex-communist party transformations remain unexplored, and may hold the answers to pertinent questions about party system formations in the region. For example, there is a commonly held opinion that politically successful CSPs have adopted relatively right-wing economic platforms – sometimes to the right of the former-dissident parties.[2] What is the reason for such uncharacteristic economic policies of the CSPs? This question should not be confused with the question of why the former communists accepted the democratic rules of the game and a market-based economic structure. The latter issue has been extensively studied by, among others, Kitschelt[3] and Ishiyama[4]. What remains less clear is why, upon entering the game of electoral competition, the CSPs have (almost) immediately staked right-wing economic platforms – as if trying to alienate the potential electorate among the have-nots of the post-communist transformations?

[1] Anna Maria Grzymała-Busse, *Redeeming the Communist Past: The Regeneration of Communist Successor Parties in East Central Europe* (Cambridge: Cambridge University Press, 2002), p. 239, 273; Seán Hanley, "The Communist Party of Bohemia and Moravia after 1989 "Subcultural Party" to Neocommunist Force?": 143-146; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002); Dieter Segert, "The PDS Regional Party or a Second Social Democratic Party in Germany?": 166-167; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002).
[2] John E. Jackson, Bogdan W. Mach, and Radosław Markowski, "Electoral Success Among Post-Communist Parties" (paper presented at the annual meeting of the American Political Science Association, Washington, DC, September 1, 2005): 2-7.
[3] Herbert Kitschelt, "Constraints and Opportunities in the Strategis Conduct of Post-Communist Successor Parties Regime Legacies as Causal Argument": 14-41; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002).
[4] John T. Ishiyama, "Party Organization and the Political Success of the Communist Successor Parties," *Social Science Quarterly* 82:4 (December 2001): 846 // http://www.olemiss.edu/courses/pol628/ishiyama01.pdf (accessed December 27, 2009).

Various authors have answered this question in different ways – most centering on the ex-communists' electoral motivations.[5] In this article I argue that the electorate-centered explanations alone do not succeed in explaining the rightist economic platforms of the former communist parties. Market reforms of the past several decades have created a sizable group of disaffected voters in the region who are skeptical of the small-government, business-friendly rhetoric. Given proportional voting rules adopted by most central European countries, mobilization of these disaffected voters would be the expected electoral strategy of a "typical" social-democratic party. Instead the opposite has largely been true – the transformed CSPs have frequently represented the interests of large domestic businesses, sometimes implementing extreme right-wing economic policies.

I propose that the right-wing economic platforms of the former communists have nothing to do with a desire to cater to the perceived needs of the traditional social-democratic electorate. Rather, they are motivated by the objective to create a hospitable business environment for the CSP's financial contributors – companies run by the former managers of state-owned enterprises. The two electoral strategies – catering to the needs of a target voter group versus to the business interests of financial donors – are a frequent source of tension in the intra-party politics of any country. In the case of central Europe's CSP's the question of which strategy to follow might have been easier to answer.

The disenchantment with the established political parties in central Europe seems to stem from the overall difficulties of the transitional period[6], and does not depend exclusively on the policy choices these parties have adopted in the decades of reforms.[7] Instead, the widespread cynicism towards political parties has deeper roots that are still in need of rigorous academic inquiry. If popular skepticism towards the established parties is only partly determined by the content of their policy platforms, it is conceivable that CSP's downgraded that component of their electoral strategy (catering to the needs of the disaffected segments of the population), as the marginal payoff of such a strategy would be relatively low. In

[5] James N. Druckman and Andrew Roberts, "Communist Successor Parties And Coalition Formation in Eastern Europe," *Legislative Studies Quarterly* 32:1 (February 2007): 24 // http://faculty.wcas.northwestern.edu/~jnd260/DruckmanRoberts_Feb07.pdf (accessed December 27, 2009); Anna Grzymała-Busse, "Coalition Formation and the Regime Divide in New Democracies: East Central Europe," *Comparative Politics* 34 (October 2001): 90; John E. Jackson, Bogdan W. Mach, and Radosław Markowski, *supra* note 2: 2.

[6] Grigore Pop-Eleches and Joshua A. Tucker, "Communism's Shadow: Post-Communist Legacies and Political Behavior" (paper presented at the Center for Political Studies Interdisciplinary Workshop on Politics and Policy, University of Michigan, June 3, 2009) // http://homepages.nyu.edu/~jat7/Pop-Eleches_Tucker_Legacies.pdf (accessed December 27, 2009).

[7] Grigore Pop-Eleches, "Throwing out the Bums: Protest Voting and Anti-Establishment Parties after Communism" (paper prepared for delivery at the 2007 Annual Meeting of the American Political Science Association, Chicago, August 30-September 2, 2007): 24 – 25 // http://www.allacademic.com//meta/p_mla_apa_research_citation/2/0/8/9/5/pages208958/p208958-1.php (accessed December 27, 2009).

the meantime, advancing business interests of financial donors could have become the key motivator in the formation of the CSP's economic policy platforms.

To measure this proposition I explore a relationship between the political clout of the former CSP's and the number of bilateral investment treaties (BIT's) signed by central European countries in the decade following the Russian economic crisis of 1998. I use resistance to BIT's as a proxy for the CSP “loyalty” to the domestic business leaders, because foreign direct investment (FDI) has a significant effect on the competitive environment of their companies. While foreign investment is generally considered a contributing factor to a country's economic development, and can even benefit the poor by creating new jobs, the presence of foreign enterprises also alters the competitive environment in the host country by increasing the cost of labor and the overall competition faced by the domestic firms. Therefore, it is conceivable that some domestic enterprises could have a less-than-enthusiastic attitude towards large-scale influx of foreign capital. If the CSPs were indeed primarily motivated by the objective of furthering business interests of their domestic financial backers, they should have been less inclined than their non-successor competitors to negotiate and to sign bilateral investment treaties with foreign governments.

