

Network capital in capitalist, communist and post-communist societies

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*What is worse than communism?
What comes after it.*
(Hungarian humour, 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 characterised by shortages, predatory states, or poverty.

Lomnitz (1988), comparing informal exchange networks in Chile, Mexico and the Soviet Union, emphasises the pervasiveness of informality and its roots in the formal structures at both the top and the bottom of society. She concludes that centralisation 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 centre and on the changes in the patterns of its legitimation, without the development of more autonomous social strata. (pp. 190–191)

This paper tests two tentative hypotheses regarding the scope and role of network capital in communist, capitalist and post-communist 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 post-communist societies. In part two I demonstrate the validity of the two hypotheses. In the final section I draw some conclusions regarding the main characteristics of the future of post-communist societies in Eastern Europe.

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1. Definitions and hypotheses

By communist and post-communist societies I refer to the Eastern European countries before and after the transition of 1989–1990. 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 organisation or a society) is equal to the sum of the existing networks which that actor is able to mobilise 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 post-communist 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 post-communism 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 characterised by a particular level and form of network capital based on its culture and its historically and structurally determined organisational 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 characterised 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-organisational 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 post-communist 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 characterised by considerable socio-economic pressure, which provides a favourable environment for network capital.

(b) Paradoxically, I also assume that in the post-communist transition from communism to capitalism, networking becomes more widespread rather than less, which follows logically from the previous hypothesis. The reason for this

paradoxical increase is that network capital under communism does not automatically decrease when communism is displaced. This is due to the short-term inertia of network capital's cultural-structural basis, and because both crises and opportunities occur at least as frequently under post-communism 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 state, and it superimposes market and state.

2.1. *As a substitute for market and state*

Two examples of using non-market elements of network capital as a substitute for market contracts or redistributive state allocation are the reciprocal exchange of labour (REL) and the 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.

*The reciprocal exchange of labour (REL)*¹

Reciprocal exchange of labour denotes those transactions in which households exchange their labour for that of other households on a 'non-market' 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, is a fertile ground for developing and maintaining a relatively intact community as a defensive mechanism. This process takes place more or less irrespective of the 'main culture' and is a hot-bed 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 Vésztő were interviewed in 1989.² The most important finding for our purposes is that

¹ For further discussion see Sik, 1988a.

² Both husbands and wives in each household answered the same questions. These involve social relations, gift-sharing and exchanges of labour 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.

Vésztő is a large village—compared to the average of Hungarian villages—close to the Hungarian-Romanian border on the edge of the Hungarian Great Plain in the Southern-Eastern part of Hungary. 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.

Table 1. *Frequency and direction of transactions by types of transactions*

	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).

every household was either a donor or a recipient of inter-household 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.

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 getting and reciprocal giving. The principle of symmetry therefore 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 consent form of 'troubleshooting'.¹ Troubles resulting in an exchange of services and lending of tools and household items in a small community stem from problems needing immediate attention. Usually these services and items are so unpredictable in nature and small in value that they are impossible to buy at the time they are needed because no entrepreneur would seek to provide them given the cost and uncertainty of doing so.

The other typical situation which calls for REL is the rare but carefully planned economic activity that cannot be done without REL, such as self-help housebuilding 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

¹ 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 which 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.

Table 2. Flat construction in Hungary by type of builder, 1977–1987

Year	State	Market (percent)	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).

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 building materials that are in permanent short supply. Second, official prices often are above the rate of inflation, which was 20%–50% annually in the period of research into REL. Third, it is increasingly expensive to find and transport scarce building materials in rural areas with their lack of transportation systems.

The average rural household is not able to do the work necessary to build a house on its own. At most it 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 labour for many phases of house-building. Moreover, the labour power of the male members is already occupied on weekdays for an average of 8–10 hours. It is also the duty of men to organise 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 and all other household activities are subordinated. 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 pauperise 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 labour of household members alone or only that bought in the labour market.

