

Geopolitical Ambitions and Domestic Rent-Seeking: A Public Choice Analysis of Post-1989 Economic Transition in Central and Eastern Europe

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Abstract: This study employs public choice theory to analyze how the interplay of geopolitical aspirations and domestic interest-group competition shaped economic transition policies in Central and Eastern Europe (CEE) following the collapse of socialism. Focusing on Poland and Hungary (1989–2004), the research examines how political elites balanced demands for rapid EU and NATO integration against rent-seeking behaviors by domestic actor, such as former nomenklatura networks, emerging oligarchs, and labor unions, during privatization and market liberalization. The study argues that the urgency to “rejoin Europe” geopolitically created perverse incentives, enabling elites to prioritize symbolic compliance with Western institutions over equitable institutional reforms. Findings reveal that privatization schemes often served as tools for consolidating political patronage rather than fostering competitive markets, while fiscal policies accommodated both EU austerity mandates and localized clientelism. This duality produced hybrid economic systems characterized by formal neoliberal frameworks and informal crony capitalist practices. The research challenges narratives of CEE transitions as purely technocratic successes, instead highlighting how public choice dynamics entrenched inequalities that persist in contemporary debates over democratic backsliding and EU cohesion. By integrating the history of economic thought with international relations theory, this work contributes to interdisciplinary debates on the political economy of post-socialist transitions and offers cautionary insights for states navigating geopolitical pressures amid institutional fragility.

Keywords: Public Choice, Post-Socialist Transition, Rent-Seeking Behaviour, Geopolitical Integration

Introduction

The collapse of socialism in Central and Eastern Europe (CEE) in 1989 marked a watershed moment in modern political economy, as post-communist states sought to dismantle planned economies while integrating into Western institutions like the EU and NATO. While these transitions are often celebrated as triumphs of neoliberal reform (Sachs, 1993; Åslund, 2002), such narratives obscure the complex interplay of geopolitical imperatives and domestic political economy dynamics. Political elites faced dual pressures: the urgency to “rejoin Europe” and the need to accommodate domestic interest groups, including former communist nomenklatura, emerging oligarchs, and labor unions. This duality produced hybrid systems—formally neoliberal yet informally clientelist—that entrenched long-term inequalities and institutional distrust (Bohle & Greskovits, 2012; Ganev, 2007).

The significance of this research lies in its challenge to technocratic interpretations of post-socialist transitions. Integrating public choice theory (Buchanan & Tullock, 1962) with geopolitical analysis reveals how elites exploited external conditionality to mask rent-seeking. For instance, EU-mandated privatization timelines became vehicles for nomenklatura networks to consolidate economic power (Hellman, 1998), while fiscal austerity measures coexisted with clientelistic welfare policies (Appel & Orenstein, 2018). These dynamics not only explain contemporary challenges like democratic backsliding in Hungary (Buzogány, 2017) but also offer cautionary insights for states navigating geopolitical pressures amid institutional fragility, such as Ukraine and the Western Balkans.

Literature Review

The scholarly evolution of post-socialist transition studies reflects shifting paradigms. Early works in the 1990s, rooted in neoliberal institutionalism, framed privatization and deregulation as pathways to market efficiency. Jeffrey Sachs' "shock therapy" model (1993) epitomized this approach, advocating rapid price liberalization to dismantle socialist legacies. However, critics like Stiglitz (1999) warned of social costs, including unemployment and inequality, while Stark and Bruszt (1998) highlighted the persistence of informal networks that undermined formal reforms.

By the 2000s, public choice theory gained traction, offering a critical lens to analyze elite behavior. Buchanan and Tullock (1962) posited that political actors prioritize self-interest over collective welfare, a framework applied to explain how nomenklatura networks captured privatized assets (Hellman, 1998). Ekiert and Kubik (1999) further demonstrated how labor unions, initially partners in democratization, traded wage restraints for political influence, inadvertently entrenching inequalities. Concurrently, EU integration studies emerged, with Vachudova (2005) arguing that accession conditionality incentivized macroeconomic stabilization. Yet, as Bohle and Greskovits (2012) revealed, elites externalized blame for austerity, using EU rhetoric to legitimize clientelist policies.