The remainder of the paper is arranged in three parts. First I describe the CSPs of central Europe and some of their economic policy positions in major elections during the past decade. Next I review the trends of FDI in the region, and explain the logic of using the incidence of BIT-signing to test hypotheses about the intentions of CSPs. Finally I perform a statistical analysis of data from nine central European countries, verifying the relationship between the CSP control of the executive and the propensity for the government to attract FDI. Conclusions follow.

1. BACKGROUND INFORMATION AND ANALYTICAL FRAMEWORK

1.1. METAMORPHOSES OF THE FORMER COMMUNISTS

Making sweeping generalizations about the economic effects of the successor parties in central Europe can lead to gross oversimplifications. In some communist parties, radical reformist elements have gained control even before the toppling of the regime, and have immediately embarked on gradual political and economic liberalization (in Hungary, Lithuania and Poland). In other CSP's the old guard remained in control well into the post-communist years, giving way to the more liberal challengers only after electoral defeats in the middle of the 1990s (in Bulgaria and Romania). Yet other communist parties have never transformed into

CSPs and remain faithful to the traditional Marxist message (such as in the Czech Republic). Any analysis of the successor parties in central Europe must take such differences into account.

The distinct trajectories of the ex-communist transformations can be explained in part by their historic antecedents. Kitschelt outlines three paths linking political conditions during the inter-war period, to the types of communist regimes that emerged in central and eastern Europe, and to the transitional challenges of the successor parties, post 1990.[8] The so-called bureaucratic-authoritarian regimes emerged in countries that, prior to World War II, had highly mobilized political associations and relatively professional state bureaucracies. In such regimes, communist parties had historically enjoyed considerable support among the urban workers. They also faced stiff competition from well-organized bourgeois, nationalist and peasant parties. After usurping power, communists relied on the efficient state apparatus to repress the political competition and could afford to maintain orthodox Marxist platforms well into the 1980's. Ultimately, communists in the bureaucratic-authoritarian regimes were "unable to decipher the early warning symbols" and were swept away by popular revolutions.[9] Today such parties remain committed to the left-wing rhetoric and populate fringes of their political systems. Kitschelt consigns the Czech KCSM, and the East German PDS to the label of successor parties with a bureaucratic-authoritarian pedigree.

National-accommodative regimes developed in the environment of relatively weak socialist and communist parties, often repressed by the inter-war political establishments. After taking power in such countries, communists faced some degree of resurgent nationalist opposition, which intensified after the death of Stalin. Because of their historically weak support among the workers, these parties often relied on co-opting the opposition through economic and political concessions.[10] Such communist parties were never closely wedded to the Marxist ideology, and ultimately found it relatively easy to accept the democratic rules of the game after the collapse of communism. Kitschelt places Hungary, Poland, Slovenia, Croatia and, to a lesser extent, the Baltic countries, in the national-accommodative regime category.

Patrimonial regimes emerged in countries with a history of authoritarian rule and anemic indigenous socialist organizations. Under such circumstances, the externally-driven installations of communist regimes perpetuated the clientelist dictatorships and the brutal suppression of opposition. Ideologically, some patrimonial regimes had more in common with feudalism than with Marxism.

[8] Herbert Kitschelt, *supra* note 3: 14.
[9] *Ibid.*: 17.
[10] *Ibid.*: 18 – 20.

Political challenges to such regimes usually came in the form of outside shocks and not due to internal demands for reform. The patrimonial ruling parties initially survived the collapse of communism without any concessions to the opposition, although a few countries (Bulgaria and Romania, for example) eventually embarked upon controlled political and economic liberalization, as a reaction to external pressures and civil unrest. Republics of the former USSR (except for the Baltic countries) along with Bulgaria, Macedonia, Romania and Serbia populate the list of the former patrimonial regimes.[11]

In many countries the flavor of the communist rule had a direct effect on the type of leadership that emerged at the helm of the successor parties following the regime implosion. Ishiyama borrows Huntington's terminology to identify three types of leaders that shaped the transformations of the former communist parties. The first type, the standpatters, prevailed mainly in the former bureaucratic-authoritarian regimes and in the patrimonial regimes of the former Soviet Union. Such leaders preferred retaining party organization based on the Marxist-Leninist norms, and had a generally negative outlook on reforms.[12]

The democratic reformists emerged in the successors to the national-accommodative regimes, and favored rapid transformation of their parties into fully competitive political organizations. In some countries the democratic reformists began the efforts at economic modernization as early as the 1980's, causing frictions with the old guard of their party organizations and in this way learning the basics of political competition.[13] The so-called liberals occupied the middle ground between the standpatters and the reformists. They prevailed in the former patrimonial regimes outside of the former USSR, and favored "controlled" political competition with gradual economic reforms.[14]

Because of such profound differences among the former communists, this study excludes countries with successor parties that explicitly oppose capitalist reforms. First, the sample omits the republics of the Commonwealth of Independent States as well as Bosnia-Herzegovina, Montenegro, Serbia, the Czech Republic, Estonia and Latvia. Based on Ishiyama's previous-regime and transition-type analysis these countries share patrimonial or bureaucratic-authoritarian regime legacies and standpatter-dominated successor parties. The sample also excludes the former East Germany, because of the peculiar situation of its successor party, the PDS, following the reunification.

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[11] *Ibid.*: 21 – 24.
[12] John T.Ishiyama, "A Typology of Communist Successor Parties An Overview": 428; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002).
[13] Anna Maria Grzymała-Busse, *supra* note 1, p. 46.
[14] John T.Ishiyama, *supra* note 12: 278.