Households are thus torn between the Scylla of self-exploitation and the Charybdis of financial impossibility. The only way they can realise new home construction is through the use of reciprocal labour. Therefore, the main reason for the widespread use of reciprocal labour is not that it is cheap, pleasant or efficient, but that there simply is no better alternative. This is why it is no surprise that the proportion of house-building using reciprocal exchange of labour increased during the late 1970s and early 1980s (see Table 2).

*The managers' reciprocal transactions (MRT)*¹

Managers in communist enterprises were fully aware that for their own survival they had to maintain barter-type networks. Contrary 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 under-regulation 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 personalised form of inter-firm 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 the fact the transaction is not official. It is a 'gentlemen's agreement' strengthened by personal trust, widespread defencelessness and interdependence and illegality. This managerial behaviour pattern can be seen as a group consciousness that implies solidarity, loyalty and well-understood and acknowledged ceremonies.

(c) These firm-centred transactions are embedded in personal networks among managers. This overlapping of personalised policy networks and personal networks increases the inefficiency of both but also distorts them because it is not possible to separate transactions between two intertwined networks. Whether a specific MRT was hierarchical² or horizontal was based on personal relationships and originated through common schools, places of work, association memberships, and origins, and was concomitant on 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 favours, smaller gifts, and invitations. The norms observed in

¹ For further discussion see Czako and Sik, 1988.

² 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 organisational 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 organisation earns the gratitude of the enterprise in forms such as voluntary plan overfulfillment, loyalty in organisational transformation and personal policy, production of shortage goods, etc.

Table 3. *The spread of MRT by partner organisation (percentage of managers of agriculture co-operatives involved in MRT transactions in a given year, N=501)*

	Transaction	
	got	gave
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.

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

^bNon-profit associations of agricultural firms. They determine allocation of the means of production (high tech) and the innovation of flow.

ceremonial transactions are not very strict either, 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 trouble-shooting 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 trouble-shooting transaction can be anything that helps settle the issue, including information, labour, 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 surrenders a resource temporarily that he might need later, so he must get it back eventually. Honesty and reliability are highly valued in trouble-shooting transactions because they ensure observance of the basic norm of reciprocity. A breach of this norm entails severe sanctions in trouble-shooting 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 use of the MRT is frequent.

The partner organisations listed are formally (legally) of equal rank with the examined economic unit, but the direction of realised transactions clearly reveals that, as partners, their relations are not in equilibrium. Agricultural firms are unequivocally patronizing towards local communal organisations, but are at the mercy of trading companies.

Trouble-shooting MRT is very 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, selling a not-for-sale product. One-third of

them give, and one-fourth get help weekly or more often. Monthly transactions have the highest share.

2.2. Network capital superimposing the market and the state

Another way to use network capital to cope or grab is to 'reorganise' 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 to enforce legal rights and a lack of trust in the first economy and to secure scarce resources in a resource-constrained economy. They also are used as 'grabbing means', i.e. to grab the opportunity (to cheat both the state and the customer).

Network capital on the academic labour market¹

The main characteristics of the casual labour market for social scientists in Hungary is the following: labour supply is, to an increasing extent, larger than demand with the result that the typical employee has at least a college degree and a full-time job but an income barely large enough to get by on.

As to the operation of the market, employees get into contact with employers through a loose network that interconnects them. Not only do the transactions of the casual labour market interconnect this network, but the employees are often friends, husband and wife, former cohabitators, colleagues and partners. It seems that the smallest unit of organisation of the labour market is the non-market primary group.

In addition to traditional (households, kinship, neighbourhood) and modern (friends, colleagues, recreational partners) primary groups, others are found within the casual labour 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 other information channels exist other than the personal networks.

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

(a) One feature of non-manual work is that it is autonomous. It cannot be regulated and it cannot be known in advance how far the employee is capable of doing it. I agree with M. Dornstein (1977), that in her approach to the markets for professional and executive services, the inherent characteristics of the white collar job market are to be closed or semi-closed and highly personalised and particularistic, as in the case of 'sponsorship' and 'referral systems'. These imperfections in academic labour markets are mainly due to the difficulty of assessing the quality of the would-be employee and of his or her performance by any objective criteria and to the relatively high autonomy of professional jobs. These characteristics introduce a high level of uncertainty which organisations and individuals have to face and overcome.