Recent scholarship links hybrid systems to democratic backsliding. Ganev (2007) documented Bulgaria's "preying on the state," where formal compliance with EU norms masked cronyism, while Buzogány (2017) traced Hungary's illiberal turn to oligarchic consolidation under Viktor Orbán. Grzymała-Busse (2022) extended this analysis to Poland, showing how post-1989 patronage networks decayed judicial independence. Despite these advances, a critical gap remains: existing studies treat geopolitical pressures and domestic rent-seeking as separate phenomena. This paper bridges this divide, demonstrating how the urgency to "rejoin Europe" amplified elite opportunism, producing hybrid institutions that persist in shaping CEE's political economy.

Case Studies: Poland and Hungary

Poland's Transition: Shock Therapy and Elite Capture

Poland's 1990 "shock therapy" reforms, lauded for macroeconomic stabilization, masked systemic elite collusion. The National Investment Funds (NIFs) program, designed to privatize 60% of state assets by 1995, became a vehicle for nomenklatura networks to retain control through leveraged buyouts (Szczerbiak, 2001). Insider-dominated management stifled competition, with 45% of privatized firms remaining unprofitable by 2000 (EBRD, 2002). Labor unions, initially pivotal in democratization, were sidelined as elites traded wage freezes for EU accession support. Solidarity's leadership, once a symbol of anti-communist resistance, acquiesced to austerity measures that eroded worker protections, leading to widespread disillusionment (Orenstein, 2001). Fiscal policies exemplified this duality: EU-mandated deficit reductions coexisted with clientelistic welfare expansions, such as rural subsidies that entrenched regional disparities (Greskovits, 1998). By 2004, Poland's GDP growth masked deepening inequality, with the top 10% capturing 40% of privatization gains (King & Szelenyi, 2005).

Hungary's Gradualism and Oligarchic Consolidation

Hungary's gradualist approach to transition facilitated oligarchic dominance. The 1995 Bokros Plan accelerated privatization, selling state assets to foreign investors while reserving voucher schemes for domestic elites. By 2000, 12 oligarchic groups controlled 40% of GDP, often through opaque mergers of former state enterprises (Kornai, 2006). Fiscal policies mirrored this duality: tax breaks for multinationals like Audi and Siemens paralleled subsidies to Fidesz-linked firms, creating a patronage network that extended into media and judiciary (Scheiring, 2020). Even

judicial reforms, a key EU accession requirement, were superficial. As Buzogány (2017) notes, Orbán's Fidesz party leveraged EU funds to consolidate power, redirecting agricultural subsidies to loyalists while hollowing out democratic checks. By the mid-2000s, Hungary's hybrid system had calcified, with informal cronyism undermining formal institutions—a trajectory culminating in Orbán's 2010 constitutional overhaul.

Discussion

The Polish and Hungarian cases reveal how geopolitical ambitions distorted institutional trajectories. EU conditionality, while promoting macroeconomic stability, prioritized fiscal austerity and privatization timelines over equitable property rights. In Poland, nomenklatura networks converted political capital into economic power, perpetuating socialist-era hierarchies under a neoliberal veneer. In Hungary, oligarchs exploited regulatory gaps to consolidate wealth, using EU accession as a smokescreen for clientelism. Both nations developed hybrid systems where formal adherence to neoliberal norms—independent central banks, fiscal discipline—coexisted with informal cronyism, eroding public trust and institutional legitimacy.

These dynamics challenge the “transition consensus” (Sachs, 1993), which attributes CEE's economic struggles to incomplete reforms rather than systemic rent-seeking. Poland's relative resilience—rooted in stronger civil society and EU leverage—contrasts with Hungary's illiberal drift, underscoring how initial institutional choices shaped long-term outcomes. For instance, Poland's shock therapy, while socially costly, limited nomenklatura entrenchment compared to Hungary's gradualism, which allowed oligarchic networks to metastasize (Appel & Orenstein, 2018). The findings highlight the enduring legacy of hybrid systems, where formal compliance with external norms masks domestic inequalities—a reality evident in contemporary debates over EU cohesion and democratic backsliding.

Conclusion

This study reframes CEE transitions as contests between geopolitical aspirations and domestic rent-seeking. By prioritizing symbolic compliance, elites entrenched hybrid systems that subverted equitable growth. Policymakers must recognize that geopolitical integration absent domestic accountability, risks institutionalizing cronyism. Future research should explore parallels in the Western Balkans and post-Soviet states, where similar dynamics persist.

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