1.2. CSPS AND THE DEMOCRATIC PARTY COMPETITION

All countries included in the sample have witnessed the transformation of their communist parties into supposedly modern social democratic political organizations, "committed to the transition to a democratic and capitalist order."[15] Interestingly, these new social-democratic parties have tended to adopt right-wing economic platforms, and did not maintain close association with the traditional social-democratic electoral base. In 1995, for example, the Lithuanian government, dominated by the successor Lithuanian Democratic Labor Party (LDDP), launched a flat income tax – a policy that, in the West, could occur only in the dreams of the neo-liberal economists.[16] In 2005 LDDP (re-branded as the Lithuanian Social Democratic Party, LSDP) launched an incremental reduction of the tax rate from 33% to 24%. Perhaps ironically, the biggest right-wing political party in Lithuania – Homeland Union, Lithuanian Christian Democrats – has *increased* the value added tax from 18% to 21%, since they formed the government in late 2008.[17]

The Lithuanian case may be the most extreme in terms of the CSP's resolve to introduce a right-wing economic policy measure, but it is certainly not the only one. In 2007 Bulgarian Socialist Party (BSP) was instrumental in adopting Europe's lowest flat income tax of 10%, against the objections of its rank and file members. The right wing Democrats for Strong Bulgaria (DSB), in the meantime, applauded the measure as the only way to make rich Bulgarians pay their taxes.[18] While a right-wing party can be expected to make a tax law more convenient to the rich, such policy seems quite unorthodox when implemented by socialists.

Even in countries where the successor parties did not participate in implementation of right-wing economic policies, when provided an opportunity they did little to reverse the actions of their political opponents. An interesting case in point comes from Slovakia. While contesting the 2006 general election, Robert Fico, leader of the Party of the Democratic Left (SLD), railed against the country's 19% flat income tax, passed three years earlier by the Christian Democrats (SDKÚ-DS). "Fast economic growth will no longer be for the benefit of a narrow group of people," said Fico addressing a crowd of supporters after the election, "we want a centre or centre-left government that will establish solidarity and reduce the

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15 Valerie Bunce, "The Return of the Left and Democratic Consolidation in Poland and Hungary": 303; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002).
16 Michael Keen, Yitae Kim, and Ricardo Varsano, "The "Flat Tax(es)": Principles and Evidence," *International Monetary Fund Working Paper* 06/218, Washington, DC, September 2006 // http://www.imf.org/external/pubs/ft/wp/2006/wp06218.pdf (accessed December 27, 2009).
17 Mohit Joshi, "Recession-Crippled Lithuania to Raise VAT by 2 per Cent," *Top News* July 22, 2009 // http://www.topnews.in/recessioncrippled-lithuania-raise-vat-2-cent-2192196 (accessed December 27, 2009).
18 Alex Bivol, "Bulgaria Adopts Flat Tax, Lowest in Europe," *Novinite.com* November 23, 2007 // http://www.novinite.com/view_news.php?id=87803 (accessed December 27, 2009).

differences that have grown between economic groups because of eight years of Dzurinda's reforms."[19] Three years later, Slovakia's 19% flat rate is alive and well, and most rightist economic policies of the previous government remain intact. "Fico didn't ruin the substance of our reforms," says Mikuláš Dzurinda, the former PM of a Christian-Democratic government and the current leader of the opposition.[20]

I propose that the discrepancy between the words and actions of Slovakia's SLD illustrates the political strategy of many CSP's in the region. Specifically, the strategy is to rely on their leftist name, and on the nostalgia among some voters for certain aspects of the planned economy, in order to garner popular support, but to revert to practical, market-friendly policies while in power. This policy seems to be hardly sustainable. The disenchanted voters are bound to update their beliefs about the CSP's and withhold their support, or divert it to other leftist (or populist) political groupings. The process of disillusionment has in fact been on the way for some time. According to Grzymała-Busse, between 1992 and 1996 CSP support from the union members (a traditional social-democratic electoral base) has dropped from 60% to 39% in Slovakia, from 43% to 28% in Hungary and from 15% to 12% in Poland.[21]

In Lithuania, likewise, three recent parliamentary elections (2008, 2004 and 2000) have each produced a different populist party that has successfully capitalized on the popular disappointment with the policies of the ruling CSP, and a protest voting in the mostly poor rural areas of the country.[22] The strong voter sentiment against the established political parties is not only a Lithuanian phenomenon; it is ubiquitous in all of central Europe's new democracies (Pop-Eleches 2007).[23]

Why, then, would the former communists shoot themselves in the leg by implementing right-wing economic policies, instead of shifting their electoral platforms closer to the perceived needs of the poor segments of the population. Some observers have tried to explain the rightward policy shift by the fact that many voters in central Europe have developed an "affective dislike... for the legacies of communism."[24] Therefore, socialist policies might not mitigate the disenchantment of the protest voters. Such an interpretation is supported by the absence of electoral success by the extreme left-wing political parties in central

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[19] Alan Crosby and Matt Reynolds, "Victorious Slovak Leftists Vow to Break with Reforms," *Reuters* June 18, 2006 // http://www.redorbit.com/modules/news/tools.php?tool=print&id=541881 (accessed December 04, 2009).
[20] Jan Cienski, "A Victim of its Own Success," *Financial Times* July 29, 2009 // http://media.ft.com/cms/df4c1042-7b80-11de-9772-00144feabdc0.pdf (accessed December 27, 2009).
[21] Anna Maria Grzymała-Busse, *supra* note 1, p. 185.
[22] Ainė Ramonaitė, "The Development of the Lithuanian Party System: From Stability to Perturbation": 85; in: Susanne Jungerstam-Mulders, ed., *Post-communist EU Member States: Parties and Party Systems* (Burlington, VT: Ashgate Publishing Company, 2006).
[23] Grigore Pop-Eleches, *supra* note 7: 23.
[24] James N. Druckman and Andrew Roberts, *supra* note 5: 6.