(b) The tradition of 'status' (in a Weberian sense) in the labour market. In Dornstein's analysis a sponsorship and referral system is meritocratic: that is, it

¹ For further discussion see Sik, 1987.

maximises market efficiency and at the same time minimises risk. But the system may also serve to keep the privileged in power. In this case it either is restricted to traditional primary relations or produces modern primary groups in a way which maintains clan-type inequalities between patron and client or patron and patron. Labour market efficiency is irrelevant and only a matter of ideological legitimacy; the real objective is enforcement of long-term, inter-generational and group interests.

(c) The inertia of non-market primary groups. I have said that the majority of transactions in the casual labour market are embedded into the actions of non-market 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 labour market.

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

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

(e) From the sociological perspective, employees in casual labour markets can be thought of as a specific subculture. The reasons for this are socialisation within similar primary groups, the breadth and strength of closed organisations in labour markets, and the effects of 'small worlds' and networks.

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 forints' 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 'economise' on the coffee she gives to non-bribers. 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. Non-bribers, 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, that all actors will try to 'pre-empt' 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 attainable through it 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, the appropriate behaviour 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 behaviour (cease to corrupt or decrease the amount of corruption) 'latecomers' will not necessarily continue such changes.

As to the role of culture, the actors socialise each other in how to behave and, through their networks, the rest of the society as well. Thus the emerging norm spreads quickly through networks and socialises other actors and, in this way, the process produces a new cultural trait. But not just the rules of behaviour spread out. Acceptance of bribery as a fact of life actually decreases the cognitive dissonance of committing a sin, that is, a pro-bribery culture emerges or is reinforced.

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 of this hierarchy and thoroughly controlled by it, are the economic enterprises, their only task being to carry out the plan. The authors argue that in a CH, the activities of the organisations are imperfectly co-ordinated. 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 emphasise the relevance of shortages, 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.

Conclusion No. 1

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 co-operate, to help others and to invest into gift relationships, is a basic human characteristic, a socio-biologically pre-determined behavioural 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).

Secondly, 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 should be found as an auxiliary capital.

Thirdly, 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 US (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 labour markets, such as those for physicians and engineers in the US. Moreover, we know that in core capitalist economies, network capital often is routinely superimposed upon markets, including personal networks between sellers and buyers in local markets (Mintz, 1961; Fabermann and Weinstein, 1970) and contract-avoiding behaviour by businessmen (Macauley, 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 US (Arensberg and Kimball, 1949), in Switzerland and Italy (Cole and Wolf, 1974), in Canada (Kohl, 1976), and in the UK (Rees, 1950; Williams, 1956).

Several sources indicate that throughout the world network capital is a most important source of information and plays a crucial role in getting would-be employees access to jobs and in helping employers recruit employees and conduct business. For example, in the US, Granovetter (1974) found that 58% of respondents used personal contacts to get a job. Rees's analysis (1966) of 'used

cars', Granovetter's (1974) of 'weak ties', and Dornstein's (1977) 'imperfections' offer general, non-system specific explanations of clientel 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 non-system 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 semi-periphery of Europe. These are historically peasant and rural societies.¹ To live in a peasant society meant to live in a specific type of production system, one that is household- and community-based and is characterised by seasonal and labour-intensive agricultural activity and finally a closed culture. Living in a rural society entails conditions of a settlement system in which villages and small towns dominate. This implicitly also means 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., neighbourhood 'circles' (Ott, 1981), and in patron-client relations (Fél and Hofer, 1973). Communism generally came into power in post-peasant and small-town societies in which the population had a well-maintained network capital.²

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 pre-communist network capital. Moreover, the half century of communism in some respects also strengthened the pre-communist, network-oriented culture. Some elements of communism fit well into the cultural background of the pre-communist period, and its organisational culture was not entirely alien to that of any other modern bureaucracy.