Europe.[25] Still, this position has a hard time accounting for the mostly poor and rural background of the protest voters. In other words, central Europe does possess a poorly represented segment of voters, with many characteristics of a leftist electorate. Why are successor parties not scrambling to mobilize these voters?

Some authors have claimed that CSPs have adopted the most business-friendly policies in countries that witnessed the most rapid formation of a new middle class.[26] In such countries, supposedly, the former communists shifted their policies to the right in order to accommodate the emerging powerful block of centrist voters. This argument becomes less credible in the light of the proportional electoral institutions that have been adopted by most central European countries. The logic of electoral competition under proportional voting rules dictates a strong relationship of mutual support between political parties and their bases in the electorate. Therefore, instead of trying to compete for the median voter (coveted by parties in plurality electoral systems) parties in proportional settings tend to tailor their policy specifically to promote the economic interests of their support groups.[27] Considering the effect of electoral systems, the CSPs should have in fact adopted policies aimed at mobilizing the numerous poor and the rural voters against the increasing middle-class.

Yet other authors have referred to the historical antecedents of the CSP's as an explanatory variable of their potential inclination to business-friendly policies. The less hierarchical organizational structures of the communist parties have created opportunities for the emergence of more capable and business-oriented leaders of the successor parties in several countries[28], resulting perhaps in more business friendly CSP policy positions. While such an explanation is certainly plausible, it is clearly not borne out by empirical facts. In some countries, such as Hungary and Poland, the reformist members of CSPs began the efforts at economic modernization as early as the 1980's.[29] Their eventual accession to the top leadership positions might have contributed to the ability or willingness to pursue business-friendly policies.

At the same time, however, the antecedents of the modern-day leadership did not play a role in the rightist CSP policies in Bulgaria and Romania. In both countries radical reformers did not succeed at replacing party leadership prior to

[25] Grigore Pop-Eleches, *supra* note 7: 24 – 25.
[26] John E. Jackson, Bogdan W. Mach, and Radosław Markowski, *supra* note 2: 2 – 7.
[27] Fiona McGillivray, *Privileging Industry: The Comparative Politics of Trade and Industrial Policy* (Princeton, NJ: Princeton University Press, 2004), p. 124.
[28] Anna Maria Grzymała-Busse, *supra* note 1, p. 265.
[29] *Ibid.*, p. 81.

1990.[30] In fact, as late as 1998, the Bulgarian Socialist Party claimed in its political platform a commitment to "Marxist values" and pledged to fight "iniquities and injustice in Bulgarian society."[31] Today, however, the CSPs in Bulgaria and Romania are largely implementing market-friendly economic policies. What accounts for the shift in economic platforms of these parties and of CSPs all over the region?

The answer I propose is based on the theory of party electoral competition and on some empirical characteristics of the post-communist transformations in central Europe. First, while deciding on their economic platform, political parties usually consider not only the interests of the electoral base, but also those of influential sponsors and supporters. Competition for financial and other resources may lead political parties to adopt economic platforms beneficial to their main resource contributors – platforms that do not have to be most popular with the electorate.[32]

Secondly, the protest voting of the poor and the rural population in central Europe seems to reflect a general lack of trust in established political parties, rather than a dislike of specific economic policies. The widespread support for anti-establishment parties in the region (most of which do not espouse leftist rhetoric) originates from a desire "to punish mainstream elites for their often incompetent and corrupt governing style," rather than loyalty to a certain political platform.[33]

What the poor voters might want is not more redistribution or other left-wing economic measures, but a tangible economic improvement, regardless of its ideological prescription.

Such an explanation of voters' sentiments is backed up by some empirical evidence. While in Lithuania, anti-establishment parties have fared extremely well in the last three elections (discussed above), the voters did not favor extreme left political parties that advocated the traditional socialist economic policies.[34] This detail suggests that the protest voters, by some estimates constituting about 25% of the Lithuanian electorate,[35] may be generally disenchanted in the established political parties, without being keen about specific leftist policies. In other central

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[30] John T. Ishiyama, "Communist Parties in Transition: Structures, Leaders and Processes of Democratization in Eastern Europe," *Comparative Politics* 27:2 (January, 1995) // http://www.jstor.org/pss/422162 (accessed December 27, 2009).

[31] Jeffrey S. Murer, "The Romanian PDSR and the Bulgarian Socialists in Comparative Perspective"; in: Andras Bozoki and John T. Ishiyama, eds., *The Communist Successor Parties of Central and Eastern Europe* (New York: M. E. Sharpe Inc., 2002).

[32] Michael Laver, *Private Desires, Political Action* (London: Sage Publications, 1997), p. 116.

[33] Grigore Pop-Eleches, *supra* note 7: 24.

[34] The Central Electoral Commission of the Republic of Lithuania, "Election to the Seimas and the Referendum on prolonging the work of the Ignalina Nuclear Power Plant of 12th October 2008" // http://www.vrk.lt/2008_seimo_rinkimai/output_en/rinkimu_diena/isrinkti_seimo_nariai_kadencijaik.html (accessed December 28, 2009).

[35] Vladimir Socor, "Populist Third Wave in Lithuania's Parliamentary Elections," *Eurasia Daily Monitor* September 29, 2004 // http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=26922 (accessed December 28, 2009).

European countries, voters have also exhibited wide-spread skepticism about established political parties, without subscribing to the leftist vision of reforms.[36]

Bringing about real economic improvement for the poorest members of a society is more difficult than putting together a nice-sounding left-wing economic policy platform – especially considering the legacy of the planned economy and the challenges of globalization simultaneously facing central Europe's policy makers. Realizing their inability to produce striking economic results under the unfavorable conditions, CSP leaders may have downplayed the importance of promoting and implementing left-wing economic policies to a secondary role in their electoral strategies. The primary (or at least relatively more important) role, then, fell upon representing the economic interests of the CSP's financial supporters. Notably, the latter goal could be realistically achieved by an appropriately tailored economic policy.

Who were these financial supporters? According to the numbers reported by Grzymala-Busse,[37] they were not the traditional allies of social-democratic parties, such as the labor unions. Instead, often CSPs have been supported by big domestic businesses. It is a commonly held opinion that in former socialist economies directors of state-owned enterprises have successfully morphed into *de facto* owners of private companies, following the regime change.[38] These ex-communist directors possessed a wealth of local social capital, including access to the highest levels of the CSP leadership. Considering the murky legal environment of the 1990s, it is plausible that the leaders of central Europe's successor parties have staked economic platforms as political services to the domestic economic elite, in exchange for financial support of their political efforts and (perhaps) for private remuneration.

1.3. MEASURING CSP INTENTIONS

The question of politicians' intentions is a notoriously difficult one. Party leaders seldom disclose their true intentions, especially if doing so might jeopardize their electoral chances. In this paper I propose an indirect way to gauge the motivations of the ex-communist reformers: by analyzing their efforts in attracting foreign direct investment (FDI).

There are several reasons that justify this approach. First, attracting FDI has never constituted an official requirement for the accession to the EU, which,

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[36] Grigore Pop-Eleches, *supra* note 7: 24 – 25.
[37] Anna Maria Grzymała-Busse, *supra* note 1, p. 185.
[38] Jason L. Saving, "Privatization and the Transition to a Market Economy," *Economic and Financial Policy Review* 1998:IV (Fourth quarter, 1998) // http://www.dallasfed.org/htm/pubs/pdfs/er/er98_04b.pdf (accessed December 28, 2009).

arguably, has motivated a significant number of policy efforts in central Europe.[39] Through the 1990's, for example, the Czech Republic had been listed as a front-runner applicant by the EU, regardless of the fact that the government of Vaclav Klaus had stifled FDI by adopting the voucher-based privatization model.[40] Since the EU did not require FDI as a prerequisite for membership, the governments could not have attracted significant amounts of foreign investment by simply checking-off items on the Brussels' to-do list. Instead, the ruling parties had to be otherwise motivated to integrate their countries into the Western production networks. Therefore, a track record of attracting foreign direct investment is a good litmus test for the true economic intentions of the CSPs.

Perhaps more importantly, attracting significant amounts of FDI was bound to increase competition and to alter the business environment in the domestic market. Today there is broad agreement that in the 1990s comparative advantage in central Europe had shifted to labor-intensive industries[41] and investors have used those countries as platforms for producing labor-intensive goods for Western Europe.[42] By and large, FDI in the new EU members has been concentrated in food, textiles, footwear, wood, chemicals and machine building industries[43] – the sectors that were already densely populated by the formerly state-owned domestic enterprises. Moreover, foreign-owned enterprises have vastly outperformed domestic firms in the region.[44] The presence of lean-and-mean foreign companies in the domestic market could spell disaster for the less efficient former communist managers and their businesses.

Even if FDI occurred outside of the sectors of the main domestic companies, the increased competition for skilled labor would result in higher production costs for all companies. Likewise, the heavy presence of foreign investors might contribute to changes in the overall business practices (such as incidences of bribe-giving and tax evasion) that could in turn adversely affect domestic companies that

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[39] Alan A. Bevan and Saul Estrin, "The Determinants of Foreign Direct Investment in Transition Economies," *William Davidson Institute working paper* 342; Centre for New and Emerging Markets, London Business School, October, 2000 //
http://www.wdi.umich.edu/files/Publications/WorkingPapers/wp342.pdf (accessed December 28, 2009).

[40] Milada Anna Vachudová, *Europe Undivided: Democracy, Leverage, and Integration after Communism* (New York: Oxford University Press, 2005), p. 91.

[41] Paolo Guerrieri, "Trade Patterns, FDI, and Industrial Restructuring of Central and Eastern Europe," (paper presented at the BRIE Policy Conference: Foreign Direct Investment and Trade in Eastern Europe: The Creation of a Unified European Economy, July, 1998) //
http://brie.berkeley.edu/publications/WP124.pdf (accessed December 28, 2009).

[42] United Nations Conference on Trade And Development, "Foreign Direct Investment and Development," UNCTAD Series on Issues in International Investment Agreements //
http://www.unctad.org/en/docs/psiteiitd10v1.en.pdf (accessed December 28, 2009).

[43] Gabor Hunya, "Investors Strategies in New EU Members: Microeconomic, Macroeconomic and Sectoral Aspects," *Universidad Complutense Madrid working paper* #9, 1999 //
http://www.ucm.es/BUCM/cee/papeles/09/pape0404220010a.pdf (accessed December 28, 2009).

[44] Roman Frydman, Marek P. Hessel, and Andrzej Rapaczynski, "Why Ownership Matters. Entrepreneurship and the Restructuring of Enterprises in Central Europe," *C.V. Starr Center for Applied Economics working paper* 00-03, New York University, April, 1998 //
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=194574 (accessed December 28, 2009).

continue to rely, in large measure, on a "level of informality" characteristic of the old regime.[45] Therefore, consistent with my proposition that CSPs provide economic policies as services to the owners of large domestic enterprises, I expect that governments dominated by the former communists expend less effort on attracting foreign investment, as compared to non-successor governments.