For example, state dominated economies characterised the pre-communist period in most of these countries before communism. This was true not only of over-developed central and local administrations but also of banking and manufacturing, especially in the pre-World War II period when both German influence

¹ The ratio of peasant farms of less than five ha. 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, 51% in Hungary. Compare these to 7% in England, 17% in Belgium, 29% in Germany, 36% in France and in Sweden (Berend-Ránki, 1976).

² Even capital cities, the largest of this region, are small and their populations consist of first generation urbanities with close ties to their rural origins. This encourages active network capital maintenance in the form of gift-giving, mutual visits and aid.

and the war economy were strengthened. This situation favoured bureaucratic procedures on the one hand, and corruption and clientelism on the other.

Major differences marked the pre- and the post-communist societies, due largely to fierce resistance against any kind of civil organisation, the anti-communist cultural tradition and as a result of modernisation, statism and urbanisation. 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 pre-communist 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 systems, such as in labour 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 organisations. But the failure of both distorted and subordinated markets, and of over-and-under organised state bureaucracies, are still much greater under communism. Networking to superimpose or substitute for them therefore occurs more frequently.

3. Why is there more network capital under post-communism than under communism?

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

Coping with crises

If we accept that communist countries are characterised by family- and network-oriented culture, and by already well-established and maintained inter-household networks, then it is reasonable to assume that household and inter-household networks offer a means of low-cost coping for those in various crisis situations in post-communism. 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 inter-household 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 post-communist world.

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

Table 4. *The spread of household- and network capital-based transactions in post-communist countries*

	Bulgaria	Czechoslovakia	Hungary (percentage)	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 Haerper (1992).

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

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

^cUsing connections to get things done without formal payment.

^dUsing connections to get things done involving money payments.

domestic service, care and production is 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 inter-household transfers as ways of coping with crises.¹ The costs of operating, organising, monitoring and evaluating existing household and inter-household 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 systems² have been shrinking and by now are far from being able to offer solutions for masses of people in trouble.

Networking as a means of coping and grabbing by new entrepreneurs

Capital-pooling via personal networks is the major form of channelling 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 the corruptive network capital

¹ Two remarks are in order with regard to the limits of the transactional cost approach. First, the transactional cost approach emphasises 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 inter-household networks. Second, this approach focuses entirely on individual household networks and ignores those of inter-households. This institution can soften considerably the obstacles to domestic production: greater labour pools, more diverse human capital stock, more flexibility in organising and timing domestic production, decreasing the negative effects of spill-overs.

² There are several signs that different groups of households are re-developing or re-enforcing self-defence networks to try to keep pace with growing crime rates (gypsies fighting with skinheads, rural and suburban inhabitants); at the same time criminal networks are spreading and becoming more organised.

established during communism and the later networks both 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. Trust, for them, is crucial because their very existence depends on it (as the Georgian example shows: Altmann, 1989). Networking offers a vital defence against state authorities and an attack force against other clans.

It is not surprising, then, that the most active networks in informal economies are organised along personal networks (as we saw among intellectuals in the casual labour market). And there is a revival of clan and ethnic ties in establishing informal businesses, such as Poles and Rumanians in black marketing and smuggling, Gipsies in all sort of activities, and Arabs and Turks in black currency dealings. Of course this has nothing to do with genes, but ethnic resources, including common cultural bases and networks, represent a low-cost and high-trust solution.

Networking as a means of coping and grabbing for "old" entrepreneurs¹

On October 25, 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 paralysed. 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 joined blockades from all over the country.

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 action. The blockades were demolished within hours and an uneventful Monday followed the 'long weekend of rebellion'.

Cab drivers were able to organise a blockade and beat the system because of their essential 'vulture' character. In Mars' taxonomy (1982) the vulture preys individually. There is neither specialisation 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 co-ordinating, 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 'inter-vulture' network.