It is very difficult to measure the effort of any government in attracting foreign investment. The usual measures, such as aggregate FDI stocks and flows to the host country, prove to be of limited use, as these statistics are significantly affected by factors outside the control of the national government. These factors, ranging from the global economic environment to the market size of the host country and its macroeconomic indicators,[46] to the resourcefulness of regional and local governments in a host country make it particularly difficult to identify the role of each determinant on the FDI flows.

In order to isolate the stance of national governments (and hence the CSPs) towards foreign investment, I explore the relationship between the number of bilateral investment treaties (BITs) signed by a country in a given year and the political control of that country's executive. BITs operate as a commitment device to a pro-investment policy climate and a BIT in force sends a signal of an irreversible favorable treatment of foreign investors. Even though BIT's may have a relatively minor effect on the flows of foreign investment to a country, they do have a positive effect,[47] and, even more important, their negotiation and signing is almost entirely in the hands of negotiating governments. Therefore, a systematic delay in reaching agreements on BITs would signal hesitation on the part of a ruling party or a coalition of parties to commit to irreversible, FDI-friendly policies. Specifically, my hypothesis states that *the CSP control of the executive reduces the number of BITs signed by the country*.

2. STATISTICAL ANALYSIS

In this section I specify and estimate two econometric models that verify the empirical accuracy of the hypothesis discussed so far. The exact specification of the models is as follows:

[45] Nina Bandelji, "Varieties of Capitalism in Central and Eastern Europe," (paper presented at the Society of Comparative Research, Graduate Student Retreat, May 9-10, 2003) // http://www.princeton.edu/~scr/papers03/bandelj.pdf (accessed December 29, 2009).
[46] Alan A. Bevan and Saul Estrin, *supra* note 39: 26.
[47] Yoram Haftel, "The Effect of US BITs on FDI Inflows to Developing Countries: Signaling or Credible Commitment?" (paper presented at the annual meeting of the Midwest Political Science Association, Palmer House Hotel, Chicago, IL, Apr 12, 2007) // http://www.allacademic.com/meta/p198956_index.html (accessed December 29, 2009).

$$BIT = \alpha + \beta_1 PRM + \beta_2 ECN + \beta_3 FIN + \beta_4 FOR + \beta_5 IPI + \boldsymbol{\beta_6 COUNTRY} + \boldsymbol{\beta_7 YEAR} + \varepsilon \quad \text{(model 1)}$$

$$ACBIT = \alpha + \beta_1 PRM + \beta_2 ECN + \beta_3 FIN + \beta_4 FOR + \beta_5 IPI + \boldsymbol{\beta_6 COUNTRY} + \boldsymbol{\beta_7 YEAR} + \varepsilon \quad \text{(model 2)}$$

List of variables:

VARIABLE	**MEASURES**	**SOURCE**
BIT	A number of BITs signed by a country in a given year	UNCTAD[48]
ACBIT	Average annual change in BITs per cabinet	UNCTAD[49]
PRM	Membership of the Prime Minister of Economy in the CSP	EIU[50]
ECN	Membership of the Minister of Economy in the CSP	EIU[51]
FIN	Membership of the Minister of Finance in the CSP	EIU[52]
FOR	Membership of the Minister of Foreign affairs in the CSP	EIU[53]
IPI	FDI performance index	UNCTAD[54]
COUNTRY	Vector of country dummies	
YEAR	Vector of year dummies	

Both models are fitted using data from nine central European countries between 1994 and 2008.[55] The sample does not include countries that did not develop successful, reform-oriented CSP's, or countries in which CSPs did not play a significant role in the executive branch of government during the years under consideration.

The two models differ only in the measurement of on the number of BITs signed by the host governments. Because of its path-dependent nature, a raw measure of the number of bilateral investment treaties is almost certain to exhibit a strong autocorrelation of residuals. Given a limited number of countries with which

[48] United Nations Conference on Trade and Development, "Country-specific Lists of BITs," June 1, 2009 // http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1 (accessed December 29, 2009).
[49] *Ibid*.
[50] Economist Intelligence Unit, "Country Reports" // http://www.eiu.com/site_info.asp?info_name=ps_country_reports&entry1=psNav (accessed December 28, 2009).
[51] *Ibid*.
[52] *Ibid*.
[53] *Ibid*.
[54] United Nations Conference on Trade and Development, "Inward FDI Performance Index – Results for 2005-2007" // http://www.unctad.org/templates/webflyer.asp?intitemid=2471&lang=1 (accessed December 29, 2009).
[55] Countries studied include Albania, Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Poland, Romania, and Slovakia.

it is possible (and beneficial) for a country to sign BITs, the annual number of treaties signed is necessarily a decreasing function of treaties signed in previous years. The more treaties an economy has signed in the past, the fewer it is likely to sign in a given year. Such a feature of the variable necessarily creates problems of autocorrelation.

Therefore, I measure BIT's in two alternative ways. In the first model, variable BIT simply represents a raw number of treaties signed by a government in a given year. To remedy the problem of autocorrelation, I include a vector of time-dummies in the model, labeled YEAR. The expected decline in the number of BITs over time, should be captured by the negative coefficients of the year-dummies. The cross-sectional differences, likewise, are accounted for by another set of dummy variables, labeled COUNTRY. With the longitudinal and cross-sectional effects captured by the respective categorical variables, the coefficients for the predictors of interest, should reflect the unadulterated effect of those variables on the signing of investment treaties. The first model is estimated using Poisson regression for panel data.

In the second model, I remedy the problem of autocorrelation in a different way. Variable ACBIT represents an annual change in the number of treaties signed, averaged per cabinet. The first-differencing of a longitudinal variable tends to remedy the problem of autocorrelation in the raw data. Specifically, compared to the actual numbers of treaties signed in a given year, annual *changes* in the number of BITs are less dependent on the previous number of treaties. The objective of the model then becomes to determine the predictors of the *pace* at which governments sign BITs.

The averaging of the annual changes in the numbers of BITs signed, is intended to reduce meaningless variance in the dependent variable. It is likely that governments do not sign BITs at a constant annual rate. Instead the signing of several treaties may follow a period of negotiations, during which no BITs are signed. If this is indeed the mechanism behind signing of investment treaties, then first-differenced data on the number of BIT's will exhibit a large variation between the negotiating years (when no treaties are signed), and the signing years. To minimize this meaningless variation, I have averaged the annual changes in the number of BIT's signed per cabinet. Therefore, variable ACBIT measures an average pace of signing investment treaties by a given cabinet. The second model has been estimated using Weighted Least Squares regression for heteroscedasticity-corrected panel data.

Variables PRM, ECN, FIN and FOR represent the extent of the CSP “control of the executive”. Such control is notoriously difficult to measure, especially regarding the issue of signing bilateral investment treaties. Cabinet ministers usually have a high degree of autonomy in pursuing their (and their party's) objectives.[56] Therefore, while a party's control over the entire executive may be relatively weak, its discretion in the area under purview of its minister is usually considerably greater. The key, then, is identifying the ministries that are responsible for signing BITs.

There is no published data on which ministries are involved in negotiating and signing investment treaties in countries of central Europe. However, an informal review of historical evidence seems to suggest that the officials most frequently involved in the signing of BITs are Ministers of Economy (ECN)[57], Finance (FIN) and of Foreign Affairs (FOR). The model also includes the party affiliation of the Prime Minister (PRM), since the tremendous agenda-setting power of cabinet leaders endows them with some influence over key decisions in various ministries. While a Prime Minister is not likely to be personally involved with negotiating BITs, he/she would be able to dissuade (or to encourage) one of the ministers to take action in this area.[58] ECN, FOR, FIN and PRM, therefore, are dummy variables, taking the value of 1 when a respective minister is a member of the successor party.

The variable IPI represents lagged country scores on the UNCTAD Inward Potential Index – with higher numbers representing countries that are more attractive to foreign investors. IPI is a control variable, designed to account for the possibility that governments may perceive signing of BITs as items of lesser urgency, if their economies are highly attractive to foreign investors. The variable ranges between 0 and 1 with higher values representing country-years more attractive to foreign investors. Because of data availability issues, the Inward Potential Index scores represent three-year averages, lagged by two years. In other words, a country's IPI score for year 2008 is an average of that country's IPI scores for years 2004 – 2006. The lag should not distort the estimation results, as investors usually consider business environment in a potential host country over an extended period of time.

If the hypothesis of this paper is confirmed, then I expect to see a significant negative relationship between the political control of the executive (PRM, ECN, FIN and FOR) and the number of treaties signed (BIT and ACBIT). The country's inward potential index (IPI) should also have a negative effect on the signing of investment treaties, if, as expected, more attractive countries need to rely less on BITs as a signalling mechanism to attract investors.

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[56] Michael Gallagher, Michael Laver, and Peter Mair, *Representative Government In Modern Europe*, 3rd ed. (New York: McGraw-Hill, 2001), p. 55-56.
[57] In several countries Ministry of Economy has been called by different names, such as Ministry of Industry and Trade (in Romania) or Ministry of Foreign Economic Relations (in Poland).
[58] Michael Gallagher, Michael Laver, and Peter Mair, *supra* note 56, p. 51.

RESULTS AND CONCLUSIONS

The estimates generated by the models provide qualified support for the hypothesis of the paper. (The detailed output of statistics can be found in the Appendix.) Consistent with the expectations, a successor Minister of Economy reduced the number of investment treaties signed by a country by approximately 0.6 treaty per year. A successor Minister of Foreign Affairs, however, *increased* the annual count of BITs by 0.8 treaties. The other predictor variables of model 1 do not have a significant effect on the dependent variable. As expected, the vector of control dummy variables, YEAR, shows that the number of BITs decreased significantly over time.

The statistically significant effects exerted by the Ministers of Economy and of Foreign Affairs suggest that the party composition of the cabinet has a definite influence on the signing of BITs. The opposite direction of such effects, however, implies that the relationship between CSPss and BITs is more complex than was predicted by the hypothesis of this paper, and requires a more precise analysis, beginning with an empirical investigation of which ministries are most responsible for the signing of BITs in each of the countries under consideration.

As far as the *rate* of the BIT signing is concerned, an ex-communist Minister of Economy slowed down the pace at which a cabinet signed investment treaties on average by 0.41 treaty per year. The other predictors of model 2 do not have a significant effect on the dependent variable. The time dummies, in the meantime, show a significant decline of the BIT signing rate, although these effects are smaller than in model 1. This suggests that while first-differencing of the dependent variable has solved some of the autocorrelation problem, it has not been eliminated altogether. Substantively speaking, the findings of model 2 support the hypothesis of this paper, that the successor control of certain ministries in the cabinet hinders the signing of the bilateral investment treaties.

All in all the findings of the regression analyses suggest that cabinet membership of the successor parties may slow down the pace of BIT signing by the countries of central Europe, although the effect of the impact varies, depending on which ministries are controlled by the representatives of the successor parties. It seems that the most detrimental effect on the signing of BITs occurs when the CSPs are in charge of the Ministries of Economics. Other successor ministers may not have a pronounced effect on the number of treaties signed, or even may exert a positive effect, as was the case with Ministers of Foreign Affairs.