Which structural conditions of cab drivers' jobs, work, culture and society makes them vultures? Their work organisation is determined by the ways in which they get

¹ For further discussion see Sik, 1994B.

customers, either by picking them up on the street or the cab-stand, or by going to the addresses they are given. The latter form generates a centralised 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 than that. In the frequent event of accidents, fires, robberies, fights and other emergencies, the network also can be key to survival. In addition to being the nerve system of the work organisation, 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 co-operation in the labour market and dense friendship networks, create a subculture that opens the way for a sort of 'We-consciousness', a common self-identity that makes possible co-operation without formal organisation.

Cab drivers could organise so effectively because of their sophisticated 'inter-culture' 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 organisational skills and network capital that develops 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 non-hierarchical organisation 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 organisation- 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 labour market situations, in emergencies and in power vacuums, all of which characterise societies in transition.

Network capital as a useful means in grabbing the post-communist cake

Privatisation offers a unique 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 privatisation and reprivatisation. Only a handful of persons know the juiciest parts of the fruit and even fewer have the power or access to power-centres to put their ideas into practise. 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.

Moreover, Western firms and multinationals move into the post-communist market but have no previous experience with or network 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.

Network capital and policy networks as means of coping¹

As the next case indicates, in a crisis network capital becomes especially important as a means of coping, 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 specialised 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 alarmed his 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.

But both radio and television teams proceeded to the frontier. Another lawyer, who also 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 organisation. They in turn informed Máttyás Szuros and Gèza Kòtai (the secretary and the head of the 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 emphasise 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 only 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, however, the crisis could not have been resolved satisfactorily. Broad and partially overlapping circles of personal and policy networks made it possible to spread the information among different organisations. 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 a personal network or knowledge (or both) regarding the person to pass the information on to and in using policy networks.

Conclusion No. 2

Network capital is more widespread in post-communism than in communism for two major reasons. First, because post-communism follows communism, and since

¹ For further discussion see Sik, 1992.

Table 5. *The role of networking in material success during the transition from communism to post-communism^a*

	Russian cities (N=2100)	Czechs (N=840)	Slovaks (N=420) (frequency)	Bulgarians (N=1284)	Poles (N=982)
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 Haerper (1992).

^aPercentage of "yes" answers to this question: With liberalisation 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?

under communism network capital was very widespread, it follows that it cannot be less widespread in post-communism 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. I assume therefore that the loss of network capital due to emigration or to increasing enmity and separation between 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 both the new patron and the former client both were still interested in developing network capital and as a result had been co-operating 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 and converted its network capital into 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 post-communist as it was in communist societies, since great inertia characterises 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 co-existence 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 socialised the participants and organised 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 and having emerged and crystallised as the best means of overcoming troubles and of coping or grabbing during a time of transformation and upheaval.

It is hardly surprising then that, as Table 5 shows, people in post-communist countries consider personal networks to be a means of grabbing. Without exception, in every post-communist country people believe that networking—and especially foreign networking—guarantees their success.

Secondly, 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. If this is the nature of the transition, then there is increased need for network capital. 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 because people are rational and therefore rely on deeply socialised behaviour patterns, skills and networks, either 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 post-communism.¹

4. Conclusion No. 3

But if the second hypothesis is correct—that network capital is more widespread in post-communism than in communism—then either the first hypothesis is wrong or post-communist 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 pre-determined, semi-peripheral situation. In other words, there is a trend towards high inertia in which Eastern Europe will resurrect the social characteristics of its pre-communist 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 summarise, 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 characterised by economic deterioration, dualism, political corruption, crime and social segmentation, networking becomes increasingly important as a means of coping and grabbing. Network capital becomes the most reliable form of capital and the network itself the most useful type of institution.

¹ Investment into both vertical (Csanádi, 1991) and horizontal (Czakó-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 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 speak foreign languages, knew protocol of the market and whose networks extended beyond the Hungarian economy. Several examples prove that this circle of cadres was quite substantial. Such behaviour obviously increased the chances for a non-violent transformation. (See Nee, 1991.)

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