In more general terms, the qualified negative relationship between the CSP cabinet participation and the country's commitment to the long-term favourable treatment of foreign investors lends partial support to the claim of this paper that successor parties implement policies, designed to benefit the commercial interests of domestic enterprises and their former communist managers. Such a conclusion comes with a bouquet of follow-up questions. If the right-wing economic policies of the successor parties were indeed designed to benefit powerful private actors, why in most countries of the region has no successful party emerged on the left to represent the have-nots of the economic reform? How has the economic position-taking by the CSPs affected the electoral platforms and policies of central Europe's traditional right-wing parties – the former dissidents and the liberals? What effect did CSP policy positions have on the formation and politicization of social cleavages in the region? These are certainly very broad questions, and well outside of the scope of this article. The findings of the foregoing analysis, however, bring into focus the need to pay closer attention to the relationship between the communist successor parties and the owners/ managers of the domestic business enterprises, as a determinant of the CSP's economic platforms, and a confounding variable for the transformations of party systems in central Europe.

APPENDIX

Model 1. Poisson estimates using 135 observations.[59]

Dependent variable: BIT

PREDICTOR	B	S. E.	T RATIO	P VALUE
CONSTANT	0.7727	0.6755	1.1440	0.2527
PRM	0.1535	0.3042	0.5046	0.6138
ECN	-0.5972	0.2112	-2.8280	0.0047***
FIN	-0.2164	0.2806	-0.7713	0.4405
FOR	0.7864	0.2316	3.3950	0.0007***
IPI	4.6359	3.2319	1.4340	0.1515
Y95	-0.5020	0.2189	-2.2940	0.0218**
Y96	-0.4138	0.2116	-1.9560	0.0505*
Y97	-0.5217	0.2405	-2.1690	0.0301**
Y98	-0.7156	0.2531	-2.8280	0.0047***
Y99	-0.7951	0.2626	-3.0270	0.0025***
Y00	-1.3769	0.3256	-4.2290	0.0000235***
Y01	-1.1987	0.3002	-3.9930	0.0000653***
Y02	-1.2475	0.3063	-4.0730	0.0000464***
Y03	-1.9734	0.3850	-5.1250	0.000000297***
Y04	-2.3765	0.4604	-5.1620	0.000000245***
Y05	-1.9069	0.3680	-5.1820	0.00000022***
Y06	-1.9315	0.3759	-5.1390	0.000000277***
Y07	-1.8481	0.3786	-4.8810	0.00000106***
Y08	-1.6498	0.3672	-4.4930	0.00000702***
ALB	0.4737	0.4004	1.1830	0.2367
BUL	0.4499	0.2379	1.8910	0.0586*
CRO	0.6839	0.2597	2.6340	0.0084***
HUN	-0.4651	0.2901	-1.6030	0.1088
LIT	0.3029	0.2737	1.1070	0.2684
MAC	0.1409	0.4075	0.3457	0.7296
POL	-0.4421	0.2974	-1.4870	0.1371
ROM	0.3352	0.3618	0.9264	0.3543

Goodness of fit statistics:

McFadden R-squared	0.29
Adjusted R-squared	0.2
Log-likelihood	–233.4319
Akaike criterion	522.86

[59] Estimates, significant at aplha = 0.01 are represented by ***; at alpha = 0.05 – by **, and at alpha = 0.1 – by *.

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Model 2. Weighted Least Squares estimates using 135 observations.

Dependent variable: ACBIT

VARIABLE	B	S.E.	T RATIO	P VALUE
CONSTANT	1.5132	0.7807	1.9380	0.0552*
PRIME	0.3410	0.3301	1.0330	0.3039
ECON	-0.4105	0.1921	-2.1370	0.0349**
FINCE	-0.2102	0.2645	-0.7945	0.4287
FRGN	-0.0764	0.2615	-0.2921	0.7708
IPI	-2.8451	3.5014	-0.8126	0.4183
Y95	-0.8541	0.4463	-1.9140	0.0583*
Y96	-0.8402	0.5231	-1.6060	0.1112
Y97	-1.2769	0.4535	-2.8160	0.0058***
Y98	-1.5413	0.4530	-3.4030	0.0009***
Y99	-1.1183	0.4730	-2.3640	0.0199**
Y00	-1.4295	0.5320	-2.6870	0.0084***
Y01	-0.9398	0.4950	-1.8980	0.0603*
Y02	-0.5282	0.5465	-0.9664	0.3360
Y03	-0.6635	0.4485	-1.4800	0.1419
Y04	-0.5451	0.4413	-1.2350	0.2194
Y05	-0.4342	0.4883	-0.8894	0.3758
Y06	-0.4532	0.4612	-0.9826	0.3280
Y07	-0.1959	0.4456	-0.4396	0.6611
Y08	0.0089	0.4708	0.0189	0.9850
ALB	-0.4063	0.3751	-1.0830	0.2812
BUL	-0.6026	0.2214	-2.7210	0.0076***
CRO	0.0014	0.1867	0.0075	0.9940
HUN	-0.5276	0.2105	-2.5070	0.0137**
LIT	-0.3871	0.2656	-1.4580	0.1478
MAC	-0.2112	0.4019	-0.5254	0.6004
POL	-0.2724	0.1788	-1.5240	0.1305
ROM	-0.4437	0.3023	-1.4680	0.1451

Goodness of fit statistics

R-squared	0.47
Adjusted R-squared	0.34
Log-likelihood	– 255.6914
Akaike criterion	567.38

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